

INQUIRY INTO LAND VALUATION SYSTEM

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LAKE MACQUARIE RATEPAYERS ACTION GROUP

4/13

4 March 2013

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Joint Standing Committee on the
Office of the Valuer General
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Members of the Committee

It with pleasure that the Lake Macquarie Ratepayers Action Group make the attached submission for consideration under the terms of the Issues Paper for this inquiry into the Valuation System that applies in NSW.

This Group has long maintained that the current system is severely flawed and fails each of the elements outlined under Focus of the Inquiry.

It is our contention that the concepts proposed herein would greatly improve the acceptability and credibility as a method of raising Revenues across this State irrespective of what they do in other States and Offshore. In our mind there is no reason why this State should not become the benchmark for others to follow.

We would be pleased to meet with the Committee to expand our views and explain any aspects not clear in this submission.

Yours sincerely

[REDACTED]

Doug Cummings
Chairman,
Lake Macquarie Ratepayers Action Group

Submission to the NSW State Government Inquiry

into

Land Valuation System,

State Government Revenue,

Land Tax

And

Local Government Rates

March 2013

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Terms and abbreviations;

CAV	Capital Asset Value
CF	Compounding Factor
LG	Local Government
LGCAV	Local Government Capital Asset Value
LM RAG	Lake Macquarie Ratepayers Action Group
SAR	Statewide Advalorem Rate
SCAV	State Capital Asset Value
TAA	Total Aggregate Amount of revenue

1. **Executive Summary**

The Lake Macquarie Ratepayers Action Group (LM RAG) has long maintained an interest in not only Local Government Rating Structures but also general revenue measures used at State and Local Government levels. The Issues Paper, Introduction says “*The Valuation system is necessary*”. LM RAG disagrees; it is not *The Valuation* system but ***A just and equitable Valuation*** system that is required.

That brings us to the key point that for decades, LM RAG has maintained that the “Land Valuation” system as currently determined and applied is fundamentally flawed. It lacks the precise elements expressed in the Terms of Reference under “*Focus Of The Inquiry*”. Even Michael Costa (when in Government) recognised this (see newspaper article 3 in Appendix 2) as did the Ombudsman who criticised the Mass valuation method.

The claim that the Land Tax and council rates are wealth-based taxes is clearly contestable especially for fixed income long term residents who progressively have these valuations increased without regard for their respective wealth. The valuations can and often do vary wildly depending on the sale of other properties.

This system needs more than an overhaul but to be replaced with a completely new simpler, fairer, transparent, easily understood system on which to base revenue collection for both State and Local Government (LG).

The origin and concept of levying Land Tax and Rates is centuries old. The system that NSW has today bears little resemblance, if any, to the original intent, being an indication of the value of goods that could be grown and produced on each parcel of land. The concept that the Land Value as determined and used today as the basis for collection of Revenue is, in our view totally irrelevant in urbanised, modern cities and population centres.

Furthermore, the “Land Value” is supposed to represent a “vacant land value” where in large, vacant land sales are near non-existent, especially in high density urban areas.

As a result, computerised models using recent improved land sales have evolved but in a vast number of instances bear no true relevance to the unique features of every property and are no more than a subjective aggregate collection of sale figures over ill-defined regions.

There is limited understanding within the community as to what comprises “vacant” land value, especially when it comes to strata titles which the issues paper recognises. When this system is extrapolated to its use at State and Local Government level it becomes less clearly understood. Terms such as an “advalorem” rate or “two part base rate structure” are barely understood at all by the boarded community.

The fundamental proposition described in this submission is to replace the notional, vacant Land Value system with a market driven one predicated on actual market value of each property, not just the land element at date of purchase, escalated overtime. Owners of property and the community at large understand what the Capital Asset Value (CAV) is of their property (refer section 3.4 for detail discussion).

Further, we contend that the Terms of Reference by inclusion of point 3 are very limited and restrictive as it is not possible to isolate a valuation system without consideration as to its efficient application.

As a result this submission has been extended into a discussion as to how the proposed CAV system could be applied under three (3) different options. Each of the option we contend is more relevant, highly transparent, more efficient and much more equitable than what is current practice for collection of Revenue.

The options that are discussed in this submission comprise;

1. A “preferred radical” revenue model which includes the State raising the revenue required by Local Government as well as for necessary Statewide infrastructure;
2. A “less radical” model which would see the State raise funds to satisfy its own additional revenue for infrastructure spending but leaving Local Government to raise their own revenue via traditional rates under the CAV system with fewer cost savings than under option 1 and;
3. A “least radical” model, similar to option 2 but without making the cost savings and efficiencies (refer to section 4.1.1) that would flow if either option 1 or 2 were adopted.

2. Background

Since 1991 LM RAG has made numerous representations and submissions to members of parliament and enquiries pre and post the adoption of the current Local Government Act 1993.

Whilst that Act provided the option for Local Government to apply a fairer system it was far from ideal as it was not mandatory to adopt and apply the Two Part Rate Structure.

The valuation system as used for Land Tax and Council Rates does not take into account or recognise the owner's current financial position and ability to contribute to Revenue.

Overtime the valuations used in the current various Acts (LG and Land Tax) rely on spurious "vacant" land valuations which become ever more discriminatory as new people enter local areas with greater disposable income compared to long term residents.

Application of these Land Values and by not making the Base Rate structure mandatory the LG Act has created gross inequity in many communities, especially, those with widely divergent "land valuations" typical and found in coastal communities with waterfront or highly valued properties.

The combined effect resulted in years of fighting in many areas trying to get Councils to adopt the Base Rate structure to obtain a fairer Rate distribution, and then, often only at the lower end of the available scale. At the other end, once the 50% limit is or has been reached, the overall system again fails the fairness test as new land valuations are issued via an obsolescent and unreliable , mass value system. The current Legislation does not provide LG with any avenue to offer further relief to ameliorate significant Rate distortions.

The only solution is to change the entire Valuation and Revenue collection systems.

In section 4.1, LM RAG propose a "preferred" model and method which would provide significant cost savings and offsets at State and Local Government levels to partially generate the required revenue shortfalls in what we consider to be a fair manner for all NSW residents.

We are not so naïve to suggest that there will be immediate total acceptance of our CAV system and the preferred revenue model.

It is more likely that strong objection to each of the three (3) Revenue options will come from a number of quarters. As a result some concessions or variations in special cases (see comments in Section 5) may need to be accommodated to appease some quarters affecting the overall fundamental concept set out in Section 4 below and as summarised in the Executive Summary.

3. Discussion

The following discussion is aimed at several key aspects and demonstrates why the current system needs to be scrapped in favour of a more sustainable and enduring one.

Firstly, it is necessary to set out some basic concepts and the key issues which relate to;

1. a philosophical approach to rating
2. the criteria for a fair revenue system and to,

3. Capital Asset Value system and proposed alternate options for an enduring revenue base in a fair and equitable manner.

3.1 Philosophical approach to Rating

Cross subsidisation occurs at all tiers of Government. One's income tax is the classic example but that is predicated on one's ability to pay. The Valuation system, Land Tax and LG rates take no account of the payees ability to pay.

The real issue is to what extent one accepts cross subsidisation, those systems are not flat rated nor linear. Clearly there needs to be greater emphasis on limiting the impact of cross subsidisation and this can be best achieved by adopting a much broader base of contributors paying their part with equity, across the entire spectrum of ratepayers. The concept of one's "ability to pay" is all but ignored under the current system of "notional" land valuation which is used by the State and LG alike.

It must also be recognised that even non-owners of land and property (ie the rental market) will feel the effect of increased revenue measures through upward pressure on rental prices. The effect of this pressure can be minimised.

To make a more transparent Valuation and Revenue collection system that the general ratepayer can easily understand, it is recommended that the Valuation system needs to be market based and automatically market adjusted. In addition, the State and LG need to take steps to demystify their income and expenditure streams in terms of forecasts or budgets, as well as reporting Actual expenditure against Budget forecast, especially over longer term projects as opposed to the shorter term 12 month period.

In doing so at LG level, one option would be for Councils to be directed to reduce the General Rate income whilst at the same time be given the flexibility and power to levy and collect a series of special, flat rates or charges to raise the necessary revenue to undertake specific projects and major works (such as infrastructure replacement, environmental levy, major road upgrades etc). These amounts would be dedicated to specific approved projects to be completed over specified timeframes thus leaving the General Rate to reflect administrative and general overhead expenditure.

In this way ratepayers will be better able to judge Council performance based on deliverable outcomes for the majority of projects and services they undertake. Options along these lines are discussed under Options 2 and 3 in Section 4.2 and 4.3.

Whilst all ratepayers have equal access to the goods and services provided by LG, by no means do ratepayers contribute to revenue from an equal base nor does their respective contribution reflect the property owners' ability to pay, especially for those who are on fixed incomes. This is the major problem and credibility of the Land Valuation System.

It must be realised that this group of fixed income ratepayers will rapidly increase over the coming years with the progressive retirement of "baby boomers" and the pressure they will continue to place onto State, as well as LG goods and services.

The current Land Valuation and LG Rating systems are not enduring to deliver fair, equitable and transparent rates into the future.

3.2 Revenue System Criteria

Much of the general thrust from LM RAG is predicated on any revenue collection system must meet several criteria to be considered as being truly, “Best Practice”. This includes being;

- Easy to be understood by all in the community
- Fair and equitable for all and as far as practical remain within the income means of the owners over-time
- Protect long term residents from having to sell up and move because development has finally caught up with their earlier choice of location
- Simple to maintain and administer
- Transparent in the way the system works
- Equally relevant to rural and city areas

To generate increased revenue required to bridge the perceived funding shortfall or at least to reduce the rate of gap widening will need political will to implement changes necessary to move from the current inappropriate and tired system. This process must commence with a highly transparent and equitable Valuation process.

3.3 Capital Assess Value (CAV)

Each of the following three (3) model systems proposed below are based on use of a Capital Asset Value (CAV) system as the basic premise. The annual CAV would be a value determined for each property within the State, be it a stand-alone property, strata title residence, rural residence or commercial property.

It would be a discrete value for each property having;

- a) **an initial value being its purchase price as at the date of purchase**
plus,
- b) **a Compounding Factor (CF) applied from that date to the current time**
plus,
- c) **the value of any improvement(s) (approved by LG by Development Application [DA]) at a date(s) post purchase**
plus
- d) **a Compounding Factor from the date(s) of DA Approval on that property.**

The premise is that the CAV is a better representation over-time as to the ability of the current owner’s ability to pay. It is initially market based on the purchase price and escalated whilst it remains in the current owners’ possession. When sold the CAV resets to the new sale/market price.

It is understood by LM RAG that the Lands Department has the sale price and date of sale of all property within the State thereby making a calculation of the CAV an easy task using simple computer software for each and every property in the State.

3.4 Compounding Factor (CF)

As would have been noted in Section 3.3 above it is proposed that in determining the annual CAV a Compounding Factor is to be applied to escalate the purchase price over-time, and thereby maintain a high degree of relevance as to the owner’s potential increase in income and hence “ability to pay”.

There are a range of potential factors that could apply here. LM RAG suggests that perhaps the most appropriate would be the figures issued by the Federal Statistician of the NSW average wage.

3.5 Rural Residential

As part of our Proposal it is envisaged that large rural holdings contain two separate valuations;

- One to determine the residential portion of the holding on which the annual CAV is based and
- One on which the Rural Rate is based.

The residential portion would be a value based on the house or homestead (including a portion of the land holding of say up to 2.5 adjacent hectares) with any remaining value from the purchase price ascribed as Rural/farmland.

4. Rating Models

The following section sets out three similar but different model options for State Revenue collection and LG rating of properties.

These are;

- Option 1 “Preferred” radical model,
- Option 2 Less radical model and,
- Option 3 Least radical model.

Each system would use the CAV approach described at 3.4 above.

LM RAG suggests that each of these options needs to be modelled using the resources available at State level and using data that already exists.

It is our view that all three systems proposed have benefit but Option 1, “preferred” radical model, offers the greatest savings.

Under the systems proposed the CAV would be revised annually (either within the Department of Lands or at LG level) and printed on the property rates notice.

4.1 Option 1 “Preferred” Radical Model

This “preferred” radical model proposes that the State adopts the responsibility of raising the required annual funds to be deployed by LG and to distribute the raised funds directly to each LG area. The amount of funds provided to each LG area would be based on Ministerial approval from annual submissions from each LG area approved budgets.

This process is somewhat akin to the Federal Government distribution of GST to the States but would be based on annual approved budgets and administered so as not to disadvantage separate LG areas.

This would enable;

- maximum cost savings to be generated at both levels of Government,
- increased efficiency and
- increased productivity across many government departments, State and at local Council.

Adoption of such a step change (which in some quarters will be opposed as centralism and removal of independence from LG) requires not only social justification but more importantly the political will. We do not expect that will come easily, especially in light of recent events and reform issues over the last 12 months with respect to hospital funding and more recent Federal initiatives toward, school funding reform, disability insurance scheme and dental health being pushed onto States to find additional revenue.

It is not our intent to discuss the above reform issues (as important as they are) but the system we propose we feel could be applied to include some, if not all into one large basket of revenue.

So, the State either needs a bigger cake or needs to significantly reduce its costs and increase productivity without significant impacts on employment.

LM RAG believes the State needs a bit (or rather) a lot of both;

- A bigger cake through growth and stimulus in new home starts (as there is a clear shortfall in new housing, especially in the low income rental market) and
- Increased productivity and improved efficiency across all levels of Government by eliminating tasks that can be made redundant and redeploy people to new functions without putting significant numbers of people out of work.

So apart from calculating the CAV (refer to section 3.4) for each and every property in the State (including all strata properties, dual occupancy, nursing homes, caravan parks etc) this preferred model proposes that the State;

- 1. Remove Land Tax**
- 2. Remove Residential Property Sales Tax on properties having a purchase price up to three (3) or four (4) times the State average or a fixed sale price of say \$2 million and**
- 3. Remove or significantly reduce the State “first home buyer grant”**

and to aggregate the revenue forecast that would have been collected by these inefficient taxes and prior to redistributing that amount equally across the State to add to that amount;

- 4. the aggregate revenue required and approved for all LG area budgets**
plus
- 5. any additional funds required by the State to maintain infrastructure not already budgeted for or to provide additional Statewide goods and services etc.**

This Total Aggregate Amount (TAA) would then be divided by the aggregate Statewide Capital Asset Value (SCAV) which includes; Residential, Commercial and Rural properties to determine the Statewide Advalorem Rate (SAR) in the dollar.

The SAR would then be applied to each Residential property CAV and an annual State Rate Notice (SRN) would be issued to every property owner.

It should be obvious that under point 5 above the State would be in a position to control the amount of additional revenue to be collected annually to fund its social commitments and at the same time control the rate of increase to all State Ratepayers.

The State would return to the LG areas the funding collected on their behalf under point 4 above as that amount would be based on their respective budgets approved by the Minister for Local Government.

We fully understand and accept this would be a major step-change but must point out the inherent benefits.

4.1.1 Benefits

The benefits that would flow as a direct result of adopting this approach would include, but not necessarily be limited to;

- A significant boost in new housing activity by removing sales tax. That of course is provided the State Government has released sufficient land for residential purposes
- Introduce significant cost savings, increases efficiency and productivity in several State Government Departments as well as at Local Government/Council level
- Relieve the Valuer General from conducting regular property valuations
- Free up time within the Land and Environment Court by elimination of appeals against land revaluations
- Eliminate the subjective nature of calculation of individual property valuations and rely on real market forces and individual real market pricing as at the time of purchase
- Safeguard long-term residents against immediate adjacent property fluctuations that are often beyond retirees and pensioner increased disposable income
- Introduce a very high degree of fairness and transparency into a currently confused system
- Place property owners onto an equal footing across the State
- Provide clarity and restore public confidence in a fair system of revenue collection predicated on the individuals "ability to pay"

4.2 Option 2 Less Radical Model

The Less Radical Model is not too dissimilar to the "Preferred" Model except that there would not be a single State Rate Notice but two (2) notices received by each property owner;

- One issued by the LG area, as is the current practice or by the State on behalf of the LG areas and
- One issued by the State to collect the otherwise forgone Revenue due to the removal of Land Tax and Stamp Duty plus any additional funding revenue to be collected by the State.

This Less Radical Model would require the CAV to be calculated and assigned to each property as above, however, it would require multiple aggregated values; one for the overall State (SCAV) but also one calculated for each LG area (LGCAV).

In addition this proposal includes that several changes be made to the way LG currently develops and applies their Rating Structure.

These include Legislative changes that would make it;

4.2.1 Mandatory for LG to apply the Two Part, Base Rate rating structure

- 4.2.2 Set minimum and maximum Base Rates for Residential, Rural and Commercial categories of Rates (being 35% to 85% for Residential category and 3% to 15% for the Commercial category with Rural being somewhere in between)
- 4.2.3 Replace the current unimproved Land Value system with the property CAV/LGCAV to calculate the advalorem rate to be applied to the variable portion of the rate bill
- 4.2.4 Allow LG to assign 2 annual budgets;
- i. one for Capital and Infrastructure Works, where each project is to be defined and treated separately as a Special or Fixed rate for a predetermined timeframe only and,
 - ii. one for normal operations, (ie, garbage collection, sewerage, water, swimming pools, libraries, general administration, building approvals, street lighting, curbing and guttering etc).
- Each Rate Bill to show separate Fixed or Special amounts for each defined Capital and Infrastructure works.

4.3 Option 3 Least Radical model

The Least Radical model would comprise the State foregoing the cost savings and efficiencies that would otherwise be gained by deleting the Land Tax and Stamp Duty as well as changes to the First Home buyers grant and in their place;

- 4.3.1 amend the Land Tax legislation such that it would apply to all properties apart from owner occupied property by removing the “threshold” at which the Tax commences and
- 4.3.2 adopt the same changes to the Local Government act as outlined above viz 4.2.1, 4.2.2, 4.3.3 and 4.2.4. (ie adopt the CAV system in lieu of the vacant land value for determination of LG rates along with the two part, Base Rate method).

5 Special Cases

LM RAG not only recognises the radical nature of what has been proposed above.

We also recognise that there may well be special arguments put forward to grant special treatment of certain properties such as;

- State housing,
- residential retirement villages,
- nursing homes,
- mobile home parks
- caravan parks

At the other end of the scale an argument could be generated as to whether residential property used for commercial business should be rated in the same manner as full residential property, and whether property held under various forms of Family and Superannuation Trust agreements should be similarly treated to offset other obvious tax breaks they enjoy.

We are also conscious that there could well be further special cases that need consideration when using the CAV system for property valuations. One such instance would be when a property is transferred to a beneficiary under the terms of Will. It is quite possible that the beneficiary would not have the disposable financial means to acquire the property had it not been an inheritance.

In this case LM RAG would question whether the CAV should be reset to the market price or some alternate consideration and the circumstances of the beneficiary be taken into account at the time of transfer? Our view is that it should and that only on a commercial sale would the CAV reset to what could be a highly inflated capital value.

6. Appendix 1 Review of Interim Report – Financing Local Government

The Interim Report released in 2006 by the Government for public comment following an inquiry, chaired by Prof. P. Allen into Local Government Finance and Revenue is worth recapping at this time as it helps to explain some of the end effects of an inappropriate Valuation system, its inequity and reasons for underfunding.

This report made much about underfunding of LG infrastructure support and maintenance, as well as provision for new infrastructure projects.

To some extent this has been driven by LG pandering to perceived ratepayer expectations or those views of dominant Counsellors of select political or social justice persuasion, that LG can deliver ever increasing non-essential services. The end result is sending the State and LG into bankruptcy.

As a first step, the State and LG must address unrealistic community expectations and return to basics, ie cut costs and remove the conflict between what are **MUST DO** essential services and those warm and fuzzy, **LIKE TO DO** functions. These may be good for publicity but are not a justifiable function of government at their respective level. At least, not while essential services and infrastructure maintenance continue to be neglected.

They need to get their financial, accounting, reporting and budget systems balanced and to demonstrate sound financial governance.

There are many additional and varied reasons for this under-funding problem that has been building up over several decades. Unless these fundamental issues are addressed in the very near future, Councils, State Government and the community at large, is heading into crisis territory and in some instances are already there.

This shortfall in Revenue is evidenced by recent reports in the mass media, both at State and in many Local areas to fund urgent infrastructure with nearly all LG making application for increases in Rate capping percentages along with recent calls by the Treasurer, Mike Beard for a greater share of GST revenue to NSW.

Cost shifting is just part of the problem and underfunding is well and truly here and needs a long lasting solution.

There is little point or benefit in trying to apportion blame between the various stakeholders as to how or why this has occurred.

The real issue comes down to how best to adequately fund Local Government and the State in not only a sustainable manner but in a very fair way that is transparent to all.

To achieve these outcomes one must first and foremost have a realistic, fair, transparent, efficient and sustainable Valuation system.

The CAV Valuation system proposed in the body of this submission, in conjunction with other changes to the Local Government Act, will achieve all of these objectives as well as meet the criteria set out under *Focus of the Inquiry*.

Whilst the Interim Report addressed the size of the finance problem faced by LG, LM RAG takes strong issue with several of the view expressed. On page 166 it states that the “rate base can be viewed as an equitable base for taxation” and hence it implies that the current land valuation system

is fair and equitable, which it clearly is not. Also under the heading of Efficiency on page 168 that “taxation of land values is generally considered non-distortionary and therefore efficient” which it clearly is not.

The subjective mass valuation process used by the Valuer General within NSW is arbitrary at the very least and a subjective means of determining individual valuations. It attempts to give a realistic valuation for the land exclusive of any improvements. It attempts to do this at a time when there are few truly vacant land sales in most areas around the State especially in highly urbanised areas. This method is clearly distortionary especially when the Valuer General has been unwilling and cannot justify why similar % increases are not necessarily applied to identical adjacent blocks resulting many tens of thousands of dollars difference in valuation between adjoining properties.

Also to assume that an average rate of \$600 per household represents but a small part of total household costs. This is grossly misleading and creates a distortion in the mind of the uninformed reader. It fails to consider or reflect on the ratepayer who has to contribute many times the average (within Lake Macquarie a significant number, 8- 10% of ratepayers can be paying 6 and 8 times the average) hence for them it is clearly distortionary and does amount to a sizeable portion of household expenditure.

We suggest that once readers consider a Capital Asset Value (CAV) system proposed herein they will come to the same conclusion, that it would;

- **not diminish or discourage development,**
- **not increase the administration of the valuation process, in fact, we contend it would reduce these costs at both State and Local Government levels and,**
- **provide a far simpler and fairer system for both rural and city communities.**

Clearly this position needs further explanation as it is one major point of greatest disagreement with the Interim Report.

Our interpretation of the term “Market Value” as used in the Report is an escalated price that the property is “presumed” would bring if sold. Such a valuation only reintroduces the very notional or discretionary process we are trying to eliminate, especially as the Valuer General and his team of contract valuers would be unable to review each and every property individually throughout the State when completing the next round of revaluations.

What is required is an element of market self-regulation that takes into account an income growth index (of one form or another) that will better reflect one’s ability to pay.

Refer to further detail discussion on the proposed CAV system under Section 3.3

It is broadly accepted and understood that for the State and LG to maintain existing standards of service and facilities, the State and LG both require additional funds.

So the real question is, how should this come about and still meet the stated criteria if there will only be limited additional funds coming from the Federal Government back to the State?

Land tax valuation rip-offs exposed

By MARK SCALA
Urban Affairs Reporter

MORE than a third of property sale valuations used to calculate land taxes are unacceptably inaccurate, a report has found.

In some cases values are relying on prices up to a year out of date, says the report by Ombudsman Bruce Barbour.

It found that about a quarter of calculations used data between six months and a year old.

Mr Barbour said that in 43 areas surveyed, 33 per cent of sales valuation figures were wrong by more than 15 per cent — the accepted error rate.

However, in a greater majority of cases this had led to an under-valuation, rather than an over-valuation. Under-valuation means lower rates and taxes for property owners.

Land values are used by councils to set rates and by the government to determine land tax for investors who own property other than their home.

"This means there is an unacceptable risk of error in a considerable number of valuations," Mr Barbour said.

The report found that 1712 home owners who contested land valuations — representing about a quarter of dissenters — had their objection upheld.

"This reflects poorly on the general standard of accuracy currently being achieved through the sales valuation process," Mr Barbour said.

Figures used to determine land tax rates are based on sales reported in the area.

Along with 38 other points, Mr Barbour recommended that the date at which valuations are set be brought forward by four months to March 1 to ensure greater accuracy.

Valuer-General Philip Weston said, while concerns had been raised, overall the Ombudsman had found the system to be sound.

"Less than 1 per cent of ratepayers have a concern about valuation," he said.

"The system is not run down.

Property problems

Suburbs where the highest percentage of valuations were inaccurate:

1. Strathfield: 83 per cent
2. Canada Bay: 76 per cent
3. North Sydney: 74 per cent
4. Burwood: 73 per cent
5. Blue Mountains: 69 per cent
6. Mosman: 68 per cent
7. Greater Taree: 60 per cent
8. Boga Valley: 58 per cent
9. Leichhardt: 57 per cent
10. Great Lakes: 49 per cent
10. Hunters Hill: 49 per cent

*Figure relates to the number of properties sold with an error of 15 per cent or more from the valuation

He's said the system is sound, but needs changes to the evaluation process.

Mr Weston said most of the recommendations had been implemented already, and there were plans to look at the call to change valuation dates.

Opposition Leader Peter Debnam said the system was ripping off property owners, with the high level of successful complaints indicating millions of dollars were being incorrectly claimed by the Government.

"This flawed system has seen mum and dad property owners pay more than their fair share in land tax and council rates," he said.

Lands Minister Tony Kelly said the Government would look at resources to ensure accurate land valuations.

Land tax lawyer David Singer, who helped launch the investigation, said the report found the valuation process was flawed.

He said the valuations had been used by the Government for unfair tax increases on property owners, also leading to an increase in rental fees.

Do you think your valuation is incorrect? Tell us at
dailytelegraph.com.au

THE HERALD

October 6, 2005

Valuation wrinkles

THE sharp increases in prices paid for residential properties in NSW coastal areas in recent years have helped to boost the state-determined land valuations used as the basis for local government rates.

This, combined with the State Government's extension of its land tax last year that drew 400,000 more owners into the net, has intensified calls for a review of the land valuation system.

While a NSW Ombudsman's report into the quality assurance measures used in the land valuation system is not the review that was sought, it is nonetheless unlikely to give much joy to those who believe they are paying too much in rates or land tax.

The Ombudsman has concluded that the system used to make valuation assessments is overall sound. The report does find that the level of accuracy in determining valuations needs to be fine-tuned because too many of them fall outside the small margins of error that are seen internationally as acceptable.

The thing that will surprise many people is the Ombudsman's assessment that 80 per cent of properties where the margin of error is too wide are under-valued, with only 20 per cent over-valued.

The report has called for changes that will produce greater accuracy and lead to improved confidence in the valuation system. The state Valuer-General has accepted the recommendations.

As a result, some property owners could find themselves paying more in rates and land tax rather than less once the proposals have been implemented.

However, if the changes do result in the greater fairness and increased transparency in determining valuations that the Ombudsman is seeking, there could be little cause for complaint.

While the method of determining land valuations might be used worldwide, for example, the Ombudsman was critical of the fact that there had been no systematic review of the base line data components for 18 years. International practice suggested that such a review should be made at least every six years to remove possible distortions from the assessment process.

The report also criticised the lack of a quality assurance system in the wake of a 1996 decision to put the valuation process out to tender. While valuations were being provided at lower cost in real terms, there were many possibilities for error. Valuations, for example, could be based on six- to 12-month-old figures that did not take account of property market changes.

Having accepted the recommendations, then, the Valuer-General and State Government must ensure that they are implemented in a timely manner.

Five-year wait to fix land valuation errors

By MARK SCALA
Urban Affairs Reporter

IT will take up to five years to correct land valuation errors, with the Valuer-General yesterday committing to a re-evaluation of every property across the state.

The move comes after NSW Ombudsman Bruce Barbour this week found a host of errors in the land valuation process, with more than a third of the data used to assess rates unacceptably inaccurate.

Mr Barbour said a reassessment of all 2.4 million properties in NSW would be the only way to correct discrepancies.

"We've made the recommendation recognising it will be a long term process," Mr Barbour said.

However discrepancies would still

Department's strategy

PROPERTY owners next year will be slugged 1.7 per cent of combined land values over \$330,000 that are not a primary residence.

The first area to be reassessed will be Wollondilly followed by Orange, Goulburn, Nyngan, Tamworth, Lismore, Canterbury, Bankstown, North Sydney, Penrith, Ku-ring-gai, Hornsby, Warringah, outer Hunter and St George.

occur under the land valuation system he said, with a need to inject at least \$4 million a year to upgrade the service.

"Valuation will never be a science, it's no different to a few people going to an auction and having a different view of what the property is worth," he said.

While 80 per cent of properties were undervalued and 20 per cent overvalued, investors could face increased land taxes.

Valuer-General Philip Western said the aim was to assess every property in NSW within the five-year period.

He said the report by the Ombudsman would not be enough for individuals to object to land values.

This comes as the State Opposition also called for a judicial review into land valuation, which is used to set council rates and investor taxes.

Liberal Leader Peter Debnam said jumps in tax levels and the evaluation process should both be reviewed.

Land tax lawyer David Singer, who helped spark the Ombudsman's investigation, said the high level of discrepancies meant the system, which relies on figures "plucked from the air", should be scrapped all together.

He said valuations were increasing annually, with taxpayers hit by continually escalating bills that were not capped, unlike council rates.

"The system is unworkable but the Government doesn't want to change it because they are making too much money," Mr Singer said.

Investor Morris Mansour said his three-bedroom rental property at Thornleigh had increased in value by 100 per cent over five years, to \$428,000.

Last year he received a bill for \$11,000 in back-dated land tax, including a fine of \$1346 for failing to make a payment, despite not receiving a bill.

"I've been fighting for three years and I've just been given the run around," he said.

"It's not worth it, but the market's so low it's not worth selling."

SASCHA MOEGE

HERALD NEWS APRIL 15

Tax moves aim to win over voters

LAND tax will be made less susceptible to sharp moves in the property market as part of the State Government's attempt to win voters for next year's election.

On June 6, in his first state budget, Treasurer Michael Costa will announce an overhaul of the land tax system which will include an averaging of land valuations over three years.

He is considering making a small cut in the 1.7 per cent tax rate, giving the Valuer-General more time to value property and making sure assessments do not arrive at the beginning of the calendar year.

Mr Costa acknowledged the broadening of land tax base by predecessor Michael Egan had been very unpopular with small investors, who had had to pay land tax for the first time.

Despite the reversal of



MICHAEL COSTA

Mr Egan's decision last year and the falling property market, valuations have risen sharply in some areas.

In North Manly, on Sydney's northern beaches, they have increased by 37 per cent and as much as double in the country.

"The issue I am now dealing with is how we deal with the obvious concerns about valuation, because there are obvious concerns about that," Mr Costa said.

He is expected to deliver a statement in the

budget that will comment on the effects of an ageing population on budgets, particularly on health spending, which accounts for 27 per cent of the \$40 billion budget.

Hinting at his plans to change the land tax system, Mr Costa said: "Michael Egan tried to broaden the base on land tax and I have got to say, personally I thought a broader land tax was a more sensible outcome."

Before he resigned as premier last July, Bob Carr returned NSW to the old system, in which only investment properties with a land value of more than \$352,000 were liable for tax.

Last year, the Ombudsman criticised mass valuations in which sections of a suburb were valued by reference to one or two properties, warning they had led to chronic undervaluing of land and inaccurate valuations.

Millions may have overpaid land tax, rates

EXCLUSIVE
Sean Nicholls
STATE POLITICAL EDITOR

MORE than 2 million official land valuations in NSW will be forensically examined by a new inquiry, prompted by fears that property owners are overpaying land tax and council rates.

The inquiry will examine more than 29 million pieces of confidential data for all 2.4 million land valuations between 2000 and 2012 to pinpoint which council areas have suffered the biggest discrepancies between official estimates and market values.

Concerns have been sparked by reports indicating that the system used by the Office of the Valuer-General is out of step.

Last year, Fairfax Media reported that wealthy landowners were having their private and commercial property values reduced by billions of dollars for land tax and rating purposes because they could afford court challenges.

For example, in 2010 Alan Rydge, the chairman of the hotel and cinema group Amalgamated Holdings, had an initial valuation of \$17.2 million for his Point Piper home reduced to \$9.5 million after an appeal in the Land and Environment Court.

In Broken Hill a mining company, Perilya, had its land valuation reduced from \$21 million to \$4.9 million. It also emerged that more than 40 per cent of the valuer-general's valuations in the state's midwest were wrong.

In October the Mid-Western Regional Council was told that valuations for 300 blocks of land in its area were wrong, with most being overvalued.

The government uses the valuations to assess land tax and for the compulsory acquisition of land. Councils use them to determine rates.

LAND VALUATION CUTS

Point Piper home

\$17.2m

\$9.5m

Mining company land at Broken Hill

\$21m

\$4.9m

'I am determined to apply the blowtorch to the entire process.'

Matt Kean, chairman of the joint standing committee on the Office of the Valuer-General

The historical analysis of land valuations in NSW, to be conducted by a private firm hired by competitive tender, will help the parliamentary committee conducting the inquiry decide whether to recommend wholesale changes to the system.

The consultant will be asked to test whether official valuations have outstripped market values and if property owners have suffered "material volatility" in their land valuations, including in particular local government areas.

The inquiry, which will open in Broken Hill on Thursday, is taking public submissions until March 8, after which it will hold

public hearings. The chairman of the joint standing committee on the Office of the Valuer-General, the Hornsby MP Matt Kean, said the system needed to be fair, transparent and to provide certainty to property owners.

"The valuation system determines the amount of tax paid by every land owner in NSW," he said. "Recently we have seen shocking examples of the system falling right across the state. I am determined to apply the blowtorch to the entire process in order to safeguard the public's confidence."

An issues paper says the inquiry will examine volatility in land valuations and the complexity and fairness of the system.

It notes that the present system was established in 1916 and subsequent changes have been "ad hoc", resulting in "unnecessary complexity" in the legislation.

For most land in NSW a "mass valuation" approach is used, whereby similar properties are grouped together. Representative properties are individually valued on July 1 to determine how much their value has changed from the previous year.

The change, based on recent sales of vacant land and properties, is then applied to the rest of the group.

The issues paper notes that in Ireland land is valued at the market price by its owner once every three years and in Singapore land tax is assessed on the annual amount of rent that could be charged for the property.

The Valuer-General, Philip Western, could not be contacted for comment on the inquiry.

He has previously said discrepancies exist because sometimes new information has come to light which alters the valuation and that it is not an exact science.