

**Submission  
No 127**

## **INQUIRY INTO LAND VALUATION SYSTEM**

**Organisation:** RICS Oceania  
**Name:** Mr Collin Jennings  
**Position:** Government Liaison  
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The Joint Standing Committee on the Office of the Valuer General  
Parliament of New South Wales  
Macquarie Street  
SYDNEY NSW

To: The Chair of the Joint Standing Committee

RICS Oceania would like to thank Joint Standing Committee for the opportunity to make a submission to this inquiry.

### **Preamble**

RICS is the world's leading professional qualification for professionals in land, property and construction.

The designation "RICS" stands for professional excellence and integrity and it is why over 100 000 property professionals have recognised the importance of securing RICS status by becoming members.

As one of the few professions to have established arm's length self- regulation of members, RICS aims to set and maintain the highest standards for its members, whilst operating as an independent organisation in the public interest.

Established in 1868 and receiving a Royal Charter in 1881 RICS has been committed to setting and upholding the highest standards of excellence and integrity – providing impartial, authoritative advice on key issues affecting businesses and society.

Our key roles are:

- Advancing the highest ethical and technical standards for professionals in land, property and the built environment
- Protecting and benefiting consumers by setting high standards and codes of practice
- Providing expert impartial advice to governments , business and the public
- Equipping members with leading edge advice, market insight and professional training
- Promoting standards in key markets.

RICS regulates individual members through a principles and risk-based regulatory regime. This approach is overseen by the Regulatory Board which has a majority of independent members, and provides assurance of the highest levels of integrity, ethic and competence among members.

### **RICS and the valuation profession**

RICS is one of the largest membership bodies involved in valuation. The RICS

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Chartered Surveyors



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Valuation Professional Group has over 35 000 members globally, and has 14 000 RICS members aligned to the global Valuers Registration Scheme.

RICS has a long history in the valuation profession and has been involved in setting international valuation standards for over 30 years; indeed RICS was one of the founding organisations of what is now referred to as the International Valuation Standards Council or IVSC.

The Australian Property Institute notes in its valuation standards:

*The Royal Institution of Chartered Surveyors (RICS) and representatives of the U.S. appraisal profession began a dialogue in the late 1970s, which led to the founding of The International Assets Valuation Standards Committee (TIAVSC) in 1981. The Committee changed its name in 1994 to the International Valuation Standards*

*Committee (IVSC). The objectives of the Committee are twofold:*

- To formulate and publish, in the public interest, valuation Standards for property valuation and to promote their worldwide acceptance; and*
- To harmonise Standards among the world's States, and to identify and make disclosure of differences in statements and/or applications of Standards as they occur.*

RICS remains a major sponsor of the IVSC and continues to work directly with the IVSC on the development of international valuation standards.

The Valuation Standards produced by RICS, commonly known as the Red Book, is universally used by practicing valuers in over 140 countries. Members of RICS are required to adhere to these valuation standards to maintain their membership.

The Red Book is produced in conjunction with the Institute of Revenues Ratings and Valuation (IRRV) in the United Kingdom.

RICS also hosts and is a participant to the International Property Taxation Institute (IPTI) and the Commonwealth Heads of Valuation Agencies (CHOVA).

## **Submission**

The NSW Valuation of Lands Act (1916) is considered to be one of the foundation legislative instruments for rating taxation, not just within Australia but also internationally.

The formula by which land is valued in NSW is robust and has proven itself to be solid in its structure. RICS, as well as the Australian Property Institute (API) noted in submissions to the previous review of the Valuation of Lands Act in 2010 that the Act was indeed operating effectively. In the view of RICS there is little evidence to suggest that the Act has deteriorated in the last three years.

If the Act had significantly collapsed in any way it would be fair to assume that the number of objections moving to the Land and Environment Court would have increased, however this is not the case.



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Considering the volume of valuations undertaken by the Valuer General in NSW, approximately 2.4 million, the ratio of objections to valuations is incredibly small.

Valuation of property has been characterised in terms of it being both an art and a science; an art because of the need to make value judgements concerning the intangible features that attract certain buyers and a science because it is possible to establish trends and analyse how these are interpreted by buyers and sellers and the value they place on certain property characteristics.

This mix of art and science does lead to valuations working within margins of error.

As the Valuer General noted in evidence before the Joint Standing Committee on the Office of the Valuer General, Sixth Meeting on 12 March 2010:

*“We operate within a mass valuation system. The quality standards that we apply are benchmarked worldwide. The hurdle...for the accuracy of the valuations is for the valuation to be within plus or minus 15 percent of the market value. That is a worldwide benchmark. We are talking about a mass valuation system here where we valuing 2.4 million properties.”*

A valuer can only determine the value of a property on the date of that the valuation is undertaken valuers cannot predict changes in the market.

RICS notes in the Red Book under Guidance Note 1 – Valuation Certainty section 1.2:

*All valuations are professional opinions on a stated basis, coupled with any appropriate assumptions or special assumptions (see VS 3.1). A valuation is not a fact, it is an estimate. The degree of subjectivity involved will inevitably vary from case to case, as will the degree of certainty, or probability, that the valuer’s opinion of market value would exactly coincide with the price achieved were there an actual sale at the valuation date. Ensuring user understanding and confidence in valuations requires transparency in the valuation approach and adequate explanation of all factors that materially impact the valuation.*

The fundamental issue that surrounds both the Act and the methodology is that, while it is effective, it is difficult to understand, an issue noted by the NSW Revenue Professionals in their submission to the last review of the Act in 2010.

As noted earlier in this submission RICS has reviewed the Act and has continued to review the Act and RICS can see no necessary changes to be made to the Act. It is the view of RICS that the Act continues to work in the best interests of the people of NSW. RICS continues to believe that the Act has correct mechanisms in place for ratepayers to lodge objections.

NSW is unique in its working of the Act and the Valuer General being the only state or territory jurisdiction to have Parliamentary oversight of this statutory function. This creates one of the other major issues with the Act in that it continues to be put under review on an ad hoc and inconsistent basis. The last review of the Act was only concluded back in 2010.



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RICS is concerned that the current investigation into the Act will not produce a positive outcome for a system that, in essence, works extremely well.

However RICS, as a Chartered body with a remit to act in the public interest, believes that education should not simply be singled out to the public. RICS believes that the continued education of valuers is vital to protect the public interest. RICS enforces a minimum of 20 hours of continued professional development for its valuers, as well as requiring valuers to have full understanding of the market in which they operate (refer RICS Valuation Standards March 2012 edition).

As was noted in the Report on the Sixth General Meeting with the Valuer General:

*“...the Valuer General considers that one way of ensuring that there are enough valuers to meet current and future demand is by enhancing tertiary courses to introduce students to ratings and taxing valuation.”*

RICS currently accredits university courses in NSW, as well as across Australia and internationally. Courses accredited by RICS are evaluated through international benchmarks and include outputs, student ratio numbers and evaluation by external examiners. RICS only accredits university courses that match these benchmarks. Currently RICS does not accredit every university or university course in NSW.

Continued professional development is a commitment by members to continually update their skills and knowledge in order to remain professionally competent and achieve their true potential.

All RICS members are required to undertake learning in relation to the RICS Global Professional and Ethical Standards at least once every three years.

RICS sees that an enhanced regime of continued professional development for valuers undertaking ratings valuations in NSW is vital to ensuring that the quality of valuation work is up to the requirements of tax payers of NSW.

RICS would like to see the language within the current tendering documentation for valuation services in NSW expanded from the currently terminology. The current terminology does not explicitly state RICS within the tender document.

This does not reflect current valuation practice in NSW.

Valuers in NSW can be either members of RICS or the API. The current phrasing, RICS argues, is inefficient and leads valuers to believe that they **must** be members of the API to become a contract valuer. This is not the case.

As the Valuer General noted in 2010 at the Sixth General Meeting with the Valuer General:

*“...there is no requirement for the people undertaking that work to be an Australian Property Institute [API] member...”*

Further the Valuer General stated:



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*“The work that is undertaken for rating and taxing work is not required to be signed off by an API member.”*

However, even with these assurances from the Valuer General in 2010 the current tender documentation still does not specifically relate to RICS.

Application of RICS into the tender documentation would not, in any way effect the use of any specific guidance notes or standards that may be applied by the API as RICS members are required to abide by the RICS Valuation Standards which have provision to use local guidance where required by law or Acts of Parliament.

## **Recommendations**

- That the Joint Standing Committee recommend and support an educational campaign, delivered by professional associations representing valuers in NSW to inform tax payers on the methodology used in determining valuations under the Act. Funding for such an educational campaign should be sourced from LPI and distributed evenly to all representative associations for valuers. This process would need to be carefully managed to ensure there is no perceived conflict of interest arising from the participation of any influencers in any of the professional bodies.
- That the Joint Standing Committee recommends and support the development of an independent Educational Advisory Committee to ensure there is appropriate coverage of taxing aspects for both students and practicing valuers in NSW. The committee should be assembled from representatives of the valuation profession, academics and lay persons, with the chair being a lay person.
- That the Joint Standing Committee recommends that an independent regulatory board be established in NSW to deal with complaints regarding valuers. The regulatory board should comprise representatives from the valuation profession and lay persons with the majority being from outside the valuation profession, and the chair being a lay person. RICS has established independent regulatory regimes in international jurisdictions to assist governments with providing transparent frameworks. RICS would be happy to discuss these processes with the Joint Standing Committee.
- That the Joint Standing Committee recommend that further training and education for practicing valuers be delivered by all professional associations representing property valuers in NSW with funding being directed from the Department.
- RICS recommends that a high level review of rating and taxation education in NSW is undertaken, with regard to international best practice.
- RICS recommends that tender documents for valuation services with the Valuer General be amended to include membership of both RICS and the Australian Property Institute.



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RICS would be happy to assist the Joint Standing Committee with any of these recommendations.

Yours Sincerely

Collin Jennings  
Government Liaison  
RICS Oceania



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