



LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into land valuation in the ACT)

Members:

MR R MULCAHY (The Chair)
DR D FOSKEY (The Deputy Chair)
MS K MACDONALD

TRANSCRIPT OF EVIDENCE

CANBERRA

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Secretary to the committee:
Ms A Cullen (Ph: 6205 0136)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents relevant to this inquiry which have been authorised for publication by the committee may be obtained from the committee office of the Legislative Assembly (Ph: 6205 0127).

WITNESSES

ADDICOTT, MR GRAEME , Principal Valuer, Australian Valuation Office	17
PARKER, DR DAVID , General Manager, Australian Valuation Office	17

The committee met at 3.16 pm.

PARKER, DR DAVID, General Manager, Australian Valuation Office

ADDICOTT, MR GRAEME, Principal Valuer, Australian Valuation Office

THE CHAIR: I declare these proceedings open. This is a public hearing for the inquiry into land valuation in the ACT for the Standing Committee on Public Accounts. I would like to welcome our witnesses from the Australian Valuation Office. My colleagues today are Dr Foskey and Ms Andrea Cullen, who is the committee secretary. I expect Ms MacDonald will join us shortly. Before we discuss your evidence, I need to advise the witnesses of some procedural matters.

You should understand that these hearings are legal proceedings of the Legislative Assembly, protected by parliamentary privilege. That gives you certain protections but also certain responsibilities. It means that you are protected from certain legal action, such as being sued for defamation, for what you say at this public hearing. It also means that you have a responsibility to tell the committee the truth. Giving false or misleading evidence will be treated by the Assembly as a serious matter.

If you would like to give us an overview of your submission, you are most welcome to make a statement. I will then ask members of the committee if they wish to take some questions. I must apologise for the late commencement of proceedings. We had a very lengthy briefing with the Auditor-General that took us beyond our scheduled time. Mr Addicott and Dr Parker, if one of you would like to lead off, we will be pleased to hear your summary.

Dr Parker: By way of introduction, I am David Parker. I am the General Manager of the Australian Valuation Office. That is a national role, which means I manage the Australian Valuation Office's offices in each state and territory of Australia, including our office in Canberra, ACT. It is the Canberra office which currently has the contract for undertaking the rating revaluation for the Australian Capital Territory.

My colleague, Graeme Addicott, is the Principal Valuer for the Australian Valuation Office and also the Valuer-General for the Northern Territory. The Australian Valuation Office provides a similar service to the Northern Territory as the service it provides to the Australian Capital Territory for rating revaluation. Graeme, as valuer-general, supervises that process.

We haven't brought any representatives from the Australian Valuation Office today who were involved in the last revaluation so, should the committee wish to ask any specific questions about the last revaluation, we will take those on notice and come back to you with comments.

THE CHAIR: That is fine.

Dr Parker: Our submission was essentially broken into three elements. We first of all considered some issues associated with the current basis and process of rating, the basis being the use of unimproved value and the process being essentially the manual way in which unimproved value is calculated at the moment. We have provided the committee with a couple of suggestions for potential improvements to the process.

The second limb of our submission focused on the basis of rating going forwards, and canvassed options for alternatives to unimproved land value which certain jurisdictions in Australia have adopted. The third and final limb of our submission looked at alternative processes and canvassed some of the issues in moving to a more computerised or automated mass appraisal valuation process.

I won't go through our entire submission line by line, but we are certainly happy to assist the inquiry in any way we can to clarify any points in our submission and deal with any questions we can. As I have mentioned, any that Graeme and I are not able to answer we will take on notice and come back to the inquiry with the responses.

THE CHAIR: I refer to page 4 of your submission for land valuations for residential areas. The process you describe there seems to be a general way to assess a specific property's value. Whilst we appreciate that the mass appraisal process is probably the most cost-efficient way for the system to work, I was wondering what you estimate the current percentage variation to the mass appraisal process in the ACT to be—the variation in terms of accuracy.

Dr Parker: Between?

THE CHAIR: I suppose I have to take you to the next part. In respect of appeals or objections to valuations that are issued, do you become involved in that process at that point—when people lodge an objection to their valuation? Do you see yourself in that final process when people raise objections to valuation notices?

Dr Parker: Yes, at the discretion of the commissioner. The commissioner is the person who lodges or issues the valuation and the commissioner is the person with whom a ratepayer lodges an objection. As I understand it, the commissioner would generally seek our advice if the objection was based on a matter of valuation. If it is a matter of law, he may seek advice from others; if it is a matter of valuation, he may well seek our advice.

THE CHAIR: I haven't got the speeches and quotes here but, from memory, the former Treasurer indicated that about 30 per cent of objections are successful in relation to notices issued. Does it surprise you that the figure is as high as that? Do you have a view on why that level of success would be achieved?

Dr Parker: In respect of the level of objections which result in a change of valuation?

THE CHAIR: Correct.

Dr Parker: Yes. My understanding is that it would be closer to around 10 per cent, but that is essentially a matter for the commissioner to advise the inquiry on, because he manages the objection process. So 30 per cent would surprise me. My information suggests it would be potentially closer to about 10 per cent.

Within the objections, the Australian Capital Territory is similar to other jurisdictions around the country in that there are a whole range of bases or reasons for which ratepayers may choose to object. The individual ratepayer who is of the view that the unimproved value has been assessed incorrectly is one group of ratepayers. Other groups

that we see appearing quite often around the country are groups such as property owners who have multiple properties. Therefore, whatever unimproved value increases may come through would affect them multiple times over, because they have a large portfolio.

THE CHAIR: Why would that be an argument for a change? I mean, you may not like them if you have lots of properties, but what is the basis for the objection there?

Dr Parker: The basis for the objection is that, if you have 10 properties and they all go up and you can object and only eight of them go up, then you are better off than you would have been if 10 went up.

THE CHAIR: Cost and effect. It is worth complaining, you are saying?

Dr Parker: Yes. We find that property managers often lodge blanket objections for all of their clients. We find that some groups of valuers regularly turn up acting for different clients. So within the number of objections that are lodged—it is common across the country—there are particular groups who object who may not simply be objecting because they feel the value is overstated; they may be objecting because they want to bring the total outgoings on their properties down because they have received advice that they should object and they will get something. There is a whole range of reasons why people object.

THE CHAIR: But to say that some valuers seem to represent lots of different clients is a bit like people getting off charges because they are represented by certain barristers. That is not a very compelling argument for saying that the valuation is accurate. They may be successful. There may be valuers who specialise in taking up objections on behalf of clients, but I would have thought the core issue here is if they are successful, why they are successful. It does not convince me that it is just because they have a well-regarded valuer in the town. I mean, a valuer can't mount a case that is without any foundation. I am just trying to explore with you the basis of success with change and what is giving rise to those successes if the valuations are accurate.

Dr Parker: I think, to take a hypothetical example, the multiple property owner or the valuer who specialises in this area may make 10 objections and if two are successful they consider that to be a good outcome. We will never know whether they thought the other eight were correct, incorrect or otherwise. They have a right to object and they exercise that right.

THE CHAIR: If one were to deduce from your answer, you are basically saying that they are just taking pot luck and if they get a couple of wins, then so be it. But whether the Treasurer's remark of 30 per cent or whether your figure of 10 per cent is accurate—

DR FOSKEY: How do we find that out?

Dr Parker: The commissioner of revenue would probably be the best place.

THE CHAIR: You don't accept, then, that the success is really based on persuasive evidence of inaccurate valuations that people have raised?

Dr Parker: No. I don't accept that the initial reason for objecting is necessarily always

an opinion that the value is incorrectly stated.

THE CHAIR: Not always?

Dr Parker: Not always.

THE CHAIR: But often?

Dr Parker: In a proportion of cases it will be.

THE CHAIR: What proportion would that be?

Dr Parker: I do not know. It is not possible to tell.

THE CHAIR: You don't have that data?

Dr Parker: Well, we don't collect data on the intent of the objector. We take each objection at face value and treat it as an objection. Whether it is a genuine objection as opposed to just one of a bundle, we will never know. Each one is treated the same.

THE CHAIR: The commissioner doesn't say to you, of whatever percentage of successful objections, "Forty or 50 per cent of these were based on inaccurate valuations"? He doesn't brief you on that information?

Dr Parker: No. An objection is an objection. It comes through and we review it. We treat each one the same way.

THE CHAIR: What sorts of performance measures do you have to ensure that your valuation data are accurate and consistent?

Dr Parker: That may not necessarily be a performance measure so much as a quality control or process control measure. So we have a series of steps in place where we review the data, we review the valuations, and we aim to ensure consistency.

THE CHAIR: Could you elaborate on that for our benefit?

Mr Addicott: Valuation is based on the concept of market value derived from the analysis of current market transactions of comparable properties. There are factors which may distort a transaction from being representative of the market. The valuer will look at each transaction to make sure that it is representative of the market. We have provided there a definition of market value. Basically, we are talking about an arms-length transaction where both parties are fully informed and where there is no compulsion to either buy or sell. In some cases, transactions will be indicative of perhaps a marriage settlement or an adjoining owner buying the property. Sales like that are discarded from the valuation process as not being reflective of market value. Once the valuers have obtained a set of sales around the date—of course, 1 January is the relevant date—the valuer can look further into the year than that and look prior to the date.

THE CHAIR: You said that you would look for sales that were voluntary, where people are not under pressure to sell or something. How would you have access to that sort of

data?

Mr Addicott: We have pretty good records of property ownership and the history of properties, and the sales evidence we obtain provides details of, say, the name and address of the vendor and the purchaser. If there is anything that does appear, such as the same surname, an adjoining owner's address or some indication within the sale or the circumstances of the sale, the valuer will dig as deep as is possible by inquiring of the vendor and purchaser or through the agent as to the actual circumstances of the sale.

THE CHAIR: So that you make direct contact with vendors.

Mr Addicott: That is right. We do sieve the sales before they are actually applied as part of the valuation process. Within the valuation process, of course, we are looking for unimproved sales, we are looking for sales of vacant land, and in a city such as Canberra and even in Darwin sales of vacant land are not necessarily come by in every particular suburb or precinct. In that case, the valuer is required to work backwards from an improved sale to deduce a land value by adjusting the sale, allowing for the added value of improvements that constitute the improved sale to reduce it to an unimproved sale, a land value component, and use that for comparison purposes. Unfortunately, it would have to be said that any process which requires adjustment of a sale price or analysis is potentially going to lead to the risk of the end result being to some extent subjective.

THE CHAIR: On that point and following on from something I raised with Dr Parker, do you have a view about the success of objections to valuations in relation to possible inaccuracies and so on? Is it really the nub of it that at the end of the day there is a certain measure of subjectivity, that it is far from exact, and is that a likely contributing factor to the success?

Mr Addicott: That is a potential factor. Any factor that involves human judgment is subject to human fallibility. That is why there is an objection process built into these valuation systems. From my point of view as Valuer-General of the Northern Territory, if someone has any doubts about their valuation I would encourage them to object. I am not concerned about the number of objections I receive. I am concerned about the number of objections which are sustained as against the total number of valuations we undertake.

THE CHAIR: I think that you would recognise that people lodging valuation objections need external assistance to do the job properly and the cost of that probably does not warrant it unless you are grouping with a number of residents.

Mr Addicott: I understand that in the ACT the sales analyses which the valuers use to provide the valuations to the revenue office are available for public scrutiny.

THE CHAIR: Yes.

Mr Addicott: So there is a certain amount of public information there. I do not know that necessarily everyone requires expert advice to sustain an objection.

THE CHAIR: I am sure that there are people who do it.

Mr Addicott: I think that people do take an interest in the property market affecting their own property and, if they are provided with data such as I have just described, an intelligent person can make a pretty substantial attack on the valuation.

THE CHAIR: What do you do in suburbs where there is a very low number of transactions, a small number of houses and a low level of transactions? Obviously, there is scope for distortions in terms of the average sale price. How do you accommodate that?

Mr Addicott: Where there is a low number of available sales the valuers have to be careful as to the way they apply those sales and take a fairly conservative stance on the application of the sales evidence that they have available to them. I certainly would not be taking the highest sale in that case.

THE CHAIR: How would you reach that figure?

Mr Addicott: The process does require you to look, if you like, at the median of the sales evidence, to disregard the outliers, the extreme high and the extreme low, and to look closely at those which are available.

THE CHAIR: Over what period? You said that 1 January is the critical date, and close to that. What sort of typical time frame are you looking at for transactions to reach a figure?

Mr Addicott: I think that you could look forward beyond January into February and possibly back as far as September in the preceding year. Of course, you have to be awfully careful when the market is moving rapidly. In some cases there are times when you feel like putting “am” and “pm” on a valuation.

THE CHAIR: The view was put to me out of session here that you are remunerated only to the extent of \$2 per valuation or something like that as part of your contract. Magnified across the territory, it may not be such a bad basis, but is that right? Is the compensation pretty modest for each individual valuation, in effect?

Dr Parker: The contract is not premised on a certain dollar value per valuation.

THE CHAIR: What is the basis of it?

Dr Parker: It is a lump sum that is agreed between AVO and the ACT government and it is a lump sum that covers a range of services.

THE CHAIR: What is it on an annualised basis?

Dr Parker: It is around \$465,000 per annum.

THE CHAIR: A figure of \$2 a place is probably pretty right by the sound of it.

Dr Parker: No, not necessarily because it includes the provision of the rating valuations, it includes some general advice, it includes dealing with objections, it includes dealing with a certain number of AAT hearings, it includes us bearing the costs of other

consultants that we may involve on behalf of the government in any AAT hearings.

THE CHAIR: I am looking at the number of dwellings in the territory for the remuneration.

Dr Parker: It is not worked out on that per unit, but it is interesting that round the country there has been over the last decade an intense focus on reducing the cost per valuation in jurisdictions. We have noticed particularly with the ombudsman's report in New South Wales last year that that seems to be turning a little bit and there is greater discussion around not so much the cost per valuation but the quality of the valuation you get for that amount of money.

THE CHAIR: That is the point of my question. Do you believe that you are able to deliver the level of quality—this probably sounds like a dorothy dixer—for the remuneration that the AVO has received from the territory to fulfil the service or is it necessary to trim back the thoroughness with which you might tackle the task?

Dr Parker: No, we are of the view that we can meet our obligations under our contract with the territory for the amount of money that the territory pays us. Whether the approach that is currently adopted to valuations in the territory is a good approach, a bad approach or otherwise is a separate matter, but under our contract we have a variety of tasks to perform that we consider we are able to perform for the fee that we get.

THE CHAIR: If there were greater compensation, would there be scope for improving the quality of the service?

Dr Parker: Something that the territory might want to look at is an area such as the extent of review of valuations. If the territory wanted to invest more money in the valuation process and increase the number of reviews, it may result in a lower number of objections.

THE CHAIR: Review by yourselves. I think you do it every three years.

Dr Parker: It is a rolling program.

THE CHAIR: But roughly every three years.

Dr Parker: Yes.

THE CHAIR: Theoretically, you could make it an annualised process if the territory would be willing to fund that.

Dr Parker: Yes. One of our suggestions was that the territory might want to fund a rolling program of a much closer valuation of a handful of suburbs each year so that we look much more closely at a couple of suburbs, three suburbs, six suburbs, review those very thoroughly and then the following year we review another group of suburbs and after three or five years the entire market has been reviewed on a rolling program, which is an approach some other jurisdictions use to get a balance between a level of thoroughness and detail and cost effectiveness for the delivery of the rating service.

An interesting issue came up in your questions to Mr Addicott around unimproved value and the ability of the community to realistically form their assessment of what the unimproved value is of a block of land. Something that the AVO has been maintaining with those jurisdictions that still work on land as the value basis for rating for some time has been that unimproved value is becoming an increasingly abstract concept for the bulk of the community. Mr Addicott has heard this many times, but I imagine that in 1890 or 1895 people got together at barbecues on weekends and talked about the sale of blocks of land, because when Melbourne was being developed and Sydney was being developed people bought land and then they built a house on the land. The currency of conversation was land. A century on, the currency of conversation is the building that is on the land—“Did you hear that the three-bedroom house at No 15 sold for \$450,000?—yet we are still basing our taxation system on land.

THE CHAIR: Effectively, an empty block of land.

Dr Parker: Yes, and it is an empty block of land that is subject to some quite carefully constructed theoretical arguments which, as a package, are fairly hard for the community to deal with. The concept of unimproved value is not an easy concept for the community to grasp because it is something that just does not get discussed in the community and it is something that we really only need to give thought to for the purposes of rating at a local government level. It is interesting that some of the states—Victoria, South Australia, Western Australia and Tasmania—have moved away from the unimproved value of land to the improved value of buildings, reflecting that that is much easier for the community to understand.

DR FOSKEY: I have probably a lot more questions than I will be able to ask.

THE CHAIR: The witnesses have indicated that, if we run out of time, they will be happy to take those subsequent to the hearing and come back to us, which is appreciated.

DR FOSKEY: Thank you for your very detailed submission. I will commence with questions in response to some of the things you have raised today. In what sorts of areas is the territory likely to ask for more frequent reviews? Would it be more inclined to want more frequent reviews in areas where demand is increasing because it wants to catch the full potential value in rates and taxes? Is that the thinking there?

Dr Parker: Different jurisdictions approach it differently. Some jurisdictions focus particularly on their commercial areas, particularly if they are seeing significant movements in rental and capital values in commercial areas. They put a lot of time into that because there are some very high values within commercial areas. Alice Springs, for example, has north Alice and south Alice and if there has been a lot of transactional activity in north Alice and almost no transactional activity in south Alice the jurisdiction, the council, might say, “Let’s focus more closely on north Alice as that seems to be where things are happening.” Other jurisdictions may focus on areas in which they have done land releases and major subdivisions that have resulted in significant value movements because more stock has been introduced to the market. Others take a progressive rotating view and do the north-western suburbs this year, the north-eastern suburbs the year after, south-east, south-west, and just go around. It varies between jurisdictions.

DR FOSKEY: I was just looking for a consideration why the ACT might want more regular reviews in some areas. What sort of corporate entity is the Australian Valuation Office?

THE CHAIR: Federal government.

Dr Parker: It is a business line of the Australian Taxation Office. Our parent agency is the Australian Taxation Office and our ultimate parent minister is the Treasurer.

DR FOSKEY: I note that your contract with the ACT government comes up for renewal in November 2006.

Dr Parker: Yes.

DR FOSKEY: I am interested in ascertaining whether you will be retendering.

Dr Parker: Certainly, if the ACT government goes out to tender, we will seek the opportunity to tender.

DR FOSKEY: How long have you been the ACT's preferred valuer?

Dr Parker: Mr Addicott probably would have a better understanding of that. It would go back to the era pre-territory as territory, wouldn't it?

Mr Addicott: My memory does not go back that far, but certainly there was the use of a private contractor probably some four or five years ago.

DR FOSKEY: For a short time.

Mr Addicott: For a short time. It was not completely successful and AVO was invited back to deal with the situation that arose at that time. It has maintained that preferred status since. Certainly it had been some time before that time that we had been acting in that role.

THE CHAIR: In the question I asked at the beginning I gave you the wrong page reference, which might have caused the confusion. It was page 6. The same question stands, though. It related to the valuation for rating and taxation, guidance note 5.1 from API. It says that, while the ideal is to produce a percentage error of zero value, within 15 per cent is generally regarded as acceptable. This percentage variation is an expression of the accuracy of the mass appraisal process. Can you give me a percentage error rate in the ACT? Do you have that information?

Dr Parker: I do not. If the commissioner can supply me with the sample, we can do the before and after and work out the difference.

THE CHAIR: That is not provided back to the AVO, though, as a matter of course?

Dr Parker: No. The whole issue of accuracy is interesting. Fifteen per cent as a broad number came out of a UK court case—I think it was Singer and Friedland v John D Wood—back in 1974. Since then there has been a range of cases. From memory, the

Mulda Brassells v Lambert case in about 1982 went up to about a 40 per cent difference, and others have come in much lower. There has been a range of academic studies around the difference between transaction prices and valuations. The jury is very much out as to what is an acceptable level of variation.

THE CHAIR: You say you don't have access to that data.

Dr Parker: No.

THE CHAIR: We might take that up with the government.

Dr Parker: If the commissioner wants to supply me with a list of properties, then we can do the before and afters and work it out.

THE CHAIR: Thank you.

DR FOSKEY: Going back to your recommendations, I note you suggest that the ACT consider investment in what you call a more modern computer assisted valuation system. As the contractor, would you require the ACT to invest in this system, rather than have access to it yourself? Could you explain why you believe this would be of benefit to the ACT, and also how likely it is that this investment will occur?

Dr Parker: In respect of the outsourced service provision that we do for different predictions, some say to us, "You provide absolutely everything—the software, the valuers, the whole gear—and we will pay you a chunk of money." Others, such as the ACT, say, "We will provide this software and this data; you provide those services and the fee is lower." At the moment the CAV system, as I understand it, is the property of the ACT government. If, as part of a tender for a future period, the ACT government were to say, "Please price into your fee quote an allowance for software development," we could do that. It is something we do with other jurisdictions.

DR FOSKEY: Would they get some cost benefits from paying you more to do that?

Dr Parker: Yes. If we build in some of the basic statistical tests of accuracy and consistency, which are fairly standard statistics around measures of dispersion, that tends to provide data that you can use to educate the community on the valuation system. The flow-on effect of that tends to be that few people feel the need to object, because they feel they have a greater understanding of the system.

DR FOSKEY: A residents group who appeared yesterday indicated a current lack of transparency and very poor explanations on the valuation form, the rates notice or whatever, about the complaints process—that sort of thing. I will go on with some of the things I would like to hear your opinion on. It was suggested that, when there is a successful appeal to the AAT, nearby neighbours, or people whose properties can be assumed to be similar, should be notified and that that would be a level of transparency—a bit more than governments often want to offer.

Dr Parker: That is probably a matter for the commissioner to form a view on.

DR FOSKEY: Insurance companies are the same. I note that on page 14 you suggest

some steps to implement change. The first of those is public consultation. Could you expand on that, please?

Dr Parker: That was in our suggestions—that the inquiry may want to consider moving to capital value rating and computer assisted mass appraisal. We have noticed that, when other jurisdictions have made that move, there is an initial adverse public reaction.

DR FOSKEY: To the idea of people being rated on improvements they felt they put there themselves?

Dr Parker: Yes. People assume “it’s going to change; therefore I will be worse off.” Other jurisdictions have found that, if you go through a public consultation and education phase, you accept that there will be some people—a group—who are better off, a group who are worse off and a very large group in the middle for whom not a lot changes. If you invest time in the consultation and education phase, it makes the overall implementation much simpler.

When people get used to the idea of capital values, they find them easier to conceptualise and think about than unimproved land values. Once they get used to the idea of their valuation being determined by a computer, they start to be able to live with it. But it is that initial step that you need to get over, because there is an immediate feeling that “I’m going to be worse off; I’m going to be disadvantaged as a result of this”. You need to address that, otherwise it builds public opinion against such change.

DR FOSKEY: In your experience, is there more likely to be an increased number of appeals when the new value-added rating system is applied? Do you notice an increase?

Dr Parker: It is difficult to find detailed evidence. Conceptually, one would expect there to be few appeals or objections arising out of the valuation because capital values, generally speaking, are something the community can relate to more easily than unimproved land values. We go out and put a capital value of \$500,000 on your house and you say, “Yes, that’s pretty much what I think it would sell for.” It is something you can understand.

There is a sector of the community who would be suspicious of computer modelling-based valuation. Whether that leads them to object is another matter, but the computer-based valuation, generally speaking, is pretty objective, pretty carefully specified, a pretty effective way of doing large-scale valuation exercises.

DR FOSKEY: Would going to that sort of system mean a more even spread across Canberra, where currently there are areas where it just costs more to purchase a house?—and that is not because of the value of the house, that is purely based on location. There might be a similar house in Tuggeranong to one in Yarralumla. Might that then lead to more equalising of property values? That would seem a logical way for it to go, but I cannot imagine that that is where it would go.

Dr Parker: I think that, in very broad terms, if unimproved values have been correctly specified everywhere, the relativities between unimproved land values and capital values should be broadly similar, with some undercapitalisation and some overcapitalisation.

Mr Addicott: They would be the exceptional properties.

Dr Parker: Yes.

Mr Addicott: As David said, where there is overcapitalisations and undercapitalisations, you would get departures from the standard. But I would be inclined to say, as David was saying there, that there would possibly be a certain amount of similarity in the pattern between unimproved value and improved value across the territory.

I think what would be ideal—and I have actually discussed this with the territory government, my territory government—is to conduct a pilot study to compare unimproved values against capital improved values to see if there are substantial variations that can be identified early as part of that public education and consultation process.

DR FOSKEY: At the moment land tax is higher in inner urban Canberra than it is in outer urban Canberra. Is there any way that a valuation could affect that?

Mr Addicott: I do not know that I can answer that. I think land tax raises an issue that creates a slightly different scenario in that the Commonwealth Grants Commission compares the unimproved values for land tax purposes in all jurisdictions around Australia for the purpose of providing grants. So, to that extent, there would need to be a complete change nationally to achieve that consistency, for comparison purposes, which the Grants Commission uses. I think at this stage, where we are talking about a rating system, certainly the capital improved value is preferable at the present time to unimproved value.

I have just returned from the UK. I had the chance to look at their new valuations system, which they have just introduced, for the valuation of 22 million properties.

THE CHAIR: But they are frightened to increase the values. That is what I was told when I was there.

Mr Addicott: That is about right, yes, so close to an election.

THE CHAIR: They have not had one since 1995.

Mr Addicott: Certainly the degree of accuracy and validation of the data they are using there was fantastic.

THE CHAIR: Supplementary to that, Mr Addicott, I was actually just in the UK and I talked to some of the local governments about this very issue, and some members of the Commons. Is there any system internationally—and you might have already answered this—that you would say is probably the best practice that is in existence? Do you say the Australian model is best? If you could start from scratch, which system of valuation do you think is the most equitable, efficient and thorough one?

Mr Addicott: I have not seen every valuation system in the world, obviously.

THE CHAIR: Yet.

Mr Addicott: But certainly I have been very impressed with what I saw in the UK. The frequency of valuation there is very regular. It is something like 15 years or so since their last valuation. The one that always attracted me was British Columbia. They use a multiple regression type system similar to the UK. The valuations that are provided there for rating purposes are also accepted by the banks for mortgage security purposes.

THE CHAIR: Without discount?

Mr Addicott: Without discount, yes.

THE CHAIR: What is a multiple regression system?

Dr Parker: It is a statistical method of valuing where you take a whole stack of different variables and you regress, or compare, them and it produces an answer. If you have a large enough sample of properties with enough variables, you can get very, very close answers out of the model to what you would get if a valuer did the job. The Northern Ireland government has just basically put in a giant multiple regression model. So computer assisted mass appraisal is essentially a big multiple regression model.

The Northern Ireland government has just put one in. They are a jurisdiction of a similar size to the Northern Territory and the ACT. So in terms of global, cutting-edge best practice and process, it is currently Northern Ireland. In terms of world's best practice for an enormous jurisdiction, it is the UK. In terms of extremely efficient practice, Singapore, Hong Kong and the city of New York have got very highly developed computer assisted mass appraisal packages in place.

THE CHAIR: Given that, I assume the error rate is pretty low, pretty tight?

Dr Parker: Yes, extremely low, to the point where, as Graeme said, in British Columbia the system is so robust that banks will lend money for mortgages based on it.

THE CHAIR: That is a pretty good indication.

Dr Parker: It is, yes. There is an enormous amount of work being done around the world at the moment in rating systems and computer assisted mass appraisal. We do a lot of stuff with the University of Ulster, which is a leading body, and the University of South Australia is a leading body. A group of consultants, CLT—Cole Layer Trumble—out of the states tend to turn up in most of the major implementations. They are the people Graeme and I tend to deal with when we are dealing with this sort of bigger picture of policy and implementation issues for rating systems.

DR FOSKEY: You would not be recommending that the ACT go that way? You think that is too big a jump?

Dr Parker: I think it would be a very sensible thing for the ACT to look very closely at.

DR FOSKEY: And have you proposed that to relevant people in government?

Dr Parker: We included it in our submission to the inquiry.

DR FOSKEY: Very powerful.

Dr Parker: I understand that a copy of our submission was provided to the Treasurer's office. So, yes, we have not been as forward as to go direct to the Treasurer's office and recommend that he go and do it straightaway.

THE CHAIR: But the territory has not raised any issues on your submission to this committee? Were there any issues raised with the submission at this stage? Ms MacDonald, I do not think you have anything. Dr Foskey, the witnesses have kindly extended their time.

DR FOSKEY: It is very interesting. Thank you very much for appearing.

THE CHAIR: Thank you for your participation. Mr Addicott, you have come down from Darwin for this appearance. Thank you for that. Dr Parker, thank you for making yourself available and for staying the extra time. We do appreciate your contribution to this inquiry. We will now adjourn proceedings. Thank you.

The committee adjourned at 4.02 pm.