


INQUIRY INTO LAND VALUATION SYSTEM

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8 March 2013


Broadway NSW 2007
Australia

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

Phone: 

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DS

Dear Chair

SUBMISSION – LAND VALUATION SYSTEM INQUIRY

I **attach** my submission to the Inquiry into the Land Valuation System.

I do not require the submission or any part to be kept confidential.

I will be overseas from 23 April 2013 until 3 June 2013.

Please don't hesitate to contact me if you require any explanations or further elaboration on my submission.

Your acknowledgement of the submission would be appreciated.

Yours faithfully
David Landa Stewart


David Singer

Phone 

Email 

**JOINT STANDING COMMITTEE ON THE OFFICE OF THE VALUER
GENERAL - INQUIRY INTO LAND VALUATION SYSTEM
FEBRUARY 2013**

SUBMISSION – 8 MARCH 2013

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EXECUTIVE SUMMARY

1. When three adjoining properties have their values determined using three different component factors the alarm bells should be clearly ringing for this Committee - whose Inquiry is very welcome and long overdue.

An actual case study is discussed in Part 8 of this Submission – where changes in values have been deliberately made by unknown persons leading to this farcical result.

Such persons need to be identified and required to explain their conduct.

The fact that component factors can be manipulated this way confirms that the Mass Valuation System (“MVS”) is unable to deliver accurate, reliable and credible results.

The Valuer-General (“VG”) needs to explain how this can possibly occur under the MVS – which system is used to value most properties in NSW in groups called components that are expected to reflect changes in value in a similar way.

See Parts 1, 2, 6, 7 and 8 of this Submission.

2. There are only two ways forward out of the current mess that has led to the Register of Land Values being totally corrupted since 1997:
 - (i) re-set the valuation base line of every component in every valuation district in NSW as recommended by the Ombudsman in 2005 and proposed by me in 2000 - see Parts 5 and 9 of this Submission;
- or

- (ii) scrap the MVS and replace it with a new fairer and more transparent system of assessment - see Part 10 of this Submission.
- 3. Inflated component factors adopted by the VG under the MVS have caused inaccurate land values for properties in those components to be derived under MVS ("**MVS values**") in many valuation districts in NSW since 1997 – see Part 4 of this Submission.
- 4. The failure by the VG to correct those MVS values after successful objections and appeals by the owners of one or more properties in those components in 1997 and 1998 breached an assurance given by the former VG Mr Peter Cunningham in sworn evidence to the Nile Inquiry on 4 May 1998 and has resulted in the continuing corruption of those MVS values in the Register of Land Values since 1997 which remain uncorrected until today - see Part 4 of this Submission.
- 5. After struggling for years to have the land values reviewed I finally persuaded the Ombudsman to investigate the land values determined in NSW at 1 July 2003.
- 6. The Ombudsman's recommendation in his 2005 Report to Parliament that every MVS value in most of NSW be re-set was a damning indictment of the MVS and signified that the MVS values were inaccurate and not worth the paper they written on - and this position still applies in 2013- see Parts 1, 5, 8 and 9 of this Submission.
- 7. In 2007 two improper practices were uncovered by me in documents obtained under FOI in relation to land values determined at 1 July 2007 for Woollahra:
 - (a) MVS Values **outside** the VG standard of accuracy were deliberately changed to bring them **inside** the VG standard of accuracy - a practice I label as "Numbers Fixing" (which I had earlier identified in 2005) - see Parts 6 and 8 of this Submission.
 - (b) MVS Values **inside** the VG standard of accuracy were deliberately changed to values that were still **inside** the VG standard of accuracy - a practice I label as "Value Tampering" - see Parts 7 and 8 of this Submission.
- 8. Numbers Fixing enabled the contract valuer to certify that land values in Woollahra at 1 July 2007 met the VG standard of accuracy - when in fact the opposite was the case. Such certification enabled the VG to claim that the MVS values in Woollahra were accurate - when they were not - see Part 8 of this Submission.

9. 117 sales analysed by me in Woollahra at 1 July 2007 revealed that:
 - (a) 51 were cases of Numbers Fixing - affecting the values of properties in 20 components - but no consequential amendments appear to have been made to the MVS values of those other properties - see Part 8 of this Submission.
 - (b) 23 were cases of Number Tampering - affecting the values of properties in 15 components - but no consequential amendments appear to have been made to the MVS values of those other properties - see Part 8 of this Submission.
10. If MVS is to be retained - an investigation is required to determine how widespread the practices of Numbers Fixing and Value Tampering are in other valuation districts in NSW and the extent to which those practices will impact on re-setting the valuation base lines to enable the production of accurate, reliable and credible MVS values - see Parts 5, 6, 7, and 8 of this Submission.
11. I believe that the two previous Governments - in failing to re-set the valuation base lines in all valuation districts as suggested by me in 2000 and recommended by the Ombudsman in 2005 - have been involved in the corruption of the land valuation system since 1997 resulting in hundreds of millions of dollars being overcharged in land tax and council rates to large numbers of property owners in NSW based on inaccurate land values - see Parts 4 and 9 of this Submission.
12. The following summary of relevant events since 1997 up to the release of the Ombudsman's Report in 2005 are more fully dealt with in this Submission where indicated and will hopefully assist the Committee in understanding why re-setting the valuation base line in every component in every valuation district is essential as recommended by the Ombudsman in 2005 - if MVS is to be retained:
 - (i) The Government had identified that land tax revenue in real terms in 1996 - 1997 was \$320 million less than was collected in 1991 - 1992 - clearly indicating that the land value data base had become substantially undervalued - see Part 9 of this submission.
 - (ii) The VG's independence in determining MVS values was taken away on 1 May 1997 when the Government established the State Valuation Office ("SVO") as a Government business unit within the Department of Water and Land Conservation under Minister Kim Yeadon - effectively vesting control of the valuation process in the hands of the Government - see Part 9 of this Submission.

- (iii) The SVO determined the land values at 1 July 1997 in almost all of NSW with the exception of the Outer Hunter - see Part 9 of this Submission.
- (iv) During the course of determining those land values a black hole of \$346 million appeared in the Budget as the result of a High Court decision on 5 August 1997 - see Part 9 of this Submission.
- (v) The issue of substantially increased land values at 1 July 1997 provoked public outrage and led to the holding of two Inquiries - the Nile Inquiry in 1998 and the Walton Inquiry in 1999 - see Part 9 of this Submission.
- (vi) The first hint that systemic overvaluation might have occurred was contained in a letter sent by the Auditor General to the Ombudsman on 27 July 1999 after receiving information from Ms Clover Moore MLA in relation to successful objections in Woollahra - see Part 9 of this Submission.
- (vii) A large number of successful objections and appeals to MVS values occurred in 1997 and 1998 as detailed in the Walton Report released in October 1999 - indicating substantial systemic overvaluation had occurred in 1997 and 1998 - see Parts 5 and 9 of this Submission.
- (viii) The VG gave an assurance to the Nile Inquiry in sworn evidence on 4 May 1998 that he would correct the values of all properties in a component as a result of successful objections and appeals - which he failed to do - see Part 4 of this Submission.
- (ix) The Government failed to acknowledge my submission in January 2000 in response to the Walton Report urging that the land values between 1996 - 2000 be reviewed - see Part 9 of this Submission.
- (x) The Government's failure to act resulted in continuing corruption of MVS values in the Register of Land Values in 2000 and 2001 - see Part 9 of this Submission.
- (xi) In June 2001 two sets of books prepared by the State Valuation Office ("SVO") in August 1997 and September 1997 were discovered by me under FOI recommending the adoption of substantially different component factors in Woollahra and Waverley in 1997 - see Part 5 of this Submission.
- (xii) I had been urging the Government to hold an Inquiry since January 2001 and on discovery of the two sets of books in Woollahra and Waverley I renewed my efforts to get the Government to act - which it refused to do

until it eventually agreed to re-open the Walton Inquiry in 2003 - see Part 9 of this Submission.

- (xiii) On 3 July 2003 the Minister for Lands the Hon. Tony Kelly told the Legislative Council:

This Government wishes to ensure the people of New South Wales that land valuations undertaken by the Valuer General are sound, well-informed, quality valuations based on reliable information and expertise.

see Part 9 of this Submission.

- (xiv) The reopened Walton Inquiry issued its Report on 5 August 2003 but neither of the SVO valuers was interviewed nor was any explanation sought from the VG as to the reasons for adopting the component factors he did - see Part 5 of this Submission.
- (xv) Following his appointment on 23 August 2003 the current VG introduced three statistical tests to measure the accuracy of MVS values - one of which - the Mean Value Price Ratio ("**MVP**") - required MVS values to be between 85% and 100% of the values determined by a licensed valuer - which measure I have used for the purposes of this Submission ("**the VG standard of accuracy**") - see Part 3 of this Submission.
- (xvi) Statistical reports and certificates issued since that time by contract valuers ("**Quality Statements**") have been doctored to misrepresent that MVS values comply with the VG standard of accuracy - when they do not - see Parts 3, 6, 7 and 8 of this Submission.
- (xvii) On 30 January 2004 I lodged a complaint with the Ombudsman alleging maladministration by the VG concerning the determination of land values in New South Wales at 1 July 2003.
- (xviii) The Ombudsman found that overwhelmingly there was undervaluing across the districts of NSW rather than overvaluation (page 61 Ombudsman's report). Nothing had changed since 1996 and the Register of Land Values still remained undervalued and corrupted - see Parts 5 and 9 of this Submission.
- (xix) Instead of acting to reset the valuation base lines in accordance with the Ombudsman's recommendation and restore accuracy and credibility to the Register of Land Values - the undervalued data base continued to be annually increased to extract more land tax and increase council rate

liabilities - as is evident from the growth in land tax receipts since 2003-2004. The valuation process still remained under Government control in another Government business unit - Land and Planning Information (NSW) - under Minister The Hon. Tony Kelly - see Part 9 of this Submission.

13. My Submission contains the following recommendations that I would respectfully urge the Committee to adopt:

RECOMMENDATION 1

The VG be asked to confirm that the MVP ratio is one of the statistical measures of accuracy that he has continued to use since 16 December 2004 with the standards of 85% - 100% as detailed in his letter to the Ombudsman of that date.

RECOMMENDATION 2

The VG produce complete lists of all component factors adopted by him for every component in NSW to derive the values of all properties in NSW at 1 July 2012

RECOMMENDATION 3

The VG confirm in writing whether he or his predecessor Mr Peter Cunningham has ever acted in accordance with the assurance given by his predecessor to the Nile Inquiry on 4 May 1988 and if not – why not?

RECOMMENDATION 4

The VG be asked to detail in writing the number of districts whose valuation base line has been re-set since 2005 by a structured program of handcrafting and review of component structures as recommended by the Ombudsman and produce to the Committee all documents and records in relation thereto.

RECOMMENDATION 5

The VG produce all records and documents to the Committee relating to the determination of component factors in Broken Hill, Woollahra and the Mid Western Regional Council area at 1 July 2010, 1 July 2011 and 1 July 2012 together with all records and documents relating to the decision by the VG to reduce the component factors to be applied to reduce the values of properties in the Mid Western Regional Council Area.

RECOMMENDATION 6

The Ombudsman be requested to investigate the values determined for Woollahra at 1 July 2007 to confirm my allegations and take such action as he may consider necessary in the circumstances.

RECOMMENDATION 7

The Ombudsman be requested to lay down the procedure and supervise the re-setting of the valuation base line in all valuation districts of NSW to begin from such date as the Committee determines.

RECOMMENDATION 8

The VG advise the Committee in writing:

- (i) what criteria are used by him to determine what properties are not appropriate to be mass valued;**
- (ii) how many properties are there currently outside the mass valuation system;**
- (iii) where and in what components would they be if they were in the mass value system; and**
- (iv) what is the aggregate land value of those properties in each of the valuation districts in which they are situated.**

RECOMMENDATION 9

That the Committee recommend the modeling of POST with a view to introducing it to replace the MVS as the system of assessment for raising a revenue neutral property tax to replace stamp duty and land tax in NSW.

PART 1

INTRODUCTION

1. I have been involved in the last two inquiries held into the mass land valuation system ("MVS") in NSW – the Nile Inquiry in 1998 and the Walton Inquiry in 1999 - lodging submissions with each Inquiry as well as making a detailed response to the findings of the Walton Inquiry.
 2. I was responsible for having the Walton Inquiry re-opened in 2003.
 3. My firm has represented hundreds of property owners in many different valuation districts - many of whom successfully objected to their land values or succeeded on appeal after being initially rejected by Valuer General ("VG").
 4. I fought for a public Inquiry to be held into the events that led to the corruption of the Register of Land Values in 1997 - but the Government of the day refused to act - leaving the current Government to inherit the aftermath of what could be the greatest act of public maladministration in the history of NSW.
 5. In 2004 I lodged a complaint with the NSW Ombudsman concerning the land values issued by the VG at 1 July 2003.
 6. After a lengthy investigation the Ombudsman concluded in a special report to Parliament under s31 and s26 of the Ombudsman Act 1974 that there had been inadequate adherence to the controls employed by the VG to ensure the accuracy of valuations derived from the component method of mass valuation in NSW and that the provision of adequate information to potential and actual objectors was also inadequate. Such conduct by the VG was found by the Ombudsman to be unreasonable in terms of Section 26(1).
 7. The Ombudsman recommended the valuation base line in the majority of valuation districts in NSW be re-set - as clear an indication as one could get that land values derived using MVS ("**MVS values**") were not worth the paper they were written on.
 8. The very calling of this Inquiry indicates that nothing has changed - and it needs to and soon.
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PART 2

CURRENT MVS VALUES IN NSW ARE NOT ACCURATE OR RELIABLE

1. Most land in NSW is valued by the VG under the mass valuation system ("MVS") where properties are valued in groups called components and are expected to reflect changes in value in a similar way.
2. The MVS is still not delivering accurate or reliable land values in NSW ("MVS values") despite attempts to fix the system as recommended by the Walton Inquiry in 1999 and the Ombudsman in 2005.
3. This is abundantly clear from a report in the Sydney Morning Herald on 28 January 2013 that a mining property in Broken Hill has had its value reduced from \$21 million to \$4.9 million whilst a property in Point Piper has had its value reduced from \$17.2 million to \$9.5 million.
4. This view is further confirmed by the following extracts from an article in the Australian on 8 November 2012:

More than 40 per cent of the NSW Valuer-General's rural land valuations in the state's mid-west were wrong, and were revised by his office after requests by the Mid-Western Regional Council.

Separately, in Broken Hill, base metals mining company Perilya challenged a Valuer-General ruling that its land was worth \$21 million. The Land and Environment Court scaled back Perilya's land valuation to \$4.9m, but the Crown Solicitor's Office intends to appeal the ruling.

Of 670 rural properties the NSW Valuer-General reviewed in the state's mid-west recently, 277 valuations were incorrect - an error rate of 41 per cent, according to an email obtained by The Australian.

After reassessment by the Valuer-General, the valuation of 241 properties dropped by a combined \$40m, according to Mid-Western Regional Council general manager Warwick Bennett. The council wants compensation from the NSW government for the errors and the \$198,000 loss of general rate income to the council.

5. If the Committee requires any further evidence to substantiate my claim then it should consider the land values issued for the following four properties comprised in the one subdivision that my office is currently investigating.

Each has been assigned the following land values by the Valuer General at 1.7.2009 and 1.7.2012

| 1 | 2 | 3 | 4 | 5 |
|----------|---------------------------|---------------------------|--------------------|--|
| Property | Value 1.7.2009 (\$) | Value 1.7.2012 (\$) | Area (sqmetres) | Value per sqmetre 1.7.2012 (\$) |
| 1 | 1,065,000 | 884,000 | 1,499 | 589.72 |
| 2 | 1,860,000 | 1,400,000 | 1,219 | 1,148.48 |
| 3 | 3,120,000 | 1,700,000 | 1,457 | 1,166.71 |
| 4 | 1,040,000 | 901,000 | 1,571 | 573.52 |

I will supply the location and details to the Committee in confidence if required.

PART 3

WHAT MAKES MVS VALUES ACCURATE OR INACCURATE?

1. In 2003 the VG adopted three statistical measures to determine the level of accuracy of MVS values that are used in mass appraisal systems around the world.
2. One of those statistical measures - The Mean Value Price Ratio (“MVP”) is the measure I have used for the purpose of this submission (“**the VG standard of accuracy**”) - and was stated by the Ombudsman to be the main measure to judge valuation accuracy (page 63 Ombudsman Report).

3. The Ombudsman described this measure as follows:

It shows the mean (or average) level of accuracy of the assigned values compared to the sales evidence. It gives an overall figure showing how close the assigned land values are to the adjusted analysed land values derived from analysis of sales. It is calculated by dividing in each instance where there is a sale of land, the assigned land value by the adjusted analysed land value at the base date, aggregating the results and dividing the total by the number of sales, then expressing this as a percentage.
(page 63)

4. Originally the standard set in 2003 required the MVS value be within the range of 85% - 110% of the adjusted analysed land value (“ALV”) - but the VG deemed it unacceptable to have MVS values above market level and in a letter to the VG dated 16 December 2004 stated:

In order to resolve doubts in favour of the taxpayer and avoid any systematic [sic] overvaluation, the Valuer General has adopted an acceptable range of 0.85 to 1.00 for this measure in NSW

5. In other words, the VG assured the Ombudsman that no overvaluation of even one dollar in the value of a property derived under MVS would be acceptable - whilst undervaluation of a property by up to 15% would be an acceptable standard of accuracy for the purposes of the land valuation system.
6. Put in simple terms - if the ALV was \$100,000 then any MVS value between \$85,000 and \$100,000 would be regarded as accurate.
7. The Ombudsman found that of 68 valuation districts he investigated only 45 of districts with residential zones met the MVP standard of 85% - 100%, 17 had an MVP below 85% and six had MVP's above 100% (page 63).

8. Whilst the Ombudsman pointed out that these statistical measures were not infallible he concluded that:

The non-conforming statistical outcomes rightly need to be used as flags or indicators of problems that need to be further investigated to determine whether there is in fact serious inaccuracy or lack of uniformity in the valuations made. (page vi)

9. Of the sample of 90 valuation districts that the Ombudsman examined - the statistical reports for six districts (Bega Valley, Great Lakes, Hastings, Manly, Mosman and Pittwater) failed to comply with the standards for each of the three primary statistical tests, seven districts (Bathurst City, Burwood, Greater Taree, Muswellbrook, North Sydney and Yass Valley) failed to comply on two of the measures and 16 failed to comply on one - 11 of which had non-conforming MVP's (page 65).
10. I had identified to the Ombudsman in a letter dated 17 February 2005 that the statistical reports in Waverley and Woollahra had been "doctored" by:
- (i) excluding many properties with an MVP outside 85% - 100%; and
 - (ii) altering many MVS values to change the MVP ratio.

The length to which the Statistical Reports had been "doctored" is evident from the following Table.

| Valuation District | Number of Analysed Residential Sales in Market Analysis Report | Number of Analysed Residential Sales in Statistics Schedule Report | Number of Properties whose MVS Value was altered |
|--------------------|--|--|--|
| Waverley | 137 | 101 | 16 |
| Woollahra | 110 | 71 | 37 |

11. The Ombudsman disregarded the excluded 36 sales in Waverley and the 39 sales in Woollahra and still concluded that:
- (i) 38% of the analysed 101 sales in Waverley did not comply with the VG standard of accuracy; and
 - (ii) 20% of the 71 analysed sales in Woollahra did not comply with the VG standard of accuracy.
- (Page 59 Ombudsman Report).

Certainly these figures would have been far higher had the excluded sales been included.

12. New variations of these undesirable practices - Numbers Fixing and Value Tampering - crept into the preparation of the Quality Statement prepared for Woollahra in 2007 - as I detail in Part 8 of this Submission - which enabled a Quality Statement to be issued certifying that the MVP Ratio had been complied with - when it clearly had not.
13. The 2007 Quality Statement for Woollahra - like the MVS values - were misleading deceptive and worthless.

RECOMMENDATION 1

The VG be asked to confirm that MVP is one of the statistical measures of accuracy that he has continued to use since 16 December 2004 with the standards of 85% - 100% as detailed in his letter to the Ombudsman of that date.

RECOMMENDATION 2

The VG produce complete lists of all component factors adopted by him for every component in NSW to derive the values of all properties in NSW at 1 July 2012.

PART 4

INFLATED COMPONENT FACTORS PRODUCE INACCURATE MVS VALUES

1. The adoption of inflated component factors produces inaccurate MVS values that fall **outside** the parameters of the VG standard of accuracy (0.85-1.00)

For Example:

If the land value of a property has been determined by a valuer to be \$100,000 and the MVS value is \$80,000 or \$105,000 - then the MVS value is inaccurate.

Any value between \$85,000 and \$100,000 is regarded as accurate for MVS.

2. The failure of the VG to get the component factors right in the first place has been the source of the inaccurate land values that have plagued MVS since 1997 resulting in the total corruption of the Register of Land Values in 2013.
3. The VG in theory should only know he got the component factors wrong when someone successfully objects or wins an appeal after an objection has been disallowed.
4. The public can accept that the VG is only human and he makes mistakes as we all do. It is not an easy job when his opinion based on the opinions of others is the criterion for coming up with the right answer.
5. What the public cannot accept are his decisions to adopt component factors on grounds other than a proper and reasoned analysis of the data produced by MVS.
6. The VG's decisions are critical since they impose land tax and council rate liabilities that can severely impact on the financial ability of those who have to pay them.
7. Property owners are entitled to expect the VG has adopted the correct component factors to produce accurate values and that they should not have to spend the time and their money in objecting or appealing the VG's decisions.
8. The question that needs to be answered is - what should the VG do when he is found to have wrongly determined a land value under MVS that is reduced as a result of a successful objection or appeal?
9. The answer to this was provided by the current VG's predecessor Mr Peter Cunningham on 4 May 1998 in sworn evidence given to the Nile Inquiry:

DR GOLDSMITH (Committee Member): *Given your statements earlier Mr Cunningham about the necessity of your doing a wholesale review in Woollahra, given the high level of objections to the valuations there based on the million dollar land tax on homes, could the Committee have an unequivocal commitment from you to review the valuations of those who did not lodge objections? You did state that there would be a need to look at those who had not lodged objections.*

My concern here is of course that the people who cannot afford to pursue the matter through to the Land and Environment Court are precisely the most disadvantaged, they are the poorest, they are pensioners living in homes whose values you have escalated beyond their capacity to deal with. It is very important that the needs of these disadvantaged people not be ignored, that you not only take into account such people in areas such as Woollahra, where there have been a huge number of objections, but in other areas where in proportion to the level of million dollar homes there is a large proportion of objections?

You may get another suburb where there are for example 10 million dollar homes, you might get objections from five of those and it does not look terribly impressive on this sheet but it is still a 50 per cent level. When you get a high proportion in Woollahra, something like 25% level of objection to the valuation on the land tax on homes, that it will not only be reviewed in relation to those who may register the objection but to those who did not who are probably the most disadvantaged people?

MR CUNNINGHAM: *Yes, I can give that assurance because it is necessary to have the valuation list as accurate as possible. Where we do make changes to the valuations as a result of the objection process, or as a result of the appeal process we will make the necessary consequential changes to assure that people are not disadvantaged by the fact they did not object or appeal.*

10. The VG's answer was clear and unequivocal - if one property in a component comprising 200 properties was found on objection or appeal to be overvalued then the values of the other 199 properties in the same component would have to be reduced as well to preserve the accuracy honesty and integrity of the Register of Land Values.
11. The Nile Inquiry accepted that explanation as the honest and correct approach – which it undoubtedly was.
12. For reasons still unexplained - the then VG Mr Cunningham never honoured that assurance - causing untold chaos to the integrity and accuracy of MVS values

with disastrous results for hundreds of thousands of land tax payers and ratepayers being overcharged land tax and council rates caused by systemic overvaluation of their properties that were not corrected when the error became known.

13. Now we have the public revelation that the NSW Government is being asked to repay \$198,000 to the Mid Western Regional Council for the rates that it has already spent and will now have to refund to overcharged ratepayers.
14. The current Government has inherited problems such as this because the two previous Governments failed to insist that the VG change the component factor to be applied to all properties in a component - after successful objections and appeals - in accordance with the VG's assurance given to the Nile Inquiry.
15. Their failure to do so enabled those two Governments to escape any liability to refund hundreds of millions of dollars in overcharged land tax and council rates and has resulted in the accuracy and reliability of all MVS values lacking any credibility.
16. The choice for those two Governments was stark:
 - (i) correct the Register of Land Values and refund the overcharged land tax and council rates;
 - OR
 - (ii) continue to maintain a corrupted Register of Land Values and keep the money wrongfully overcharged.
17. Those Governments chose the latter option - but was that decision appropriate for any Government to take?
18. Those Governments were obviously prepared to adopt different standards of honesty and integrity to the standards demanded by them from people in the private sector who overcharged and acted in a deceptive and misleading manner.
19. This culture of dishonesty and lack of integrity shown by these two Governments concerning the MVS and overcharging of land tax and council rates is now being played out in other areas of public administration in NSW.

RECOMMENDATION 3

The VG confirm in writing whether he or his predecessor Mr Peter Cunningham has ever acted in accordance with the assurance given by his predecessor to the Nile Inquiry on 4 May 1988 and if not - why not?

PART 5

WHAT CAUSES THE VG TO GET THE COMPONENT FACTORS WRONG?

1. The Walton Report concluded that unrealistic valuations were produced in 1996, 1997 and 1998 in many cases.
2. Ms Walton said this was due to a combination of factors: the failure to handcraft certain classes of high value property and the repeated application of index factors to components of doubtful initial accuracy. Failure to use appropriate sales evidence also seemed to be a major contributing factor in Woollahra and Hunters Hill.
3. The Ombudsman in 2005 noted that the VG with the assistance of the Chief Valuer had introduced many initiatives to improve the operation and reliability of the mass valuation system in NSW since their respective appointments in 2003 and were commended for the improvements that had already taken place.
4. The Ombudsman however further stated there needed more to be done.
5. The Ombudsman recommended that the VG introduce a structured program of handcrafting and review of component structures to "re-set" the valuation base line in the majority of districts of NSW.
6. This recommendation was a resounding vote of no-confidence in the integrity and accuracy of MVS values - indicating that the recorded value of every property in the Register of Land Values was suspect and could not be relied on.
7. Eight years later down the track this Committee is now holding this Inquiry precisely because the land values being produced are still not accurate indicating that the valuation base line has not been re-set in many valuation districts.

RECOMMENDATION 4

The VG be asked to detail in writing the number of districts whose valuation base line has been re-set since 2005 by a structured program of handcrafting and review of component structures as recommended by the Ombudsman and produce to the Committee all documents and records in relation thereto

8. Certainly the combination of factors identified in the Walton Report could have led to errors being made in determining the inflated component factors which had resulted in many successful objections and appeals in 1997 and 1998 - but it was not until June 2001 that the real reason for these inflated component factors emerged.

9. I had been seeking for 15 months after the publication of the Walton Report to obtain from the VG under FOI all documents relating to the assessment of land values in Woollahra at 1 July 1997 - and they were only handed over after that lengthy period when the Ombudsman ordered their release.
10. What was uncovered were two sets of books prepared one month apart by two registered valuers employed in the State Valuation Office. The component factors recommended by the valuers in the first report were substantially increased by them in the second report.
11. The VG adopted component factors less than those contained in the second report but his decision still resulted in substantially higher land values being determined for all 13000 properties in Woollahra than if the component factors in the first report had been adopted.
12. Successful objections and appeals indicated that 12059 of those 13,000 properties had been systemically overvalued - yet their values were never reduced as the VG had promised the Nile Inquiry he would do.
13. Table 1 shows the increases in land values recommended in the August and September Reports and the increases adopted by the VG:

TABLE 1

**INCREASES (%) RECOMMENDED TO 1 JULY 1996 VALUES IN EACH COMPONENT
RECORDED IN AUGUST AND SEPTEMBER REPORTS AND INCREASES (%) ACTUALLY
APPLIED BY THE VALUER GENERAL**

| Component Code | Number of Properties | Suggested Increase August 1997 | Suggested Increase September 1997 | Increase Applied by VG |
|----------------|----------------------|--------------------------------|-----------------------------------|------------------------|
| 1 | 2 | 3 | 4 | 5 |
| AH | 275 | 35% | 80% | 60% |
| AJ | 66 | 35% | 100% | 80% |
| RA | 178 | 30% | 60% | 50% |
| RB | 301 | 30% | 60% | 55% |
| RC | 405 | 30% | 50% | 50% |
| RD | 648 | 30% | 55% | 55% |
| RE | 593 | 30% | 60% | 55% |
| RF | 409 | 30% | 60% | 55% |
| RG | 2037 | 35% | 70% | 60% |
| RH | 683 | 45% | 60% | 60% |
| RJ | 1135 | 40% | 60% | 60% |
| RK | 240 | 30% | 80% | 60% |
| RL | 132 | 40% | 100% | 80% |
| RM | 114 | 45% | 90% | 70% |

| | | | | |
|----------|----------|-----|------|-----|
| RN | 248 | 40% | 100% | 80% |
| RP | 3633 | 80% | 90% | 70% |
| FA | 14 | 50% | 75% | 55% |
| FB | 25 | 50% | 75% | 55% |
| FC | 8 | 50% | 75% | 55% |
| FD | 22 | 50% | 75% | 55% |
| FE | 54 | 50% | 75% | 55% |
| FF | 27 | 40% | 75% | 55% |
| FG | 366 | 50% | 95% | 75% |
| FH | 65 | 50% | 90% | 70% |
| FJ | 206 | 50% | 80% | 65% |
| FK | 14 | 50% | 90% | 70% |
| FL | 44 | 50% | 90% | 70% |
| FM | 107 | 50% | 90% | 70% |
| FN | 183 | 50% | 90% | 70% |
| FP | 97 | 50% | 90% | 70% |
| BA | 1 | 25% | 55% | 40% |
| BC,BF | 11,8 | 50% | 50% | 40% |
| BE,BL | 55,293 | 50% | 65% | 40% |
| BB,BG,BM | 129,7,79 | 50% | 60% | 40% |
| BH | 152 | 50% | 55% | 40% |
| BK | 102 | 50% | 75% | 40% |

14. Table 2 shows the changes that were made in the value of benchmark properties in the two reports.

TABLE 2

**VALUES OF BENCHMARK PROPERTIES AT 1.7.97 RECORDED
IN AUGUST AND SEPTEMBER REPORTS**

| Property Address | Component Code | Value August 1997 (\$m) | Value September 1997 (\$m) |
|------------------|----------------|-------------------------|----------------------------|
| Point Piper | AH | 1.215 | 2.00 |
| Point Piper | AH | 5.48 | 6.50 |
| Vaclave | AH | 5.48 | 6.50 |
| Vaclave | AH | 8.10 | 12.00 |
| Vaclave | AJ | 2.190 | 3.825 |
| Paddington | BA | 6.25 | 7.75 |
| Paddington | BB | 0.247 | 0.275 |
| Woollahra | BC | 4.29 | 4.3 |
| Edgecliff | BE | 0.315 | 0.350 |
| Double Bay | BG | 8.66 | 9.00 |
| Double Bay | BH | 0.427 | 0.450 |
| Vaclave | FB | 0.800 | 1.00 |
| Vaclave | FD | 0.730 | 0.900 |

| | | | |
|---------------------------|----|-------|-------|
| [REDACTED] Rose Bay | FF | 2.25 | 2.50 |
| [REDACTED] Bellevue Hill | FG | 1.545 | 2.00 |
| [REDACTED] Woollahra | FH | 0.950 | 1.20 |
| [REDACTED] Woollahra | FJ | 1.075 | 1.40 |
| [REDACTED] Double Bay | FK | 0.860 | 1.10 |
| [REDACTED] Rd Point Piper | FL | 2.415 | 2.80 |
| [REDACTED] Darling Point | FN | 1.2 | 1.7 |
| [REDACTED] Paddington | FP | 0.828 | 0.950 |
| [REDACTED] Vaucluse | RB | 0.760 | 0.975 |
| [REDACTED] Vaucluse | RD | 0.745 | 0.900 |
| [REDACTED] Rose Bay | RE | 0.920 | 1.100 |
| [REDACTED] Rose Bay | RF | 0.585 | 0.700 |
| [REDACTED] Hill | RG | 0.725 | 0.900 |
| [REDACTED] Woollahra | RH | 0.285 | 0.325 |
| [REDACTED] Woollahra | RJ | 0.480 | 0.525 |
| [REDACTED] Double Bay | RK | 0.535 | 0.775 |
| [REDACTED] Point Piper | RL | 1.580 | 2.50 |
| [REDACTED] Double Bay | RM | 0.362 | 0.480 |
| [REDACTED] Darling Point | RN | 1.285 | 1.800 |
| [REDACTED] Paddington | RP | 0.237 | 0.275 |
| [REDACTED] Paddington | RP | 0.475 | 0.450 |

15. The huge variations in value of these benchmark properties - and the consequences for the large increases to the component factors recommended in the second report - required an explanation.
16. Further FOI applications revealed that exactly the same process had occurred in Waverley with the same two valuers and could possibly have occurred in the City of Sydney with other valuers.
17. No explanation of this conduct by the two valuers was ever given or any explanations sought from the VG for adopting the component factors he did - despite my efforts to get the Government to do so.
18. The perceived wisdom of the Walton Report attributing systemic overvaluation to defects in the modalities of the system was shattered with the discovery of these two sets of books in Woollahra and Waverley.
19. Why two sets of component factors had been created and neither was adopted by the VG, who directed the September review and for what purpose and how widespread this practice was in NSW required a full judicial Inquiry which the two previous Governments were not prepared to countenance.

RECOMMENDATION 5

The VG produce all records and documents to the Committee relating to the determination of component factors in Broken Hill, Woollahra and the Mid Western Regional Council area at 1 July 2010, 1 July 2011 and 1 July 2012 together with all records and documents relating to the decision by the VG to reduce the component factors to be applied to reduce the values of properties in the Mid Western Regional Council Area.

PART 6

NUMBERS FIXING

1. The discovery in 2001 of two sets of books and its devastating effects on the component factors adopted by the VG in Woollahra and Waverley is unlikely to occur again.
2. However an equally disturbing and improper practice that I call "Numbers Fixing" has emerged since 2003 and I believe is probably still continuing in valuation districts throughout NSW.
3. Numbers Fixing was first identified by me in 2005 during the course of the investigation of my complaint to the Ombudsman in 2004 and first drawn to the Ombudsman's attention in February 2005.
4. Numbers Fixing involves changing MVS values that fall **outside** the VG standard of accuracy with values that will bring them **inside** the VG standards of accuracy.

For Example:

A property with an MVS value of \$100,000 falls outside the VG standard of accuracy. The figure is changed to \$80,000 to bring it within the VG standard of accuracy indicating the initial component factor applied to derive the MVS value was too high in the first place.

Although the MVS value of this one property has been reduced - the MVS values of all other properties in the same component are not correspondingly reduced.

5. Numbers Fixing enables the contract valuer to provide the VG with a signed Quality Statement that the:

Majority of valuations are within the set parameters with minor anomalies resulting from the limitations of the mass valuation methodology

6. Since the MVS value of a property fell outside those standards of accuracy – the easiest thing to do was to change its value to bring it within the parameters of the VG standard of accuracy (0.85 - 1.00) - thus enabling the Quality Statement to be signed by the contract valuer and given to the VG.
7. What the valuer should have done was look at the departures of MVS values from the VG standard of accuracy, reduce the component factors accordingly and apply the reduced factor to all other properties in the same component.

8. Armed with this misleading and deceptive Quality Statement, the VG could maintain that land values in a particular valuation district were accurate as they met the VG's statistical tests of accuracy. Nothing could be further from the truth.
9. The Ombudsman for the purposes of his investigation examined the percentage of sales of residential properties used for statistical reporting purposes where the variation between the adjusted analysed land value derived from the sale and the VG recorded value in the Register of Land Values exceeded 15% in a sample of 43 districts from the 2004 valuation program.

The Ombudsman found that of the 3,169 values he investigated 1,109 did not comply with the VG standard of accuracy (page 59).

10. This was a clear signal to the VG that the Quality Statements were not worth the paper they were written on.
11. The VG had done nothing to correct this practice in Woollahra by 2007.
12. It seems incredible that in the case of Woollahra the VG was prepared to accept the Quality Statement issued by the Valuer - when Numbers Fixing was readily ascertainable in the documents the VG gave me under FOI - as I discuss in a specific case study in Part 8 of this Submission and appears clear in the Table below.
13. I would not be surprised to find that Numbers Fixing is continuing - and that the results are not being passed on to the other properties in the same component group
14. Three examples of Numbers Fixing appear in the following Table from the records relating to land values at 1 July 2007 - Woollahra:

| Comp Code | Property | Adjusted Land Value 1.7.2007 \$m | MVS Land Value 1.7.2007 \$m | Factor | Recorded Land Value 1.7.2007 \$m | Factor |
|-----------|------------|--|-----------------------------------|--------|--|--------|
| RG | [REDACTED] | 1.263 | 1.525 | 1.20 | 1.200 | 0.95 |
| RD | [REDACTED] | 3.708 | 2.912 | 0.79 | 3.250 | 0.88 |
| RB | [REDACTED] | 1.490 | 1.728 | 1.16 | 1.410 | 0.95 |

PART 7

VALUE TAMPERING

1. "Value Tampering" involves changing an MVS land value that meets the VG standard of accuracy and replacing it with a higher or lower value that still meets the VG standard of accuracy.

For Example:

The MVS value of a property is \$100,000 which meets the VG standard of accuracy. The value of the property is increased to \$120,000 and still is within the VG standard of accuracy.

Who changes the initial MVS value and for what reason needs to be investigated.

2. The property owner can expect to get a larger land tax bill and pay more rates as a result of the change.
3. An example of Value Tampering is dealt with in Part 8 of this Submission.
4. Three further examples of Value Tampering appear in the following Table from the records relating to land values at 1 July 2007 - Woollahra:


| Comp Code | Property | Adjusted Land Value 1.7.2007 \$m | MVS Land Value 1.7.2007 \$m | Factor | Recorded Land Value 1.7.2007 \$m | Factor |
|-----------|----------|--|-----------------------------------|--------|--|--------|
| FP | | 3.270 | 2.852 | 0.87 | 3.130 | 0.96 |
| RN | | 2.220 | 1.944 | 0.88 | 2.040 | 0.92 |
| RK | | 1.562 | 1.512 | 0.97 | 1.450 | 0.93 |

PART 8

NUMBERS FIXING AND VALUE TAMPERING

WOOLLAHRA - 1 JULY 2007

1. You can purchase the following information from the Land and Property information service on-line for \$23.80:

| Property | Recorded Land Value 1.7.2006 \$m | Recorded Land Value 1.7.2007 \$m |
|--|---|---|
|  | 2.150 | 1.800 |

This public record indicates that the land value of this property declined over the period of twelve months by 16% $[0.350/2.150]$ - \$350,000 dollars.

The information provided does not tell you:

- (i) what component code the property was located in;
- (ii) the component factor adopted for the properties with the same component code;
- (iii) the adjusted land value of the property; nor
- (iv) whether the recorded value is accurate and falls within the VG standard of accuracy

- all vital pieces of information to help the owner or person making the inquiry to understand why \$350,000 dollars has been knocked off the land value of this particular property in 12 months with presumably the same 16% reduction occurring to the MVS values of all the other properties within the vicinity of this one.

2. To find out that information you have to obtain access to the Market Analysis Report and supporting documents. That is an expensive and time consuming exercise that I spent thousands of dollars on over the years - whilst investigating what was happening in various valuation districts throughout NSW.

3. I attempted to obtain this information from the VG by cheaper and faster means – in the form of a questionnaire - to assist my clients in considering whether to object to their land values.
4. The VG refused to answer my questions and the Ombudsman upheld the VG's right to refuse to provide such information.
5. The reasons for VG's refusal to provide such information become clearer when one looks at what those documents reveal - and an entirely different picture starts to emerge:

| Component Code | Property | Recorded Land Value 1.7.2006 \$m | Component Factor | MVS Land Value 1.7.2007 \$m | Recorded Land Value 1.7.2007 \$m | Factor |
|----------------|----------|--|------------------|---------------------------------------|--|--------|
| RD | | 2.150 | 1.12 | 2.408 | 1.800 | 0.84 |

- (i) How is it possible that a value of \$2.408 million derived under MVS can appear as \$1.800 million on the information I paid \$23.80 for?
 - (ii) Why has 25% - \$608,000 - been knocked off the property's MVS value of \$2.408 million to derive its recorded value of \$1.8 million?
 - (iii) Where does the figure of \$1.8 million come from?
 - (iv) Why has the component factor of 1.12 been adopted for the component – when the information I paid good money for suggests it should have been 0.84 [$1800/2150$]?
15. The position becomes even murkier when I look a little further into these documents and discover the following:

| Component Code | Property | Adjusted Land Value 1.7.2007 \$m | MVS Land Value 1.7.2007 \$m | Factor | Recorded Land Value 1.7.2007 \$m | Factor |
|----------------|----------|--|---------------------------------------|--------|--|--------|
| RD | | 1.950 | 2.408 | 1.20 | 1.800 | 0.92 |

The position is now much clearer - or is it?

- (i) The adjusted land value of the property at 1 July 2007 was valued by the contract valuer at \$1.950 million (Copy of valuation is with the documents and confirms this figure).
- (ii) The land value determined under MVS was \$2.408 million - correct.
- (iii) The factor - 1.20 [2408/1950] - indicates that the MVS value is an overvaluation of 20% and outside the VG standard of accuracy (0.85 - 1.00).
- (iv) The value is then changed from \$2.408 million to \$1.800 million.
- (v) The factor - 0.92 [1800/1950] - meets the VG standard of accuracy.
- (vi) The figure of \$1.800 million gets put in the Register of Land Values and appears as the value on my paid search.

16. I suggest the Committee seek written answers from the VG to the following further questions:

- (i) What evidence exists to support the change in value from \$2.408 million to \$1.8 million?
- (ii) Why was \$1.8 million chosen as the figure to substitute for the MVS value of \$2.408 million - and not say \$1.7 million (0.87) or \$1.9 million (0.97)? Each value would have met the VG standard of accuracy.
- (iii) Who actually chose \$1.8 million and how did that figure get uploaded into the computer system - was it manually or by some other process?
- (iv) Who provided the information to the operator - was it the contract valuer, the VG, the Chief Valuer, the contract manager or someone else and has the person who did it been asked to explain his conduct?
- (v) Was the factor of 0.84 applied to all other properties in component RD? If not - why not?
- (vi) Did the VG accept this procedure as being in order?
- (vii) Was the VG aware this was happening? If not, why not?
- (viii) If the VG was aware of this practice what did he do about it?

- (ix) Has any check valuation been done of the adjusted land value by the VG or anyone else to confirm its validity? If not - why not?
 - (x) Is this exercise in Numbers Fixing standard practice that is occurring in any other valuation districts in NSW?
17. This is certainly as clear a case of Numbers Fixing as one could find.
 18. The amended value will enable the contract valuer to state that it meets the VG standard of accuracy and complete his Quality Statement.
 19. The VG will be able to wave the Quality Statement around and claim that land values in Woollahra are accurate.
 20. But it is a false and misleading claim if the contract valuer or the VG did not go back and reduce the component factor of 1.12 to something around 0.84 for all properties in the component.
 21. In my view the VG would be derelict in his duty and in my opinion guilty of gross maladministration in not picking up what was happening or not making consequential amendments to the values of all the other properties in the component if he was aware Numbers Fixing existed.
 22. To allay or confirm my suspicions I paid another \$47.60 to find out what happened with the land values on either side of [REDACTED]

| Component Code | Property | Recorded Land Value 1.7.2006 \$m | Comp Factor | MVS Value 1.7.2007 \$m | Recorded Land Value 1.7.2007 \$m | Factor |
|----------------|------------|--|-------------|------------------------------|--|--------|
| RD | [REDACTED] | 1.900 | 1.12 | 2.128 | 1.730 | 0.91 |
| RD | [REDACTED] | 2.750 | 1.12 | 3.080 | 3.080 | 1.12 |

I am afraid the VG now needs to answer the further following questions.

- (i) How can three properties next to each other have their values determined by three different component factors under the MVS?
- (ii) Who changed the value of [REDACTED] from \$2.128 million to \$1.730 million and on what evidence was it based?

- (iii) Why has the determined component factor of 1.12 been applied to [REDACTED] and not numbers [REDACTED] and [REDACTED]?
 - (iv) Why are there two different factors of 0.84 for Number [REDACTED] and 0.91 for [REDACTED]?
 - (v) Can I get my money back because the information supplied is misleading and deceptive in inducing me to believe the recorded land values are accurate and have been properly determined by MVS?
 - (vi) Are the owners of [REDACTED] and [REDACTED] entitled to any compensation because the VG has represented that the values of their properties have dropped by hundreds of thousand of dollars between 1 July 2006 and 1 July 2007?
 - (vii) Can the owner of [REDACTED] reasonably believe that the value of his property has substantially increased whilst the values of his two neighbours have substantially decreased and vice versa?
 - (viii) Is the VG running a proper system of land valuation or is this system a matter of scribbling down any value that comes into the head of the person doing it with no evidence to support it?
 - (ix) Has anyone put the culprit up to engaging in this Numbers Fixing?
 - (x) Why shouldn't ICAC or the police be asked to investigate this prima facie unauthorized alteration of an MVS value in the Register of Land Values?
23. I am unable to determine whether the values of [REDACTED] and [REDACTED] come within the VG standard of accuracy because a vital figure is missing - the adjusted land value (ALV) at 1.7.2007 - which does not exist because these properties were not sold during the previous 12 months.
24. The inaccurate MVS values in 2007 in Woollahra was a manifestation of the Government's failure to re-set the valuation base line as recommended by the Ombudsman in 2005.
25. It is no surprise that the MVS recorded values still remained substantially overstated at 1 July 2007 and needed substantial revision running into hundreds of thousands of dollars for [REDACTED] and [REDACTED] - but this was apparently not extended to all the other properties in the same component - certainly not [REDACTED] - which saw its value increased by \$258,000 dollars.
26. It is no surprise that in 2013 we are being told that a property in Woollahra has had its value reduced from \$17.2 million to \$9.5 million. How many others are

similarly affected because their values were not systemically reduced when Numbers Fixing was employed?

27. Has the reduction in value from \$17.2 million to \$9.5 million been reflected in changes to the MVS values of other properties in the same component?
28. Numbers fixing was not the only undesirable practice uncovered in Woollahra.
29. "Value Tampering" was also identified as this example illustrates:

| Component Code | Property | Adjusted Land Value 1.7.2007 \$m | MVS Land Value 1.7.2007 \$m | Factor | Recorded Land Value 1.7.2007 \$m | Factor |
|----------------|----------|--|-----------------------------------|--------|--|--------|
| RG | | 2.130 | 1.865 | 0.87 | 2.000 | 0.94 |

Some more questions for the VG to answer:

- (i) Although the land value of \$1.865 million determined by MVS was within the VG standard of accuracy (0.87) - someone increased the value even further to \$2.000 million which was still within the VG standard of accuracy (0.94) but meant that owner would be paying more council rates and maybe land tax on an extra \$135,000 of land value. Is it the VG's policy to increase land values that fall within his required standard of accuracy to higher values that still fall within that standard of accuracy?
 - (ii) Who actually changed the value from \$1.865 million to \$2 million and why - and what evidence was there to justify such action?
 - (iii) Who would be motivated to act in this manner and for what reason?
30. Playing around with land values and component factors can also have some other interesting and unexpected results as the rate per sq meter for these properties in the same component and same street indicate:

| Component Code | Address | Area (sqm) | \$/sqm |
|----------------|---------|------------|--------|
| RG | | 442 | 3,502 |
| RG | | 518 | 3,436 |
| RG | | 423 | 2,979 |

| Component Code | Address | Area (sqm) | \$/sqm |
|----------------|------------|------------|--------|
| RE | [REDACTED] | 525 | 2,212 |
| RE | [REDACTED] | 398 | 2,853 |

| Component Code | Address | Area (sqm) | \$/sqm |
|----------------|------------|------------|--------|
| RP | [REDACTED] | 195 | 5,455 |
| RP | [REDACTED] | 120 | 5,995 |

| Component Code | Address | Area (sqm) | \$/sqm |
|----------------|------------|------------|--------|
| RH | [REDACTED] | 398 | 3,551 |
| RH | [REDACTED] | 445 | 3,319 |

| Component Code | Address | Area (sqm) | \$/sqm |
|----------------|------------|------------|--------|
| RD | [REDACTED] | 774 | 5,191 |
| RD | [REDACTED] | 803 | 4,744 |

| Component Code | Address | Area (sqm) | \$/sqm |
|----------------|------------|------------|--------|
| RD | [REDACTED] | 423.7 | 4,083 |
| RD | [REDACTED] | 600.7 | 2,996 |
| RD | [REDACTED] | 904.2 | 3,406 |

31. These 2007 examples of properties in the same street with widely divergent \$/sqm values seem to be very similar to the 2013 examples my firm is presently investigating as is referred to in Part 2 of this Submission.
32. There were over 200 analysed sales included in the Woollahra 1 July 2007 documents.

33. An inspection by me of 117 of these analysed sales revealed the following:

| Numbers Fixing | Number Component Codes Where Numbers Fixing Occurred | Value Tampering | Number Component Codes Where Value Tampering Occurred |
|----------------|--|-----------------|---|
| 51 (43.6%) | 20 | 23 (19.7%) | 15 |

34. After considering this material I believe there is evidence to support the following conclusions:

- (i) Values derived under MVS have in some cases been increased and in others decreased to bring them within the VG standard of accuracy.
- (ii) There is no evidence available to suggest how the values substituted for the MVS values were determined.
- (iii) Changing the MVS values enabled the contracting valuer to sign a Quality Statement representing the accuracy of the majority of land values in Woollahra.
- (iv) The Quality Statement was misleading and deceptive.
- (v) The factor represented by changing the MVS values was not passed on for the benefit of all other properties in the same component.
- (vi) The VG was derelict in failing to detect Numbers Fixing.
- (vii) MVS values that meet the VG standard of accuracy have been increased to higher values that still fall within the VG standard of accuracy without any evidence to support such increase.
- (viii) The VG was derelict in failing to detect Value Tampering

35. If MVS is to be retained - an investigation is required to determine how widespread the practices of Numbers Fixing and Value Tampering are in other valuation districts in NSW.

RECOMMENDATION 6

The Ombudsman be requested to investigate the values determined for Woollahra at 1 July 2007 to confirm my allegations and take such action as he may consider necessary in the circumstances.

PART 9

RESTORING ACCURACY BY RE-SETTING THE MVS VALUES

1. The only way forward if the MVS is to be retained is to re-set the valuation base line in all valuation districts in NSW.
2. This was the solution posited by the Ombudsman in 2005 and submitted by me to the Government in 2000 in my response to the Walton Report - which the Government never even acknowledged.
3. MVS values have become so corrupted that no other solution can save MVS.
4. Given the allegations I raise in relation to Woollahra at 1 July 2007 - the re-setting of values will be unable to completely correct anomalies that have arisen between properties in the same component group that have been affected by the application of different component factors.
5. The Government in 2000 was no doubt concerned at the implications for the revenue if refunds of overcharged land tax revenue and council rates had to be made for the years 1997 - 2000 as a result of the values being re-set.
6. That could have explained the Government's decision to consign my proposal to the garbage bin without even seeking to discuss it.
7. However I believe there was a greater fear that the Government's role in creating the huge unsupportable increases in land values would be uncovered.
8. Although the focus of the Inquiry is not directed at revenue - revenue was the focus of the Government's actions in 1997 and in subsequent years that has led to the sorry picture that passes for the Register of Land Values in 2013.
9. The land value data base in NSW was systemically undervalued at 1 July 1996 to the extent that \$320 million less in land tax was being collected in real terms than in 1991-1992 and comprised only 5.1% of State Tax Receipts for 1996-1997 (see Budget Paper 2 1996-1997 at page 3-9).
10. The Government proceeded to try and correct that loss of revenue in real terms and also to help fill a black hole of \$346 million that suddenly appeared in its Budget as a result of a High Court decision on 5 August 1997 declaring NSW State license fees on tobacco to be unconstitutional. Liquor and petrol franchise fees, which were structured on similar lines were also suspended (see Budget Paper 2 1998 - 1999 at page 3-8).

11. The issuing of greatly increased land values at 1 July 1997 coincided with the Government taking over the independent control of the MVS from the VG with the creation of the State Valuation Office ("SVO") on 1 May 1997 as a business unit housed in the Department of Water and Land Conservation under a Minister Mr Kim Yeadon.
12. All valuations for NSW at 1 July 1997 were done by the SVO with the exception of Outer Hunter (page 76 Walton Report)
13. Ms Walton wryly commented:

Although the role of the Office of the Valuer-General is described as that of a regulator the arrangement appears to be a classic purchaser/provider split

14. So long as increases in land values did not result in systemic overvaluation over determined values the undervalued land data base could be increased with impunity by SVO to gain increased land tax revenue and impose additional council rate obligations and no objections could possibly be successful.
15. However values produced by SVO were so high in many valuation districts in 1997 and 1998 that the Nile Inquiry in 1998 and the Walton Report in 1999 were held to try and find out what had happened and to try and appease the unprecedented public outrage and demonstrations that followed the issue of the valuation notices.
16. The first hint that systemic overvaluation could have occurred appears to have been on 27 July 1999 when the Auditor General wrote to the Ombudsman following receipt by him of certain information from Ms Clover Moore MLA regarding successful appeals in Woollahra. Ms Walton had a copy of his letter at the time she conducted her Inquiry.
17. A large number of successful objections and appeals were published in the Walton Report in October 1999 for 8 Local Government Areas as detailed in the Table appearing at page 43 and Table B of the Report.
18. The results of successful objections and appeals for Woollahra in 1997 and 1998 included in that Table confirmed the Auditor-General's suspicions.

19. Results of successful objections and appeals for Woollahra in 1997 and 1998 appear in the following Table:

| Woollahra | 1997 Objections | 1997 Appeals | 1998 Objections | 1998 Appeals |
|-------------|-----------------|--------------|-----------------|--------------|
| Sample Size | 279 | 53 | 82 | 1 |
| Mean | -13.15% | -17.04% | -14.39% | -12.00% |
| Median | -11.29% | -15.91% | -13.78% | -12.00% |

20. The Government's failure to re-set the values for 1997 - 1999 would see the land valuation system fall into further disrepute as overvaluation in one year would result in that overvalued land value being the base to which the determined component factor was applied for the next year.
21. In my response to the Walton Report in January 2000 I urged the Government to:
- (i) review all land valuations between 1996-2000 and refund land tax overpaid as a result of unrealistic valuations made in those years;
 - (ii) hold a public Inquiry into the conduct and actions of the VG and SVO in 1997 and 1998;
 - (iii) abandon land value as the basis for assessment of land tax; and
 - (iv) hold a public Inquiry to formulate a new system for assessment of land tax with the aim of preserving the current revenue being collected.
22. The Government didn't acknowledge my submission or seek to contact me about it.
23. The Government thought it was on a sure winner - until the reason for the inflated component factors used in 1997 finally came to light in June 2001 with the discovery of the two sets of books prepared by the SVO in August and September 1997.
24. The honorable thing to do even at that stage was to swallow the medicine, re-set the land values at 1 July 2001 to restore some semblance of accuracy and integrity to the land values being produced by the MVS and refund overcharged land tax and council rates for those four years.

25. I asked the Ombudsman to investigate the land values determined at 1 July 2001 and 1 July 2002 - and he refused to do so on both occasions.
26. I sought to get the Government to hold a public Inquiry between January 2001 and June 2003 but was met by a wall of silence and obfuscation from the Minister Mr Yeadon who ignored my correspondence for months. The Premier refused to intervene until eventually he agreed to re-open the Walton Inquiry to fulfil an undertaking he had given to Alan Jones prior to the last elections.
27. It was a waste of time. Walton failed to interview the two SVO valuers at the centre of the two sets of books scam or to speak to the former Auditor-General Tony Harris who had told Alan Jones on 18 February 2003:

Not only was there maladministration, but there was also a cover up of that maladministration and the State Ministers don't seem to be very interested either in the maladministration or the cover up. Indeed Yeadon is still saying there was no maladministration and he's not interested in the fact that the Walton Inquiry was denied this very important document (The August 1997 book containing the original recommended component factors)

28. Partly as a result of uncorrected systemic overvaluation in 1997 and 1998 - land tax receipts jumped from \$900 million in 1999 - 2000 to \$1646 million in 2004 - 2005.
29. An undervalued land data base was being annually increased way beyond any increase in land values creating additional land tax revenue and creating additional council rate liabilities and unfortunate property owners had little chance of successfully objecting.
30. The following article in the Sydney Morning Herald describes the sorry state of the MVS in 2003:

A tax bill arrives, and you're living in fantasy land

March 8 2003

Owners say property valuations can sometimes barely resemble reality, writes Jeni Porter.

The Valuer-General reckons that the land this weekend sits on at Culburra Beach was worth \$670,000 last July. Last week the property, complete with its neat three-bedroom fibro, passed in at auction at \$595,000.

If it sells around that mark the owner will have trebled his money, having paid \$185,000 five years ago - not a bad return by any measure, but well under the Valuer-General's estimate that the land value has gone up 5 times in three years.

The Culburra example backs up owners' claims that something went awry when the State Valuation Office, which comes under Kim Yeadon's Department of Information Technology, quantified how much land values on the South Coast had jumped in the property boom.

"The valuations have been all over the place, some in line, some over the top and some under," says real estate agent Phil Muller of Culburra Beach, who is organising a community protest.

Values went up three, four or five times in three years, with many doubling between 2001 and 2002. Some owners have become liable for land tax on their weekenders for the first time, while others face big increases in annual land tax bills. Others worry about how the new values will hit their rates.

"It affects a lot of people," Mr Muller says.

Barrister Andrew Robins thinks the latest round of complaints reinforces what he has been saying for a long time - that the way properties are valued has "become increasingly divorced from reality".

Mr Robins has acted for several Woollahra home owners caught in the premium property land tax net by 1997's surging values. He thinks the state's valuers are misinterpreting the Valuation of Land Act.

"They don't appear to have the faintest conception of the fact that what they do no longer has anything to do with the act under which they operate."

He was heartened by the recent High Court ruling on Tony Maurici's long-running dispute over his Hunters Hill property because it spells out how valuations should be done.

The High Court found the method used to value Mr Maurici's Woolwich property was seriously flawed. The valuer was "unduly selective" by concentrating on only four sales of vacant land, which was very scarce in Hunters Hill.

The valuer claimed that the law required him to operate that way because valuations are based on hypothetically vacant land. The court disagreed.

The valuer ignored a principle of the assessment of value "that sales to be treated as comparable sales need to be truly comparable", the ruling says. "A group of sales cannot be representative if it does not go beyond sales of scarce vacant land." And the valuer cannot ignore "reasonably contemporaneous sales of comparable improved land".

The High Court said "the case is of importance to, and is in the nature of a test case" when it awarded costs against the respondent, the Chief Commissioner of State Revenue, and collector of land tax.

But the Government has downplayed the ruling, arguing that it relates to only one block of land; that the system has been overhauled since Mr Maurici's 1997 valuation; and that even if it has implications, they cannot be acted on until Mr Maurici goes for another round in the Land and Environment Court.

Mr Robins thinks this is "bunkum".

"It's not a one-off case, it's a fundamental principle. At its simplest the Valuer-General has tried to calculate what cannot be calculated using assumptions and formulas which are wrong."

It is physically impossible to value each of the 2.2 million properties in NSW. So the Valuer-General does mass valuations based on selected sales.

The process has improved since former Sydney city councillor Julie Walton's damning conclusion in 1999 that the validity of the valuation system was "open to doubt". Valuers don't just rely on vacant land sales any more. More attention is paid to areas of volatility like Woollahra, and there is more of what the valuers call "handcrafting", where properties are individually valued.

But the big issue, as spelt out by the High Court, is whether the valuers are comparing apples with apples.

Mr Robins says: "[The Maurici decision] means that the Valuer-General can't treat any sale that he selects as being comparable just because he selects it."

A Herald analysis of reports done for the Shoalhaven area shows that it is debatable whether the sales used are comparable with the properties valued. Reports for beachfront areas, in particular, acknowledge the scarcity of comparable sales but still make sweeping assumptions.

"No directly comparable sales - water aspect lots in adjoining towns showing a significant increase" is written on the form covering 32 Kioloa waterfronts. In that instance, the valuer used sales in Bendalong, Kioloa and Bawley Point and concluded the value of a benchmark property had risen by a factor of 1.93 times. This factor was then applied at a slightly reduced 1.85 times to the properties in the group.

In March last year a Hong Kong-based expat spent \$940,000 buying a rundown property right on Callala Beach. The valuer noted "the sale appears high but this is absolute beachfront in popular location", but still used it as a key reference for four components in Callala Beach, Callala Bay, Huskisson and Hyams Beach.

Besides the questionable comparisons, the other issue is how valuers treat any improvements.

Looking at the Shoalhaven reports, the valuers attributed low values to buildings and other improvements. On a Bawley Point property that sold for \$570,000, the valuer deemed the 1970s brick two-bedroom house to be worth only \$52,800, with other improvements adding a further \$20,000. This is much less than it would cost to build a similar house. The assessed land value was \$500,000, or 90 per cent of the purchase price.

Mr Yeadon's department disputes that valuations consistently understate values of improvements, arguing that they assess "added value" which is "not necessarily replacement cost".

But Mr Robins thinks they "don't have the faintest conception of how much improvements add to value" and that all the value built into an improved property is appropriated to land.

He thinks the Valuer-General needs to build a more realistic model, "otherwise they are not going to even begin to understand that they not only overvalue land but why they overvalue it".

So far there have been 683 objections for Shoalhaven, or 1.3per cent of the 50,000 valuations done last year. Mr Yeadon's department says each property will be personally inspected. If an objection leads to a valuation change that could affect other properties, the Valuer-General, Peter Cunningham, "may reascertain" them without their owners having to object.

Hunters Hill was revalued in the same cycle as Shoalhaven, with waterfronts there up by an average of 50 per cent. If the Land and Environment Court cuts Mr Maurici's valuation, other owners will be

entitled to ask Mr Cunningham to "reascertain" their values in the same light.

† The Premier, Bob Carr, yesterday agreed to have Julie Walton review 1997 valuation papers that former auditor-general Tony Harris claims are evidence of "maladministration". The documents show that State Valuation Office reports for Woollahra and Waverley were changed between August and September 1997 to substantially inflate recommended increases

<http://www.smh.com.au/articles/2003/03/07/1046826531957.html> -
[top#top](#)

31. On 3 July 2003 the Minister for Lands the Hon Tony Kelly told the Legislative Council:

This Government wishes to ensure the people of New South Wales that land valuations undertaken by the Valuer General are sound, well-informed, quality valuations based on reliable information and expertise.

32. The Legislative Assembly was given the same assurance by Mr Gaudry (Newcastle - Parliamentary Secretary) on 30 May 2003
33. Yet the Ombudsman concluded that "overwhelmingly in 2004 there was undervaluing across the districts of NSW" (page 61 Ombudsman's Report) Nothing had changed since 1996 to correct the undervalued land data base in 8 years - but miraculously a large amount of extra land tax revenue had been recouped using the MVS.
34. The only inference one can draw is that Mr Gaudry and The Hon. Tony Kelly had misled both Houses of Parliament.
35. By the time the Ombudsman finally decided to investigate my complaint regarding the 1 July 2003 land values (after initially refusing to do so) - the sorry state of the Register of Land Values was very apparent - leaving plenty of scope for inaccurate undervalued properties to be hit with large increases in land values that generated even more land tax revenue and imposed the payment of additional council rates on their owners.
36. The Ombudsman's investigation actually only looked at the 1 July 2004 land values on the basis of the additional information I kept providing to him concerning those values and his report did not deal with the subject of my complaint - the 1 July 2003 values - which were far worse than the Ombudsman found in 2004.

37. Table 14 of the Ombudsman's Report (at page 59) shows that of 3,169 residential sales analysed by the Ombudsman:
- (i) 31% were undervalued or overvalued by 0-5%;
 - (ii) 35% were undervalued or overvalued by 5-15%; and
 - (iii) 35% were undervalued or overvalued by more than 15%.
38. In the most lucrative land tax catchment area - the City of Sydney - the Ombudsman (at page 54) stated that a check of 11 commercial and retail valuations had valued those properties higher by 6%, 15%, 16%, 19%, 33% (two), 37%, 50%, 55%, 72% and 80%.
39. The Ombudsman's recommendation in 2005 to re-set the valuation base line in the majority of valuation districts in NSW appears to have been ignored.
40. It appears to me that the Government has preferred to keep increasing an undervalued 2004 land data base to gain more land tax revenue – rather than re-setting the valuation base line which would stop this practice and allow for land values to be accurate and enable policy decisions to be made based on a reliable and credible Register of Land Values.
41. This grab for additional revenue at the expense of correcting the Register of Land Values was achieved by another business unit of Government that had taken over the management of the MVS - Land and Property Information (NSW) - that was now housed in the Department of Lands under Minister Tony Kelly - the same Minister who had misled Parliament in 2003.
42. The Ombudsman describes what he found (page 13):
- "The Valuer General only has a small staff reporting directly to him - 1.6 effective full time employees. The vast majority of support work to carry out his responsibilities is contracted out to Land and Property Information (NSW) ("LPI"). As a government business enterprise division of the Department of Lands, LPI is the main information broker in the state relating to registers of land and property information"*
43. It is no wonder that land tax continued to remain a great revenue earner under the management of LPI and Minister Kelly. It was a growth tax with a capital G. From being just 6.1% of State Tax receipts in 1997-1998 - Land Tax is now 12% of tax revenue.
44. This unconscionable increase and the additional council rate liabilities being imposed is being borne by virtually the same properties as were liable to pay \$908 million in 1997.

45. The Issues Paper states that Land tax as a proportion of tax revenue is 12% in NSW and 10% in Victoria. What it does not state is that land tax payers are paying in the order of \$2.3 billion in NSW and \$1.3 billion in Victoria. The average contributions made by land tax affected properties in each State would present a fairer picture.
46. That this huge growth in land tax revenue and additional council rate obligations has been built on the back of a totally discredited, undervalued and inaccurate land valuation system that still lacks accuracy and credibility has been a public disgrace.
47. Land tax receipts jumped from \$1646 million in 2004 - 2005 to \$2368 million in 2011 - 2012. This would indicate to me that the systemic undervaluation of the type identified by the Ombudsman in paragraphs 37 (iii) and 38 above was being exploited by annually valuing up the undervalued data base to collect more land tax and impose added council rate burdens – ignoring the need to re-set the valuation base line as had been recommended by the Ombudsman to restore credibility to the MVS values recorded in the Register of Land Values.
48. I requested the Ombudsman to investigate the issue of the 1 July 2005 land values and he refused - stating:

“I continue to consider the public interest would be better served by allocating my resources to the many other significant matters currently before my office”
49. When the ensuing MVS values did not meet the VG standard of accuracy - values were simply changed without the consequences of those changes being extended to properties in the same component - as occurred in Woollahra at 1 July 2007 as I explain in Part 8 of this Submission.
50. Governments are perfectly entitled to raise revenue to implement their policies. However achieving this objective must be transparent and not be gained by dishonesty deception and stealth.
51. If the Government wanted to raise more land tax revenue in 1997 - it could have done so by simply increasing the rate at which the tax was levied on the undervalued land data base at 1 July 1996. That was the last thing the Government wanted to do. It would have been seen by the electorate as a grab for more revenue and an impediment to successful re-election.
52. It apparently seemed far smarter to raise the revenue by valuing up the undervalued land data base and get the public to believe the property market was the culprit and not the Government. Ironically it overstepped the mark and created a huge public outcry, two Inquiries and overcharging of both land tax and council

rates.

53. I believe that in failing to re-set the valuation base line from 1 July 1997 - the two previous Governments have been involved in the corruption of the land valuation system since 1997 resulting in hundreds of millions of dollars being overcharged in land tax and council rates to large numbers of property owners in NSW.
 54. The current VG was appointed on 21 August 2003.
 55. Any notion that land values were independently determined by the VG died on 1 May 1997 with the creation of the SVO and its successor the LPI and that position to my knowledge still continues today.
 56. Re-setting the valuation base line needs to urgently occur if MVS is to have any credibility.
-

PART 10

SUGGESTED PROCEDURE FOR RE-SETTING LAND VALUES

1. A decision has to be made as to how many years back the values are to be re-set.
2. The further back one goes the more accurate the land values will be.
3. To restore the most accurate values it would be necessary to go back to 1 July 1997 and work forward from there to derive the re-set values at 1 July 2012.
4. My own opinion is that the land values should be re-set from 1 July 2014 - since the present mess that passes for the MVS was not created by the present Government
5. The Ombudsman should be asked to lay down the procedure for re-setting the land values and supervise its implementation.
6. The current land values determined at 1 July 2012 should remain the land values at 1 July 2013 to be used for assessing land tax and council rates for the 2014 land tax and council rating years.
7. The current 1 July 2012 land values should be re-set and then used as the basis for determining the 1 July 2014 land values.
8. No land values at 1 July 2013 should be determined since there will be considerable man power and time needed to re-set the 1 July 2012 land values.
9. I believe that once the land values are re-set - the component factors to be determined in each subsequent year should be checked by the Ombudsman before valuations, land tax assessments and council rate notices are issued.
10. I do not think it would become too great a burden on the revenue if land values were only determined once every two years instead of annually to give adequate time to the Ombudsman to check the new component factors.

RECOMMENDATION 7

The Ombudsman be requested to lay down the procedure and supervise the re-setting of the valuation base line in all valuation districts of NSW to begin from such date as the Committee determines.

11. There is one issue that I wish to bring to the Committee's notice that could affect the implementation of the above procedure.
12. The Valuer General's web site states the following:

Most land in New South Wales is valued using mass valuation, where properties are valued in groups called components. The properties in each component are similar or are expected to reflect changes in value in a similar way.

Representative properties in each component are individually valued as at 1 July each year to determine how much the land value has changed from the previous year. The change is then applied to all properties in the component to determine their new land values. Sample valuations are then checked to confirm the accuracy of the new values.

During the valuation process, valuers analyse sales of both vacant land and improved properties, making adjustments for the added value of improvements.

The value of improvements is their worth as reflected by the real estate market in an area. The value of improvements is generally not equal to their replacement or insurance value.

Where mass valuation is not appropriate, valuers will individually value the property.

13. The sting in the tail is in the last sentence:

Where mass valuation is not appropriate, valuers will individually value the property.

14. Re-setting the values of these properties would have to be considered once the extent of the departure from the MVS is known.

RECOMMENDATION 8

The VG advise the Committee in writing:

- (i) what criteria are used by him to determine what properties are not appropriate to be mass valued;
 - (ii) how many properties are there currently outside the mass valuation system;
 - (iii) where and in what components would they be if they were in the mass value system; and
 - (iv) what is the aggregate land value of those properties in each of the valuation districts in which they are situated.
-

PART 10

AN ALTERNATIVE OPTION TO RE-SETTING LAND VALUES

1. Should the Committee understandably not be prepared to recommend re-setting the land values given the utterly discredited administration of MVS - might I bring to its notice a system that I first presented to the Nile Inquiry in 1998 that abolishes land tax and can be extended to abolish stamp duty.
2. I call the system "POST - Property Owners State Tax". It is a system that uses council rates instead of land values to assess and levy a single property tax that will replace NSW land tax and NSW stamp duty and be revenue neutral.
3. Every NSW property owner pays council rates for the provision of local government services. There is no justification for some property owners not paying anything for the provision of state government services – hospitals, education, police - whilst others do.
4. POST can be applied to every property in NSW or modeled to apply to a less broader base.
5. A differential rate can be set for residential, commercial, industrial and residential commercial property.
6. A threshold can be established under which POST is not payable.
7. All political parties need an efficient and fair tax that can be assured of collecting every cent it budgets to raise - and not a cent more or a cent less.
8. The state has lost potentially \$6 billion dollars in revenue between 2005 -2012 because of its failure to introduce POST. I am happy to supply the figures if requested to do so.
9. MVS could be retained for purposes of assessment of council rates as at present since the impact of increases in land values has a minimal effect on the determination of council rates - since they are capped.
10. Alternatively I would suggest the thoroughly discredited MVS be torn up and the current council rates paid by each owner be used as the base for assessing liabilities for POST as from 1 July 2014.
11. This would remove a whole layer of bureaucracy within the MVS system – including the contract managers, LPI, the Land Tax Office and the Stamp Duties Office with collections of POST being made by Councils who would be paid an


- administration fee which could be used for the benefit of providing better services and facilities for ratepayers.
12. It is certainly a far cheaper option than re-setting the land values and having the component factors reviewed annually.
 13. POST was submitted by me to three Treasurers to model - Messrs Egan, Costa and Roozendaal - but the request was never taken up.
 14. I also urged (then) Premier Kenneally and (then) Opposition Leader O'Farrell prior to the last election to adopt a bi-partisan position and agree to Treasury modeling POST with a view to its implementation and received no meaningful response.
 15. POST was submitted by me to the Henry Review of Taxation and can be found at:
http://taxreview.treasury.gov.au/content/submissions/pre_14_november_2008/David_Singer.pdf
 16. The following Table sets out the advantages of using Council rates instead of land values as the basis for assessment of a property tax to replace land tax and stamp duty on contracts.

| Outcome | Land Values | Council Rates |
|---------------------|---|---|
| TRANSPARENCY | <ol style="list-style-type: none"> 1. Subject to large fluctuations incapable of being understood by landowners. 2. Finally determined on the opinion of one person - the Valuer General - whose decisions have been found incorrect after thousands of successful objections and appeals. 3. The system of land valuation is still shrouded in secrecy with the Valuer General refusing to supply adequate information to objectors on how their land values have been derived. 4. Liability for land tax cannot be calculated or budgeted in advance due to fluctuating and substantial increases in annual land valuation. | <ol style="list-style-type: none"> 1. Land values have minimal annual impact on council rates because of capping. 2. Rate notices are easily understood. Valuation notices are not. 3. Annual council rates do not increase by more than the CPI or such additional amount as is agreed by the Minister for Local Government. 4. Liability for POST can be calculated with reasonable certainty based on the previous rate notice increased by the CPI. |

| | | |
|------------------------------|--|---|
| <p>EFFICIENCY</p> | <p>1. Involves waste of administrative time and clogging of court lists and court time in dealing with objections and appeals.</p> <p>2. Involves legal and valuation expenses for owners lodging objections or pursuing appeals.</p> <p>3. Involves large annual costs in determining annual land values outside the normal three year cycle.</p> <p>4. Involves Councils in having to repay council rates that have already been spent by the time many successful objections and appeals have been decided.</p> | <p>1. Limited number of objections and appeals since large increases in annual POST payment would not occur.</p> <p>2. Councils will be able to properly budget annual rate revenue without fear of having to refund any substantial part of such revenue in the case of successful objections and appeals.</p> <p>3. POST could be collected by the Councils and included in rate assessment notices.</p> <p>4. Councils could be paid an administration fee for collection and remittance to Treasury.</p> <p>5. Removes layer of bureaucracy collecting land tax and stamp duty.</p> |
| <p>PREDICTABILITY</p> | <p>1. Treasury has conspicuously failed to accurately forecast annual receipts of land tax revenue for the last 15 years resulting in windfall profits in each of those years.</p> <p>2. Certainty in budgeting is non-existent using the land valuation system to determine land tax liabilities.</p> | <p>1. Allows the Government to accurately determine to the last dollar the amount of revenue it will raise each year.</p> <p>2. Will remove faulty Treasury guesswork in budget estimates and enable Government to plan its programs on certain rather than uncertain projections.</p> <p>3. Will end public cynicism when windfall revenue is received and not returned to those who contributed to such windfall.</p> <p>4. Not based on guesswork or faulty assumptions.</p> |
| <p>EQUITY</p> | <p>Some landowners pay too much in land tax and council rates due to systemic overvaluation whilst others are not paying enough due to systemic undervaluation.</p> | <p>No undercharging or overcharging.</p> <p>Tax burden spread between broader base.</p> |

RECOMMENDATION 9

That the Committee recommend the modeling of POST with a view to introducing it to replace MVS as the system of assessment for raising a revenue neutral property tax to replace stamp duty and land tax.



David Singer
Partner
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8 MARCH 2013
Date

Phone
Mobile
Email

