



**M E M O R A N D U M**

<b>TO</b>	All Rating and Taxing Contractors and all Valuation Services staff	<b>CC</b>	N/A
<b>FROM</b>	Geoffrey Thompson Acting Assistant Director Valuation Operations	<b>DATE</b>	21 April 2015
<b>SUBJECT</b>	ADM 2015-002 Valuation Analysis Tools Checks		

**Purpose**

Provide amended instruction to rating and taxing contractors and LPI Valuation Services staff as to the operational requirements of the Actual Factor Variation from Component Factor and the Automated Valuation Model (AVM) checks undertaken by LPI through Valnet Valuation Analysis Tools as part of LPI's annual value quality assurance checks.

**Background**

LPI undertakes quality assurance checks of rating and taxing contractors Market Data and Annual Value files through a suite of 'Valuation Analysis Tools' within Valnet 2i, prior to acceptance of annual values on to the Register of Land Values.

The checks undertaken are described in Section 6.2 of the Rating and Taxing Valuation Procedures Manual (RTVPM) (v 6.5.1 onwards).

Annual values acceptance audits undertaken in 2014 identified a number of instances where the Valuation Analysis Tools results for the 'Actual Factor Variation from Component Factor' checks differed from the results described by contractors in their Valuation Analysis Reports. This resulted in additional explanations being required from contractors in some instances, with corresponding delay of value acceptance.

The variances were found to be a result of differences in the RTVPM description of the check as measuring the % variance from the Component Factor, compared to the actual Valuation Analysis Tools operation that measures the factor variation. The correct application is the factor variation.

In addition, a review of other checks described in the RTVPM found that the AVM check was incorrectly described as measuring the average factor of sale properties rather than the median factor.

**Instructions**

For all existing rating and taxing contractors operating under RTVPM v6.5.1 or earlier, please note that the operation of LPI's AVM check and Actual Factor Variation from Component Factor checks as described in Section 6.2 should be amended as below.

For all new contracts and options commencing 1 March 2015, please note that the following corrections are contained within v6.6.2. of the RTVPM.

Amend Section 6.2 of the RTVPM v 6.5.1 as follows;

- Amend Automated Valuation (AVM) Model Checks

**Replace:**

The AVM check compares the **average** factor derived from sale properties within a Component to the Component Factor derived from the valuation of the Primary Benchmark. A result within 10% is expected. Any result outside 10% will require an explanation to be provided to confirm that the Component Factor represents the market movement within that Component.

**With:**

The AVM check compares the **median** factor derived from sale properties within a Component to the Component Factor derived from the valuation of the Primary Benchmark. A result within 10% is expected. Any result outside 10% will require an explanation to be provided to confirm that the Component Factor represents the market movement within that Component.

- Amend Actual Factor variation from Component Factor (Component Level & Property Level)

**Replace:**

Large volumes of objections and loss of stakeholder confidence in valuation accuracy may occur where value movements occur that are outside expected market movements. These are generally the result of a realignment, or correction of values. A check is undertaken that compares the variation of the average **valuation** movement in the component to the component factor. Where the **result is greater** than a **20%** variance an explanation is required to determine the reasons for that variance in the Component. A further check is undertaken to identify individual properties within a Component where the **land value** is greater than a **40%** variance from the Component Factor. An explanation is required to confirm the reasons for this value movement

**With:**

Large volumes of objections and loss of stakeholder confidence in valuation accuracy may occur where value movements occur that are outside expected market movements. These are generally the result of a realignment, or correction of values. A check is undertaken that compares the variation of the average **factor** movement in the component to the component factor. Where the **actual factor is greater** than a **0.20** variance from the Component Factor an explanation is required to determine the reasons for that variance in the Component. A further check is undertaken to identify individual properties within a Component where the **individual property factor** is greater than a **0.40** variance from the Component Factor. An explanation is required to confirm the reasons for this value movement.

**Implementation**

For immediate implementation.

**Additional Information**

For further information please contact Paul Chudleigh, Valuation Manager Rating & Taxing, email paul.chudleigh@lpi.nsw.gov.au or (02) 9236 7673.

A handwritten signature in black ink that reads "G. Thompson."

Geoff Thompson  
Assistant Director Valuation Operations  
21 April 2015