

INQUIRY INTO LAND VALUATION SYSTEM

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Dear Mr Kean

Thank you for your letter of 7 February 2013 about the Joint Standing Committee of the Valuer General's Office inquiry into the land valuation system. I apologise for the delay in responding.

This submission focuses on the current provisions of the *Local Government Act 1993* as they relate to the valuation system and in particular, how they deal with valuation objections and reascertainments.

Background

Under the *Valuation of Land Act 1916*, the Valuer General is charged with supplying land values to various authorities, including local councils, for the purposes of levying rates and taxes.

Landowners have a right under Part 3 of the *Valuation of Land Act* to challenge their land value, which if successful can bring about an alteration in the land values under section 35B of that Act.

In addition, under Part 4 of the Act, any person entitled under Part 3 to object to a valuation may appeal to the Land and Environment Court if they are dissatisfied with the Valuer-General's determination of any such objection.

Recouping income lost due to valuation objections

Where a land valuation is reduced due to a successful objection or appeal and this results in a reduction in the rates payable for that parcel of land, the *Local Government Act 1993* ensures that the affected council is not financially disadvantaged as a result of that objection or appeal.

Specifically, section 511A of the *Local Government Act* provides that, where a successful objection or appeal has been lodged by a landowner under Parts 3 or 4 of the *Valuation of Land Act*, the affected council is able to recover any income that is lost due to that objection or appeal.



This is achieved by way of a one-off increase in the total amount of rating revenue that the council may collect in a future year. In effect, a council can recover from other ratepayers in its area any income it has had to refund due to a valuation objection.

It is important to note that this is a one-off adjustment that recognises that the council has budgeted to collect a certain level of income in a certain year and, as a result of the valuation objection, it will have a budget shortfall in that year. The provisions of section 511A ensure that the budget shortfall is addressed and the one-off increase is reduced in the following year. It should also be noted that there is no impact on a council's total permissible income in future years, only in the year in which the refund applied.

In most instances, the amount of income lost due to valuation objections is relatively small and the impact on other ratepayers of meeting any shortfall due to refunds is negligible. As a result, section 511A is generally an effective means to address the impact for councils of valuation objections.

However, in the case of Broken Hill City Council and Perilya Mine, the magnitude of the refund (\$6.8m) is significant, representing over 50% of Council's total annual rating income of \$13.2m. In this case, if Council was to utilise section 511A to recoup that lost income, ratepayers would see a one off increase in rates of about 50%.

This case is very unusual and the Division is not aware of any valuation objections that have had such a deleterious impact on a council and its community.

Treatment of reascertainments

In addition to the provisions contained under Parts 3 or 4 of the Valuation of Land Act, the Valuer General also has the authority under section 14A(6) to reascertain land values that have been identified as being in error. Such reascertainments can also result in a reduction in land values.

Reascertainments are usually undertaken as a result of an objection on a similar property, internal investigations by the Valuer General or external investigations by council staff.

The Valuer General has advised the Division that land values made under both section 35B and section 14A(6) of the Valuation of Land Act constitute land values for the purposes of rating and taxing under that Act.

However, the Local Government Act does not currently provide for a council to recover income lost as a result of a reascertainment made under section 14A(6).

The Division understands that the occurrence of the issuing of reascertainment valuations by the Valuer General has been increasing in recent years. In addition, the Division has become aware that the impact of reascertainments can be greater than that of objections, because a small number of objections can result in a large number of reascertainment.

As an example, the City of Wagga Wagga has advised the Division that, following a recent general revaluation, 89 successful objections were received resulting in Council having to refund \$106,050 in rates income. In addition, in what Council believes is a direct result of some of those successful objections, the Valuer General also reascertained the land value of another 161 properties. Council therefore had to refund a further \$117,600 in rates income, which it was not able to recover through section 511A.

More recently, Mid Western Regional Council has been dealing with a similar problem. Following a general revaluation that saw significant fluctuations in farmland values, the Valuer General undertook a review that resulted in 669 properties having their values reassessed. The Valuer General determined that there was an error in 277 of those properties, with 241 of them receiving a valuation decrease, and 36 of them a valuation increase. As these new valuations had been determined as reascertainments under section 14A(6), the Council was facing a situation whereby it would be required to refund approximately \$200,000 in rating income, which it would not be able to recover at a later time.

Following consultations with the Division and the Valuer General, Council wrote to all the affected land owners recommending that they submit an objection to their original valuation.

While this will ensure that Council can recoup the lost income under section 511A in a future year, the shortfall for Council in 2012/13 of approximately \$200,000 will need to be met from a reduction in Council's reserve funds.

Current developments

The Minister for Local Government has established a taskforce to review the Local Government Act. The taskforce is scheduled to report to the Minister by September 2013.

The Division has made the taskforce aware of this issue. It is anticipated that a new Local Government Act will address this problem by treating reascertainments in the same way valuation objections are treated.

I trust the Committee finds this information useful in its deliberations.

Yours sincerely



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A Division of the Department of Premier and Cabinet