

**Submission
No 179**

INQUIRY INTO ELECTORAL AND POLITICAL PARTY FUNDING

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SUBMISSION

By

David Singer

1. INTRODUCTION

- (i) This submission is made in relation to Paragraph 1(d) of the terms of reference of the Inquiry.
 - (ii) This submission alleges that political donations by owners of Central Business District (CBD) properties are influencing decisions by both major political parties in taking action to end the low land values placed by the Valuer General on CBD properties - resulting in substantial amounts of land tax not being levied against them.
 - (iii) This situation in the CBD has been maintained for at least the last 6 or 7 years resulting in possibly tens of millions of dollars not being paid in land tax revenue by CBD owners many of whom are donors to political parties in NSW.
 - (iii) This submission alleges the impact of such donations has had and continues to have a very detrimental effect on the democratic process as the burden of raising the revenue foregone from these donors is placed on the remaining land tax payers owning properties outside the CBD.
2. Owners of properties in the Central Business District of Sydney (CBD owners) have been receiving substantial land tax savings as a result of their properties being systemically undervalued for at least the last six or 7 years.
 3. The CBD is a virtual “pot of gold” for collections of land tax revenue containing by far the greatest potential source of land tax revenue in NSW because of the high land value of real estate in the CBD - amongst the most expensive in the world today.
 4. Yet the land values being determined by the Valuer General (VG) are substantially below the land values being determined for those properties by valuation contractors employed by the VG.

5. The following Table shows that 5 properties alone have been undercharged at least \$841839 in land tax for the 2007 and 2008 tax years:

PROPERTY	LAND TAX UNDERPAID 2007 \$ \$	LAND TAX UNDERPAID 2008 \$	TOTAL LAND TAX UNDERPAID 2007 AND 2008 \$ \$
10 SPRING	191159	165280	356439
452 GEORGE	51510	41600	93110
26 CLARENCE	39950	29760	69710
333 GEORGE	80240	61280	141520
338 PITT	99620	81440	181060
TOTAL	462479	379360	841839

I am happy to produce the documents to substantiate this claim. The information has been derived from documents obtained from the VG under Freedom of Information.

6. In October 2005, the Ombudsman released a special report to Parliament on Improving the Quality of Land Valuations Issued By the Valuer General.
7. At page 54 of the Report the Ombudsman stated that check valuations of 11 commercial and retail valuations carried out in 2002 in the City of Sydney had revealed some significant discrepancies of valuation opinion valuing each **higher** than the valuations issued by the VG by respectively 6%, 15%, 16%, 19%, 33% (two), 37%, 50%, 55%, 72% and 80%.
- Given the high land values in the CBD, these differences were very significant and clearly could mean that substantial amounts of land tax were not being paid because of the VG's use of very low values when much higher land values were indicated by independent valuers.
8. The Ombudsman further stated at page 55 that a project of check valuations for 2005 was being overseen independently of the VG by the Land Value Advisory Group and that the CBD was to be included in that project.
9. The Ombudsman noted the project was required to be completed by 31 August 2005 so they could be reconciled with the valuations being produced by rating and taxing valuation contractors.
10. The Ombudsman said it would be appropriate for the Joint Committee on the Office of the Valuer General to review the results and implications of these check 2005 valuations as part of their general overview of the methodologies employed for the purpose of conducting valuation under the Valuation of Land Act.

11 **Recommendation 6.37 of the Ombudsman’s Report accordingly stated:**

“That the Joint Committee on the Office of the Valuer General review the results and the implications of the 2005 check valuations project as part of their general overview of the methodologies employed for the purpose of conducting valuations under the Valuation of Land Act “

12. I attempted to get a copy of the 2005 check valuations project from the Joint Committee by written request on 7 November 2005, then again on 6 February 2006 and 12 April 2006.
13. On 28 April 2006 I finally received a reply from The Hon Kayleen Griffin the Chair of the Committee who advised me that the “check valuation project is still being undertaken by the Valuer General and is anticipated to be completed in mid 2006”
- 14.. I was shocked by this communication since it completely contradicted two critical matters stated by the Ombudsman:
- (i) The Report was supposed to have been finished by 31 August 2005.
 - (ii) The Report was supposed to be done independently of the Valuer General.
15. I had further informed the Parliamentary Committee on 6 December 2005 that I had made an analysis of 2003 and 2004 CBD land values based on documents given to me by the Ombudsman which indicated major undervaluing was occurring in the CBD as detailed in the following Table:

City of Sydney	Number of sales examined	Number of sales where the contractor’s land values were 50%-100% HIGHER than the VG’s recorded land values	Number of sales where the contractor’s land values were 100% OR MORE HIGHER than the VG’s recorded land values
1 July 2003	69	6	19
1 July 2004	231	40	56

16. The Joint Committee failed to act on these serious allegations concerning the CBD land values.
17. The Joint Committee did meet with the Valuer General on 23 October 2006 and discuss the check valuation report and incorporated such discussions in a Report which can be found at: [http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/13f6111f90041abeca25722d001a8f48/\\$FILE/Report%2021%20Nov%20final.pdf](http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/13f6111f90041abeca25722d001a8f48/$FILE/Report%2021%20Nov%20final.pdf)
18. However the actual check valuation report was not produced to the Joint Committee - only a Report by the Land Value Advisory Group (LVAG) on what it called the "Parallel Valuations Project 2005" (which was Attachment A) and the Valuer General's (VG) Response to the LVAG's Report (which was Attachment B).

19. The LVAG Report stated:

" A trend evident across the majority of the non residential valuations was that the 1 July 2005 valuation was below (sometimes significantly) the check valuation. The 1 July 2005 values were between 52% and 98% of the parallel values for the State (excluding the City of Sydney which ranged from 72% to 116%)." (p. 36 of 78)

20. The LVAG Report further stated:

"We believe the results now need to be released, preferably along with any action being taken to find a solution to the variations." (p.37 of 78)

So far as I am aware this recommendation has not been implemented and your Inquiry should to seek out why this has not occurred.

21. The VG told the Committee in his Response:

"The City of Sydney parallel valuations showed that the majority of sampled valuations were inside the ANZGN 4 recommendation. In particular the median ratio was approx 0.95. This is a pleasing result considering the difficulty in assessing land values (due to the limited vacant land sales and the complexity of real estate and valuation issues encountered) and the variance of valuer opinion that often exists in Central Business District (CBD) valuations ." (p. 41 of 78)

22. In evidence given to the Committee on 23 October 2006 the VG said:

"I guess the real pleasing thing from my point of view—and I note in that final paragraph—was about the City of Sydney. As you would be aware, because of the nature of the Sydney City—and I am talking about the CBD area in particular—there is a huge variance in terms of property; massive values associated with that. So we would expect, generally, some variation of opinion as to where the values should actually lie. But, surprisingly enough, the median ratio for the parallel valuation matched to the valuation we put on it was 0.95. So there was only overall a 5 per cent difference between what we had on it and what the parallel valuations were showing. That was extremely pleasing from my point of view.

But, having said that, the city is one particular area that I want to concentrate on as far as ensuring that we do more individual valuations in there as opposed to looking at a mass valuation approach, for obvious reasons." (p.68 of 78)

23. The statements made by the VG appear to totally contradict the LVAG but were allowed to pass without any apparent comment by any member of the Joint Committee.

24. The Parallel Valuation Report is critical to understanding why CBD land values are so low and why CBD owners still continue to enjoy substantial land tax savings because of the low valuations being attributed to CBD properties.

25. Your Inquiry should seek the production of the Parallel Valuation Report so that you can consider its impact on the reliability of CBD land values, which continue to be significantly below the values placed on CBD properties by the valuing contractor.

26. Nothing seems to have been done by the VG since October 2006 to ensure more individual valuations are done in the CBD since the land values issued at 1 July 2007 still continue to be far below the values adopted by the valuing contractor.
27. Maintaining low values in the CBD with consequent savings in land tax for CBD owners is a policy that could see those benefiting being more likely to make political donations to ensure the return to Government of a party that did nothing to change the system.
28. The Joint Committee's extraordinary behaviour leads one to speculate that its reluctance to act on the Ombudsman's recommendation could have been motivated by the desire to not dry up political donations to both sides of politics by wealthy CBD property owners disgruntled by a change of policy that would require them to pay substantial additional amounts of land tax if their land values were substantially increased to more realistic levels.
29. The continuing failure to increase CBD land values to realistic levels has resulted in NON CBD property owners granting a massive cross subsidy to CBD property owners running into tens and possibly hundreds of millions of dollars for at least the last six years.
30. If the CBD property values had been readjusted, the rate at which land tax was assessed could have been reduced resulting in substantial savings to NON CBD land tax payers.
31. The motivation for making political donations extends to donations to parties who espouse policies that financially favour the donor.
32. In the case of CBD owners the action of a Joint Parliamentary Committee that did nothing to act as in this instance would certainly ensure the continuation of donations to both sides of politics by those receiving a substantial financial benefit as a result.
33. I believe it is in the public interest for your Inquiry to:
 - A. Call for the Joint Committee to produce the 2005 check valuation report and the minutes of its review of the results of that project and what action it determined to take.
 - B. If no review or action was undertaken, then the Chairman should be asked why.
 - C. Obtain from the Office of State Revenue the names of the owners of all CBD properties and their addresses and match any donations made by those owners to any political party between 2002-2008.