2008

THE LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

GOVERNMENT RESPONSE TO THE STANDING COMMITTEE ON PUBLIC ACCOUNTS REPORT NO. 13

INQUIRY INTO LAND VALUATION IN THE ACT

TABLING STATEMENT

Presented by
Mr Jon Stanhope MLA
Treasurer

07/08/08

Mr Speaker, I present the Government's Response to Report No. 13 of the Standing Committee on Public Accounts.

On 7 December 2005, the Standing Committee on Public Accounts resolved, on its own motion, to conduct an inquiry into the ACT's land valuation system. The Committee held public hearings and received submissions in 2006. It issued its report on 18 March 2008 and tabled it in the Legislative Assembly on 8 April 2008.

I welcome the Committee's report, and I thank the Committee and its support staff for the report.

The Committee's terms of reference were to inquire into, and report on, the valuation of land in the ACT to determine the clarity, efficiency, equity, accountability and transparency of the land valuation system.

The Committee initiated its inquiry as a result of the Special Report published by the NSW Ombudsman in October 2005 titled: *Improving the Quality of Land Valuations Issued by the Valuer General.* However, it is pleasing to note that the problems identified in the NSW land valuation system were not found by the Committee to exist in the ACT's land valuation system.

The Committee's report made 7 recommendations. Its recommendations were:

1. That the ACT Government ensure that any future contracts for the determination of land values for rating and land tax purposes be given to a single organisation to ensure consistency of valuations in the ACT.
2. That the ACT Government consider requiring that land valuers practising in the ACT be members of a relevant professional body.
3. That the ACT Government consider the replacement/upgrade of the current Computer Assisted Valuation System and that appropriate statistical measures be incorporated into the new software so that component checks can be carried out throughout the valuation process.
4. That the ACT Government ensure that relativities between individual blocks in an area are regularly reset by a programme of regular manual revaluations of suburbs. Where, in the course of standard valuations, it becomes clear that

developments in a suburb may have changed relativities, the changes should be flagged, investigated and the suburb revalued manually at the time of the next annual revaluation.

5. That the ACT Government reviews the information that it provides to property owners at the time of valuation and via the ACT Revenue Office (ACTRO) website about valuations and the objections/appeals process, with a view to making it more user-friendly.
6. That the ACT Government require the Commissioner of Revenue to initiate a review of the valuations of comparable properties when an objection uncovers a significant error of valuation.
7. That the ACT Government investigate a range of ways of using land tax as a lever to increase the supply of affordable housing.

The Government has <u>disagreed with recommendation 2</u>. It has *considered* requiring land valuers practising in the ACT to be members of a relevant professional body and concluded that there is no need for the registration of land valuers. It has reached this conclusion because of the stringent requirements of the Australian Property Institute, and the absence of a corresponding public benefit from restricting entry to the market.

The Government has <u>noted recommendation 3</u> because the Computer Aided Valuation System (CAVS) is owned by the current contractor, the Australian Valuation Office (AVO), and hence is outside the responsibility of the ACT Government. However, under the terms of the contract, the AVO must provide the valuation services in accordance with professional standards, be reasonably accurate, and must be of a high standard. It therefore follows that it is the contractor's responsibility to ensure that the appropriate statistical measures and its computer system software are adequate to meet the requirements of the service contract.

The Government has <u>noted recommendation 6</u> because the Government considers that as the relative administrative provisions already provide the power to the Commissioner for Revenue to initiate a review of the valuations of comparable properties when an objection uncovers a significant error of valuation; no further action is necessary.

The Government has agreed-in-principle with recommendation 1 because although a single service provider currently provides valuation services to the Government for rating and taxation purposes, future valuation contracts will be subject to Government procurement processes and requirements at the time that future contracts are made. Such contracts will largely depend on the availability of suitable service providers capable of performing the large revaluation process in the ACT.

The Government has also agreed with recommendation 7. However, it notes that there is little evidence to suggest that land tax has inhibited investment in rental accommodation. Furthermore, Treasury analysis indicates that land tax is unlikely to be an effective tool for increasing the supply of low rent investment properties. The analysis also shows a strong positive correlation between land values and rents, suggesting that basing land tax on rents would not have a significant impact on investment in low rent properties.

Finally, the Government has agreed with recommendations 4 and 5. The ACT Revenue Office will liaise with the Australian Valuation Office in future annual revaluation processes to ensure that relativities between individual blocks in an area are regularly reset by a programme of regular manual revaluations of suburbs. It will also continue to review the information provided to property owners in respect of land valuations and objection and appeal rights.

Mr Speaker, I commend the Government Response to the Assembly.

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Recommendation 1:

That the ACT Government ensure that any future contracts for the determination of land values for rating and land tax purposes be given to a single organisation to ensure consistency of valuations in the ACT.

Agree in principle - All previous procurement processes for the provision of valuation services for rating and taxation purposes have been issued to a single service provider to ensure that a consistent approach and methodology are applied to the valuations. Subject to the Government procurement processes and requirements at the time, it is likely that a single service provider will continue to be the preferred option for future valuation contracts.

However, future contracts for the determination of land values for rating and land tax purposes being given to a single organisation will largely depend on the availability of suitable service providers capable of performing the large revaluation process in the ACT.

Recommendation 2:

That the ACT Government consider requiring that land valuers practising in the ACT be members of a relevant professional body.

Disagree - The Australian Property Institute (API) has tight disciplinary procedures, a Code of Ethics, rules of conduct, and education requirements; hence there is not a need for the registration of valuers. Licensing of valuers takes place in other jurisdictions without concern for education or discipline amongst licensees. In some instances, it is understood that there is not even a requirement for licensees to be members of the API.

Furthermore, constraints of this type limit entry to the market – without a corresponding public benefit being established in a rigorous manner. While some professions are regulated in this manner, the relevant associations are required to provide a range of services – including dispute resolution and effective disciplinary regimes, professional training and continued development. In addition, self-regulation can only work effectively when most (if not all) members of the industry are members of the Association. Leaving industry members to police themselves has not worked well in the past in addressing fundamental conflicts of interest and other industry disputes in trade and commerce.

Recommendation 3:

That the ACT Government consider the replacement/upgrade of the current Computer Assisted Valuation System and that appropriate statistical measures be incorporated into the new software so that component checks can be carried out throughout the valuation process.

Noted - The current Computer Aided Valuation System (CAVS) is owned by the current contractor, the Australian Valuation Office (AVO), and the Committee's recommendation is outside the responsibility of the ACT Government.

Under the terms of the contract, the AVO must provide the valuation services in accordance with professional standards, be reasonably accurate, and must be of a high standard. It is the contractor's responsibility to ensure that the appropriate statistical measures and its computer system software are adequate to meet the requirements of the service contract.

Recommendation 4:

That the ACT Government ensure that relativities between individual blocks in an area are regularly reset by a programme of regular manual revaluations of suburbs. Where, in the course of standard valuations, it becomes clear that developments in a suburb may have changed relativities, the changes should be flagged, investigated and the suburb revalued manually at the time of the next annual revaluation.

Agree - The ACT Revenue Office will liaise with the Australian Valuation Office to ensure that this recommendation is implemented in future annual revaluation processes.

Recommendation 5:

That the ACT Government reviews the information that it provides to property owners at the time of valuation and via the ACT Revenue Office (ACTRO) website about valuations and the objections/appeals process, with a view to making it more user-friendly.

Agree - The ACT Revenue Office (ACTRO) will continue to review the information provided to property owners in respect of land valuations and objection and appeal rights. The content on the ACTRO website is reviewed each year for currency and for ease of understanding by property owners and other interested parties.

The ACTRO also provides direct telephone numbers on annual Valuation Notices for property owners to contact and seek further information about land valuations, relevant sales evidence used in the valuation process, the ACT valuation schedule, and further contact details for the valuer at the Australian Valuation Office.

Recommendation 6:

That the ACT Government require the Commissioner of Revenue to initiate a review of the valuations of comparable properties when an objection uncovers a significant error of valuation.

Noted – The Government considers that as the relative administrative provisions already provide this power to the Commissioner for Revenue as a statutory office-holder, no further action is necessary.

The Commissioner has the power to investigate matters as they arise and advises that Section 11 of the *Rates Act 2004* provides for the correction of an error that is made when the unimproved value of a parcel was determined. The Commissioner further advises that in cases where an objection process or any other administrative process uncovers that a significant error was made in the valuation of a particular property or group of properties, the valuation error is corrected in appropriate circumstances.

<u>Recommendation 7:</u>

The Committee recommends that the ACT Government investigate a range of ways of using land tax as a lever to increase the supply of affordable housing

Agree – However, the Government notes that there is little evidence to suggest that land tax has inhibited investment in rental accommodation. Investors take a range of factors into account in making decisions, including returns on alternative investments and capital gains. The Government also notes that the value of housing finance commitments by ACT individual investors for new and existing dwellings rose by 33.5 per cent, in year on year terms, to March 2008.

Treasury's analysis indicates that the land tax is unlikely to be an effective tool for increasing the supply of low rent investment properties as suggested in the discussion leading to the recommendation by the Committee.

The low rates at which land tax is applied are unlikely to significantly affect the investment decision between high and low value rental properties. To create an incentive for low value properties over high value properties would require a significant increase in the top rate of land tax. The required size of the increase would reduce the after tax returns on high value property investment not only relative to low value property but also in relation to other forms of investment. As a result, the most likely outcome would be a reduction of investment in rental properties overall rather than an increase of investment in low value rental properties.

Treasury's analysis shows a strong positive correlation between land values and rents suggesting that basing land tax on rents would not have a significant impact of investment in low rent properties. Moreover, the Government notes that the suggestions for using rents as a basis for land tax would be akin to introducing a form of income tax – a form of taxation only levied by the Commonwealth.