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The Secretary
Public Accounts Committee
ACT Legislative Assembly
CANBERRA ACT 2600

INQUIRY INTO LAND VALUATION

Please convey the following submissions to the Committee. In making them I draw upon my experiences as an ACT ratepayer since 1972, some research, and a lengthy background in public administration. I would be happy to speak to these remarks, including in public hearing.

General

The Government of the day must of course decide upon the total revenue required each year through payments of land rates and taxes, and whether this is to be notionally allocated against particular heads of expenditure (eg. for 'urban services'). These elements are expressed at their minimum in the ACT Budget papers and are not usually drawn strongly to public attention. The annual setting of residential valuation levels usually receives media publicity but I have never been able to reconcile the stated average movements by suburb with my own experience.

Rec 1 Individual ratepayers should be advised each year of the expected total levels of residential and commercial rates revenue streams and their notional allocation against expenditures. This information could form part of the general explanatory leaflets currently distributed. The same should apply for land tax.

Rec 2 The Government should also take responsibility for estimates of average valuation change by suburb (or component area) by advising these directly to individual ratepayers as part of the notices on annual rate charges.

Rec 3 Estimates of revenue gains from lease change of purpose charges levied and from such charges exempted or waived should be made publicly available at the time the Government is announcing its annual land valuation and land tax arrangements. These are relevant to the issue of revenue deriving from land-based economic activity, and presumably a consideration for the ACT Treasury. (The Commonwealth Treasury publishes periodically its estimates of revenue foregone as a result of Government policy decision on exemptions and other concessions.)

Land Valuation Methodology

It appears that only limited material is readily available on methodology; no doubt there are commercial reasons for this, particularly in respect of dealings with individual parcels of land. The 'mass appraisal' methodology is even more difficult to ascertain. In my own experience the ACT Treasury as 'owner' and formal decision-taker, and the Australian Valuation Office and a preceding private company as contractors, have been unwilling, unable or both to explain the system in any detail.

This is unacceptable practice when it involves garnering public money for public expenditure by processes designed for those purposes. It is not in keeping with general aspirations of accountability by Governments, it can be seen as being directed towards discouraging queries and objections by the public, and it suggests considerable room for inconsistent and inequitable treatment of ratepayers generally and individually.

Rec 4 The Government should require a detailed statement of the land valuation methodology used in the ACT to be developed by the ACT Treasury consulting as necessary with others expert in the field. This should be published and readily available, and its requirements used in evaluating tenders and performance by contractors.

There are several specific issues in this area, relating to residential 'mass appraisal' valuations and the determination of unimproved capital values.

It is apparent that Unimproved Land Value (ULV) in the ACT depends firstly on the historic relative placement of the block in question within the hierarchy of blocks in a section or component area; secondly on the assigned percentage change in market value derived from analysing a sample of sales in the relevant area after deducting an assessed value for improvements in each sampled case. (There can also be a significant 'rounding' effect as sample valuations are 'adjusted' or placed within the established hierarchy for the area.)

Undisturbed relativities between blocks facilitate greatly 'mass appraisals'. The hierarchy apparently pivots in an area on a single benchmark or representative block, say indexed at 100, and all other blocks in the area range down or up (say to indices from 85 to 130).

This enduring fixing of relativities, not known to the ratepayers, takes no account of changes in the area and its environment over the years. For example, altering traffic patterns in combination with topography can radically affect amenity and road safety of blocks in specific situations. Even where there are sufficient sales for this to be reflected in market trends, the relativities between blocks will not be changed. Increasing density of development or other such changes also will not apparently be reflected in changes in relativities between blocks.

The ACT Government has in the past 2 to 3 years introduced very substantial legal and administrative restrictions on housing use and development in declared Heritage areas. These restrictions have been given no regard in land valuation practice since their introduction. Several State governments provide specific recognition for declared Heritage areas. AVO valuers in the ACT apparently have no guidance on the issue and dismiss it as ultimately a market factor.

Rec 5 The Government should review practices in other jurisdictions which explicitly consider the special issues of land valuation in declared Heritage areas, and provide a report for public consultation about this.

Similar considerations apply to the wider range of residential land affected by zoning changes in recent years permitting higher density development near commercial centres. These must affect in practice the selection of 'benchmark blocks' and disturb the established block relativities.

The analysis of sales data shows a number of problems. A small proportion only of ratepayers would be aware that they can obtain on request the 'analysed sales data' sheet relevant to their (broad) area. The information is presented without explanation and itself raises many questions.

First, the selection of sales appears arbitrary at best. The AVO in discussion has asserted to me that the sample is not aimed to capture the highest market although my impression differed. However there is no assurance that sales close to the median are chosen for an area. I have since found this was identified by the AVO to the Administrative Appeals Tribunal as being appropriate valuation practice some years ago.

Second, sales are included which are far beyond a reasonable time distant from the base date. ACT Treasury suggest '3 months either side of January' is the normal approach but sales dating back 9 months or more have been used. Nor has there been any adjustment for the time lapse, if it might be essential to consider such sales.

Third, it is not clear what efforts if any are made to identify and exclude sales transacted between interested or related parties (including family companies).

Fourth, the valuation of improvements. This is possibly the factor most likely to produce gross inequity and error in the whole process. (Given that Canberra (like Hunters Hill!) has basically no vacant land except for the developing fringe or large infill areas, one must question whether long-term the ULV approach can be sustained.)

In the ACT system the sample sales for a given area are the first instances where improvements are directly valued, possibly only then and on a 'drive-by' basis. There are then the vagaries of differing valuers' judgements about the value of improvements. The conclusions on the sampled land which produce the percentage change for the area as a whole may therefore substantially advantage or disadvantage other individual ratepayers depending on the value and recency of improvements on their own blocks.

The 'differing valuers' factor will also affect component areas diversely without some unifying principles and practices being used. This problem is compounded by the use of depreciated values of improvements (a factor which has been misleading ratepayers generally by its omission from the annual rates notice). The NSW Ombudsman's Report (para 4.5.2.4) indicates guidance on using three different approaches to valuing improvements has been issued in NSW. It is unclear what approach is followed in the ACT. What rate of depreciation is used in the ACT?

I understand that some local government areas (Victoria?) use 'improved capital value' as the basis for rate setting. Given that Canberra, particularly in inner areas, will increasingly have a housing mix which can be new, undergoing major renovation, and some remaining unchanged, there are likely to be continuing inequities in using the current system and its underlying assumptions about an approach to improvement values applying 'across the board'.

Fifth, the Committee might clarify some important procedures. What is the formula for converting 2 or 3 'adjusted analysed land values' per component area into a single percentage change to be applied to that area? If the average (or median) value of the sampled blocks is taken, is that compared to the equivalent figure for the previous year and a percentage change calculated? Is this the 'general market movement'? Is this first applied directly to a single benchmark or representative property in each component in the ACT? Is any weighting applied at any stage? In the ACT is the 'component factor' approach followed as in NSW?

Sixth, there seems to be no accepted procedure for scaling block values within an area, relative to size. Acreage and land value per square yard / metre have been among the most significant factors in land valuation for generations but the ACT system in practice now seems to virtually disregard them. Consequently residential blocks, particularly in older suburbs (where blocks vary substantially and are usually over 800 square metres) can have extremely large differences in value per square metre, with the higher values on smaller blocks.

In part this may be attributable to any tendency of valuers to allow substantially higher proportionate value to improvements on larger properties; in the absence of any data or known current guides to practice on this aspect it is hard to tell. However there have been in past years indications by the AVO to the Administrative Appeals Tribunal that some 'rules of thumb' were in use for scaling land values relative to increasing block size. These appear not now to be acknowledged.

Rec 6 The Government should ensure that its valuation contractors follow a detailed published process in carrying out ACT land valuations, with areas of discretionary judgement and any underlying assumptions explicitly stated. This process should be formally accepted on behalf of the Government and adherence to it monitored by ACT Treasury in administering the rates collection function.

Information and Accountability

A number of specific improvements needed in these areas have already been noted.

The roles and perceptions of the ACT Treasury, the rate collection administration and the contracted valuers may be contributing factors. The Treasury may be essentially concerned with revenue forecasting and the Government's setting of the rates formula. The administrative area has the large collection task and the formal handling of objections. Neither activity seems to include opportunity or responsibility to enquire into or 'own' the valuation process. That in my view is assigned entirely to the contracted valuers and treated as a 'black box' best not opened up too far.

Rec 7 The Government should state clear responsibility (under one Minister) within an agency (presumably Treasury) for administering the rates collection and land valuation processes, including setting procedures, endorsing valuation methodology and evaluating contractor performance. In doing so, the agency should be required to consider explicitly the information needs of ratepayers and the handling of their objections with all fairness.

In the formal treatment of objections ratepayers are given very little guidance about what may be permissible grounds under the relevant legislation. They are required to comply strictly with time limits, which they would possibly find easier to do if they were more clearly informed about the system. The responses to objectors do not always comply with time limits. It is not clear that the valuer conducting the review of the objection is always a different person to the valuer who conducted the general area evaluation involved.

The formal responses to objections, based on my experience, are not satisfactory. The ratepayer's arguments are not dealt with in detail and essentially the reason for decision is the view of the valuer. References to several past appeals cases decided by courts and tribunals do not cover elements of the subject objection. However, reading the cases cited has brought before me a significant number of further cases not cited. These have overall enabled me to form the general picture of valuation methodology outlined in this paper, which may well have some inaccuracies because of the limited reference material available to me.

Rec 8 Responses to objections under the current system should clarify the reasons for decisions. They should be made only after the ACT Government's decision-taker has considered all aspects including the nature and cogency of the contracted valuer's opinion.

Rec 9 The reviews of processes and methodology should consider the potential benefits of clarifying and explaining the system adequately to ratepayers in minimising misunderstandings and objections.

During 2005 and preceding years a very large printed schedule of ACT land valuations could be consulted at a Revenue ACT public office. The commercial and real estate services incorporating valuations and rates now available on the Internet are more accessible and contain useful trend data. ACT Treasury is presumably selling the information, but in principle the ACT Government itself should make it publicly available, at least in basic form, from one of its own websites. This would confirm its validity. Even though simple comparison of adjoining and similar properties' valuations has been judicially ruled out, the availability of this information can bring to light trends which may excite ratepayers' attention.

This would also enable any variations in specific cases (eg. from objections) to be formally incorporated as occurring. These arrangements would go to satisfying any obligation to make known to other interested parties the results of objections (which are initiated and conducted privately unless they proceed to the ACT AAT). If a major revision of values emerged which affected several (a significant number) of properties, that would need to be dealt with according to the circumstances.

I have attempted above to reflect upon matters arising from my own experience of the system. I am sure the Committee will seek informed advice on these and many other aspects and look forward to its Report.

Please contact me (0419 235 188) if I can be of further assistance.

Yours faithfully

Brendan Preiss

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