

Rating Valuations Rules Review

A submission to the Office of the Valuer-General

June 2024





**Submission of
Taituarā- Local Government Professionals Aotearoa
regarding the discussion document
*Rating Valuations Rules Review***

What is Taituarā?

Taituarā — Local Government Professionals Aotearoa thanks the Office of the Valuer-General (the Office) for the opportunity to submit regarding the discussion document *Rating Valuations Rules Review* (the proposals).

Taituarā — Local Government Professionals Aotearoa (formerly the NZ Society of Local Government Managers) is an incorporated society of approximately 1000 members drawn from local government Chief Executives, senior managers, and council staff with significant policy or operational responsibilities. We are an apolitical organisation. Our contribution lies in our wealth of knowledge of the local government sector and of the technical, practical, and managerial implications of legislation.

In the average year the local government sector raises approximately 60 percent of its revenue via property taxation. A functioning valuation system is fundamental to the successful operation of our system of local tax. Valuations must be both robust and publicly credible.

The premise underpinning the proposals is that it is increasingly difficult to meet the statistical tests that the Office uses to assess the robustness of general revaluations.

New Zealand historically was a world leader in mass appraisal valuations. The 2008 Vittorio review of the rating valuation standards concluded that at the time the standards were world's best practice, and that actual performance was generally exceeding those standards.

The deterioration in the number of revaluations failing to meet the required standards is both sudden and concerning. In the five years prior to 2019 around one in five revaluations failed the audit 'first time', the most recent data cited suggests two of three revaluations are not meeting standards.

An underpinning theme of the submission is that both the industry and the local government sector need to invest more in people, and the systems and processes to support quality valuations. The sector recognises that there is a need for such investment, and that this investment comes at a cost. But this must be tempered with a recognition from the industry that this is contingent on a demonstration *that a better outcome will result*.

Workforce supply is the fundamental issue.

Performing mass appraisal valuations is a specialised and technical skill and provided at a scale that requires senior level leadership. This is recognised by the professional staircasing that is required to meet the New Zealand Institute of Valuers (NZIV) requirements – in effect a form of professional 'apprenticeship'.

Our observation is that there is a shortage of capacity to undertake rating valuations and that this is diminishing with each passing year. That is to say that new valuation professionals are not being created at anything like the rate of loss. There are many factors that sit behind this – valuation is not the highest profile profession, pay, even the declining level of achievement in subjects such as mathematics.

It is implicit in the statutory purpose of the office that it should have some concern for the state of the industry and its ability to meet the standards set under that legislation.

This is not to let the industry 'off the hook' for its own development. The NZIV has statutory roles and functions including "to protect and promote the interests of the profession of valuing and the interests of the public in relation to valuations of land and related subjects".¹

Based on the materials available on the NZIV website it does not appear that much is being done to develop a pipeline of future valuers or even to assess what the overall need for valuers, and rating valuers in particular. For example, promoting valuation as a career or even the take-up of valuation related subjects such as property studies and statistics. Much of what is offered appears to be aimed at the transition to registered valuer.

¹ Section 10, Valuers Act 1948.

And finally, there is a case that the Office itself may need further resources – whether these are permanent or some temporary enhancement to capacity is a matter the Valuer-General is better placed to judge.

Recommendations

- 1. That the Office of the Valuer-General and the Institute of Valuers undertake an assessment of the future need for valuers able to undertake rating valuations and develop a strategy for meeting those needs.**
- 2. That the Office and the Institute engage with the local government sector, central government and other users of rating data in developing a strategy.**

The Valuer-General, the Institute of Valuers, and the sector should be working together to raise sector knowledge and awareness of the valuation process and how local authorities might work proactively with their provider.

The document asks whether the current statistical rules used for revaluations are the best measures for valuation quality. By and large it appears that the state Valuers-General in Australia are using similar tests and that the relevant parameters appear to be broadly similar across many of the indicators (especially for residential properties). Also, these measures have not changed since the 2009 edition. It does not seem likely that the standards are an issue in and of themselves. We note that it is possible, and not uncommon, for issues to be identified even when a revaluation passes audit.

We prepared this submission with the aid of a group of staff who are closely associated with rating valuations. They were drawn from metropolitan councils, a larger provincial centre and a regional council. One of these discussed his council's last revaluation (which went through audit 'first time') – noting that his council had proactively identified likely hotspots, worked with the valuer, did their own internal sense checking based on staff experience.

Here's the point – the smaller and medium sized local authorities do not have staff who can specialise on rating valuations. And turnover in councils means that this more specialised knowledge is a retention risk.

The sector and the valuation industry need to work together to develop guidance and resources for the primary users of valuation industry. This would include guidance around the 'levers' that local authorities have to influence valuation quality, and what a new council manager needs to know about rating valuations and

what to do when undergoing one, and implementing them. Taituarā would welcome a conversation with NZIV and the Valuer-General on how to progress this.

Recommendation

- 3. The Valuer-General, the Institute of Valuers, and Taituarā develop a resource or professional development around the role of local authorities in the revaluation process.**

Local knowledge is important, but residential requirements seem an overly simplistic way of achieving this.

Appendix A sets out a proposal that rating valuations be conducted by a registered valuer who is resident in the 'district' to which the valuations relate. We understand that this has been motivated by some evidence of fly-in, fly-out valuers in some areas i.e. that there may not always be a requisite level of local knowledge.

We realise that the current consultation is a targeted engagement prior to a wider process later in the year. We would encourage the Office to provide further details of how this lack of local knowledge manifests itself and evidence of the impact on rating valuations.

We are mindful that in the generation since contestability of rating valuations was introduced there have only ever been two providers in the market. One with a substantial majority of the market share (QV) and a smaller provider (currently Opteon). A requirement that a valuer live in the district is likely to favour a provider with an existing network of branch offices. If contestability is important then we should be wary that the rules do not place further barriers to entry.

There are some types of rating valuation that are highly specialised for example utility networks, high CV/LV properties such as hydroelectric dams, ports, dairy factories etc. For example, its far from uncommon for high value commercial properties in Taranaki and Hawkes Bay to be valued by someone based in Palmerston North and making the trip at valuation time. Again, care must be undertaken that rules do not inadvertently undermine contestability of service.

We are unclear how this requirement might sit with NZIV's code of professional ethics. We understand these to expressly preclude valuers from taking on valuation work that they do not have the skills or knowledge to perform. These should at least give valuers pause before taking on work minus the requisite local knowledge or at very least taking steps to ensure that they can access local knowledge.

In short, a great deal more detail on how any new rule would operate is necessary.

We observe that this is an area where guidance for local authorities to help them identify how they can help valuers obtain local knowledge and from where e.g. what's roll maintenance and notices of sale saying about market trends.

Capture of photographs is already happening to some extent.

The proposals mention the greater capture of photos during the roll maintenance process. We're not opposed to this in principle and indeed this is already happening to an extent. However we observe that there is an interface with privacy legislation and that care must be taken with what is and isn't made publicly available (e.g. are photos showing that a ratepayer has undertaken an improvement such as putting in a spa pool really a part of the public register).

Any greater requirements of this nature should be phased in to allow for capture as other processes allow. There should be no attempt to backdate the requirement.

We also note that some investment in the development of online tools linking to building information has the potential to resolve issues. Councils can also assist themselves by improving their internal building consent processes to pick up these matters. The analysis workbook is a much more effective tool and puts reality on how the working for objections was reached.

This is part of a general discussion of roll maintenance activity. We are not averse to a clarification of expectations around roll maintenance – better we know early when issues are easier to resolve than once a revaluation audit starts! The proposals would benefit from some clarity about the form or subject areas that guidance might take.

We need further explanation as to the nature and purpose of the proposed unrestricted real-time access and the proposed new register.

The last 'focus question' under Appendix B. Asks whether there should be a requirement for territorial authorities to provide the Valuer-General with unrestricted real-time access to the databases holding the DVR and registers. It is unclear to us what the actual concern is, how is the lack of access impeding the production of quality rating valuations? Are there particular types or fields of information the Office needs access to that might lead to some more limited access?

Greater public awareness of privacy and a mistrust of government are very relevant considerations in a proposal to grant any government agency unfettered access

especially about property related matters. These are very preliminary proposals - we urge the Office to consider what its information needs are and why before any wider engagement is undertaken. This is an area that the public will take an interest in.

Similarly we would need more information around the proposed new register and why it is needed.



Taituarā - Local Government Professionals Aotearoa
Level 9, 85 The Terrace, Wellington
PO Box 10373, Wellington 6143

T 04 978 1280

W taituara.org.nz

E info@taituara.org.nz