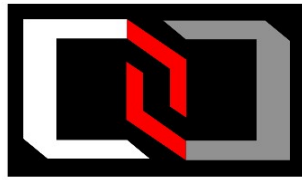


INQUIRY INTO THE PROVISIONS OF THE VALUATION OF LAND ACT 1916

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Date Received: 30/06/2010

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ROBERTSON & ROBERTSON
CONSULTING VALUERS

The Chair
Joint Committee on the Office of the Valuer General
Parliament House
Macquarie Street
SYDNEY NSW 2000

27 July, 2010

Dear Madam,

Re: Inquiry into the Provisions of the Valuation of Land Act 1916

Please accept the following submission in respect of aspects of the Valuation of Land Act, 1916 insofar as it applies to and affects certain of its stakeholders.

Robertson & Robertson has been a contractor to the Valuer General and latterly, the Land and Property Management Authority, since 2002. The company is currently contracted to provide Land Valuation Services for Government Taxing and Rating in the Local Government areas of Gosford, Wyong, Maitland, Cessnock, Port Stephens, Newcastle and Lake Macquarie. We are also contracted to provide Objection Briefing services and Real Estate Advisory services throughout New South Wales.

We are aware that two of the consequential stakeholders who rely upon the output of the annual valuation of land process are the NSW Office of State Revenue and the Councils of all the Local Government Areas of NSW.

Our submission in part, deals with a perceived need to reconcile the period within which the annual valuation process and outcome occurs with the periods during which the derived values are utilised by each of the stakeholders to which we refer previously.

In this regard we draw your attention to the detail of the periods as they currently apply:

- For the purposes of the Office of State Revenue, the annual values are those applicable to all relevant real property at midnight on the 31 December in each year. They are used by that authority, amongst other things, as a basis for levying Land Tax on qualifying properties for the period commencing 1 January and terminating 31 December in each year.
- Councils of each of the Local Government Areas in New South Wales utilise the annual values as a basis for levying rates on properties within their jurisdiction for payment during a rating year which spans the period 1 July in one year to 30 June in the following year. Rates levied by the Councils are extant for a term of three or four years as determined by the individual council. This particular period also gives rise to the notion of a base date being 1 July in each year against which all annual values are applied.

- Contractors such as our company, responsible for the provision of the annual values, are contracted to provide those values in each and every year during the currency of their contract for a period commencing on 1 March in one year and terminating on 28 (or 29) February of the following year.

In practice, a contractor who commences their contract on say, 1 March 2010 will be required to deliver values resulting from the first term of their contract in two parcels. The first parcel known as the Provisional values will be due on 15 September 2010 and the second parcel known as the Final values will be due on 15 October 2010. Some minor changes to a minimal quantum of values may occur between the delivery of the two parcels and up to 30 October 2010.

It is our understanding that both the stakeholders to which we refer will commence their due diligence, proving and estimating processes on the values shortly following delivery of the Provisional values on 15 September and that for practical purposes, the values applied by both stakeholders will be fixed shortly following the 31 October milestone. The practical effect of this programme is that values provided by the contractor must be as accurate as possible for the deliveries on both 15 September and 15 October in each year of their contract notwithstanding that the valuing process commences on 1 March in each year.

It can be seen that in real terms a contract which provides for an annual valuation process to span a period of 12 months from 1 March in one year to 28 (29) February in the next year becomes in substantial part compressed into the period 1 March to 15 September in each year.

By reason also of the nature of the valuation process which uses sales evidence to underpin the values of properties, the contractor's evidence gathering activity also becomes compressed around the base date (1 July in each year). Clearly, sales evidence arising and gathered close to the base date will give the most accurate picture of values applying for the relevant 12 month period.

It is our experience that the compressing of a substantial part of an annual fact gathering programme into a 7 month period and its congruence with a compression of a gathering of the most material evidence of value leads to a very unproductive and costly allocation of resources. We are of the opinion that this could be alleviated by aligning the Contractor's annual programme with either the calendar year as adopted by the Office of State Revenue or the period commonly referred to as the financial year adopted by the Councils. Of course the latter would derive the greatest benefit as it has the benefit also of aligning with the base date.

It could possibly be argued that ideally, all stakeholders adopting a common period would gain the greatest long term benefits.

Your committee might note that, the concept of this part of our proposal in some ways parallels a theme contained in certain of the recommendations of the NSW Ombudsman in a special report to Parliament under s31 and s26 of the Ombudsman Act 1974 entitled, "Improving The Quality Of Land Valuations Issued By The Valuer General" (see specifically recommendations 6.2 and 6.3). We note that these recommendations have not been adopted by Parliament. Our proposal, however, is based upon our ten years experience of managing the delivery of annual values and our detailed knowledge of the difficulties and costs incurred under the existing system.

In proposing this change we recognise that it will not be without adjustments on the part of potentially all stakeholders of the Valuation of Land Act. However, we are of the view that it would derive demonstrable efficiencies and therefore cost benefits to most, if not all such stakeholders.

A secondary part of our submission deals more specifically with the notion of the base date (1 July each year) referred to earlier. As mentioned with regard to that notion, the most relevant evidence of value, market transactions, are those sales which occur between March and August in any given year. Whilst wider parameters are observed, it is a fact that the bulk of market analysis occurs around the base date.

It is also a fact that there is usually a delay between an exchange of contract between seller and buyer and completion or settlement of the sale. It is preferable a sale is settled prior to being used as evidence of value in the valuation process.

If it is accepted that the “best” sales evidence should be derived as closely as possible to the base date and that there is the delay referred to in the previous paragraph, it follows that the sales evidence used by rating and taxing contractors will mostly occur between February and June in any given year.

This is also a further reference to the second type of compressed activity referred to earlier in this submission. It supports the proposition there is analysis of the market and application of values over a much shorter and intense timeframe than is intended by an annual programme for determining values.

This compressed timeframe has the potential also to exclude sales from analysis notwithstanding their relevance and may give rise to objections by property owners on the grounds that sales evidence has been ignored.

If the aligning of periods as proposed in the first part of our submission is a long term possibility or impossible to implement we offer the following as a means of gaining some efficiencies and potentially some cost savings. The following proposal arises out of the concepts of sales analysis and the base date briefly outlined above.

Accepting that values are determined on an annual basis, a retrospective view of value could be implemented. This concept could still be adopted as at 1 July in each year, however, instead of analysing the market at the time valuations are due, it could be analysed over a 6 month period (September – February), with the most comparable sales evidence used to determine value. For example, the July 2010 land value would be the value determined as at July 2009 thereby allowing consideration of all the market evidence available surrounding the July 2009 base date. Valuation contractors would be able to select the most comparable sales from those available rather than working with only the information available at a restricted point in time.

From the point of view of the valuation contractor, the remaining 6 months of the annual programme in the example could be productively applied towards contractual requirements such as verification and quality assurance to further improve the accuracy of the valuation outcomes.

This notion of targeted analysis of the market would be more congruous with standard valuation practices; allow greater accuracy of valuations; reduce the volume of objections and be more transparent.

One of the primary elements required for an objection to land value under the Act is the availability of supporting evidence. Analysis of all relevant market evidence by the valuation contractor would reduce the scope for objections to land values and reduce the costs of administering the annual land valuation programme possibly to a considerable extent.

Such a retrospective valuation concept would still follow market trends; allow current market trends to be reported ahead of valuations as a leading indicator of the direction of land values; provide more assurance for estimating and budgeting purposes and, most importantly, be more accurate.

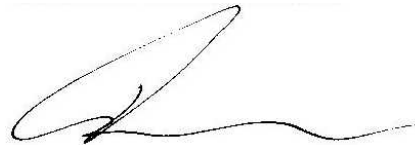
It is important to note that the two parts of the foregoing submission are not mutually exclusive in that the period referred to in the secondary part may be adjusted to accommodate any changes that arise out of an alignment of periods as referred to in the primary proposal.

We trust this submission proves to be of some benefit to your committee's deliberations and would be pleased to offer any additional clarification or amplification of the proposals your or members of the committee may require.

Yours faithfully,
ROBERTSON & ROBERTSON



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