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Valuation Services

2019 Quality Assurance Program Plan

18 March 2019

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1.0 Introduction

Introduction:

The NSW valuation system is based on the provision of a range of valuation services provided by independent rating and taxing contract valuers under contracts held, managed and quality assured by Valuation Services (VS), a division of Property New South Wales (PNSW).

VS has developed the 2019 Quality Assurance (QA) Program Plan to meet the Valuer General's (VG) statutory requirements to monitor the standard of the valuation services provided by contract valuers and to make assessments of their compliance with procedural and statutory requirements. This requirement is delegated to VS as per the requirements of the Service Level Agreement (SLA) between VS and the VG.

Objectives:

The QA program plan is based on the following six key objectives;

- 1 Ensuring that land values are accurate, consistent and evidence based
- 2 The Register of Land Values is current, accurate and complete
- 3 Ensuring that applicable legislation and policies are complied with
- 4 Ensuring that QA processes are risk based and demonstrated to be efficient and effective
- 5 Ensuring that documentation supporting land values is accurate, complete and fit for publication
- 6 Developing ongoing initiatives to improve the quality of valuations

The 2019 QA program plan has been developed with regard to evaluation and recommendations of the 2018 QA Plan and Annual Report.



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2.0 QA Program Plan

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2.1 QA Program Plan principles

Principles:

This plan provides an outline of VS' proposed quality assurance (QA) activities and supporting contract compliance and contract performance activities for the 1 July 2019 valuation year,

QA activities are those activities that ensure the quality of current year valuations and services provided by rating and taxing contractors, and whose findings may influence outcomes before those services are finalised and issued. QA activities are primarily focussed on the review of contractors processes and methodologies having regard to the contractual requirements for delivery of services.

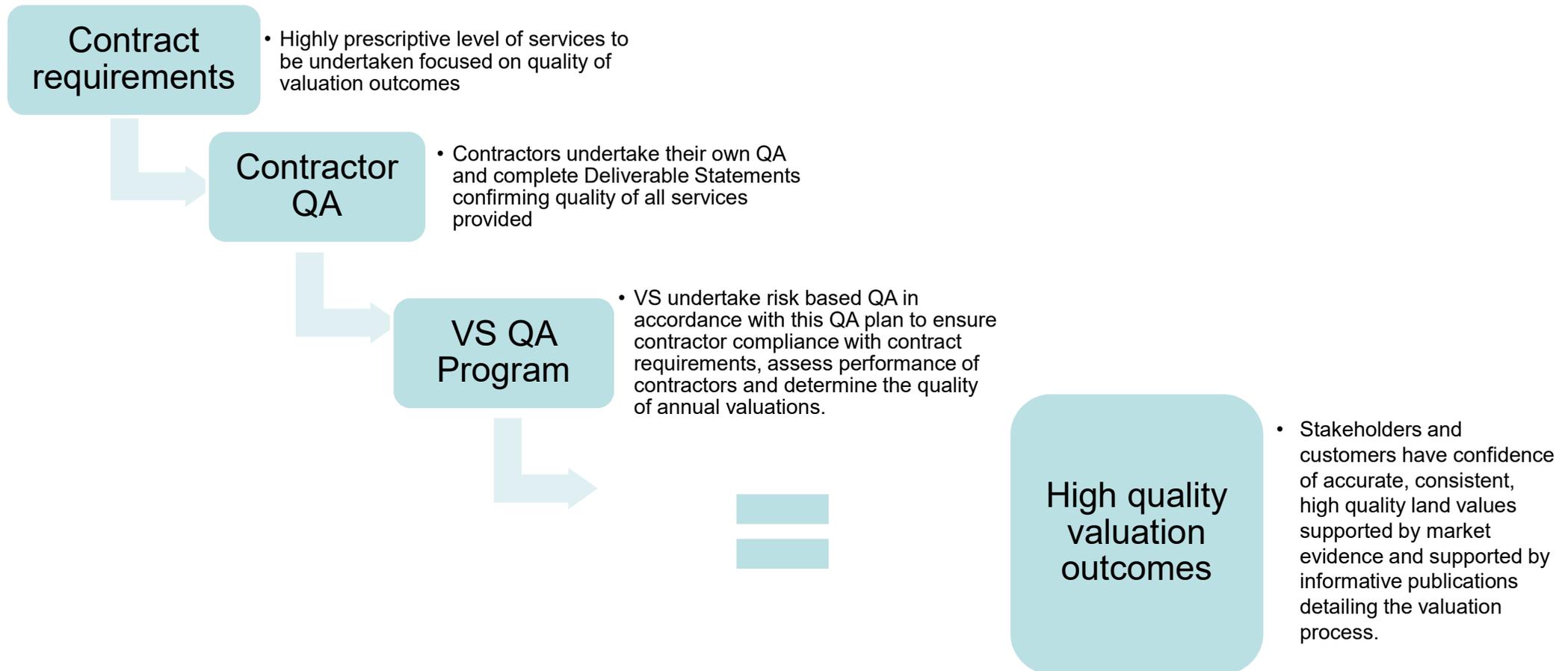
Contract compliance and performance activities are by definition not QA. Compliance activities review contractor's processes/methodologies in relation to the provision of existing valuations where issues arise throughout the valuation year. These issues typically include outcomes from objections, customer/stakeholder queries or arising media concerns. Performance activities include monitoring the contractors progress through the valuation year, identifying emerging risks and valuation themes for QA to be undertaken and resolving issues arising from QA or compliance activities.

This plan focusses on the quality of services performed by rating and taxing contractors. It does not include the review of services provided by objection contractors. However the review of objections may lead to issues being identified as a result of a rating and taxing contractors performance.

Principles of the plan include:

- The land values, market data and all other deliverables provided by contractors will be of a high quality due to;
 - The rating and taxing contract providing a highly prescriptive level of services to be provided,
 - Contractors are required to undertake their own QA of deliverables and confirm this has been completed through provision of deliverable statements
- VS undertakes QA of contractors services in accordance with this Program Plan.
- QA is to be performed on a state-wide top down risk based approach.
- Risk to be identified through data analytics.
- An assessment of the quality of values and the standard of services provided by rating and taxing contractors is to be determined within each contract area. The intent is to identify the highest risk areas in each contract area for review. A minimum of one methodology review to cover market analysis and values process is to be completed in each contact area .
- Development of local market knowledge to understand contractors methodologies, emerging valuation trends and valuation recommendations proposed by contractors.
- QA is based on reviewing the contractors methodologies and processes to deliver services in accordance with the rating and taxing valuation contract and statutory requirements.

2.1 QA Program Plan principles



2.2 QA Program Plan activities

1. Contractor liaison and Monitor deliverables

Provide technical direction and advice to contractors. Review the delivery of contractors services throughout the year against their project plans to identify risks, themes and ensure timely completion. These include:

- Contractors Progress Reports
- Monthly Meetings with contractors
- Monitoring and reporting on known valuation risk areas (Williamstown, Coal Mines, Quarries etc)

2. Quality assurance of contractors valuations.

Determine the quality of valuations and compliance with contractual requirements to ensure values are accurate and consistent; This includes reviews of;

- Monthly Market Data, Detailed Sales Analysis
- Added value of improvement tables and paired sales
- Valnet, Valmap thematic reviews
- Provisional & Annual Values
- Annual market data,
- QA exception reporting files
- Benchmark consistency
- Component reports
- Worksheets

3. Quality of publications

Review the quality of deliverables to ensure these are fit for publication.

Publications include;

- Contractor Final reports,
- LGA market summaries,
- Added Value of Improvement tables
- Component reports prior to publication to ensure they are fit for purpose

4. Complex Land Value Improvement Projects

Complete comprehensive reviews of selected complex land value groups to identify issues and risks, valuation best practice, policy and improvement of valuation quality.

5. Quality improvement initiatives

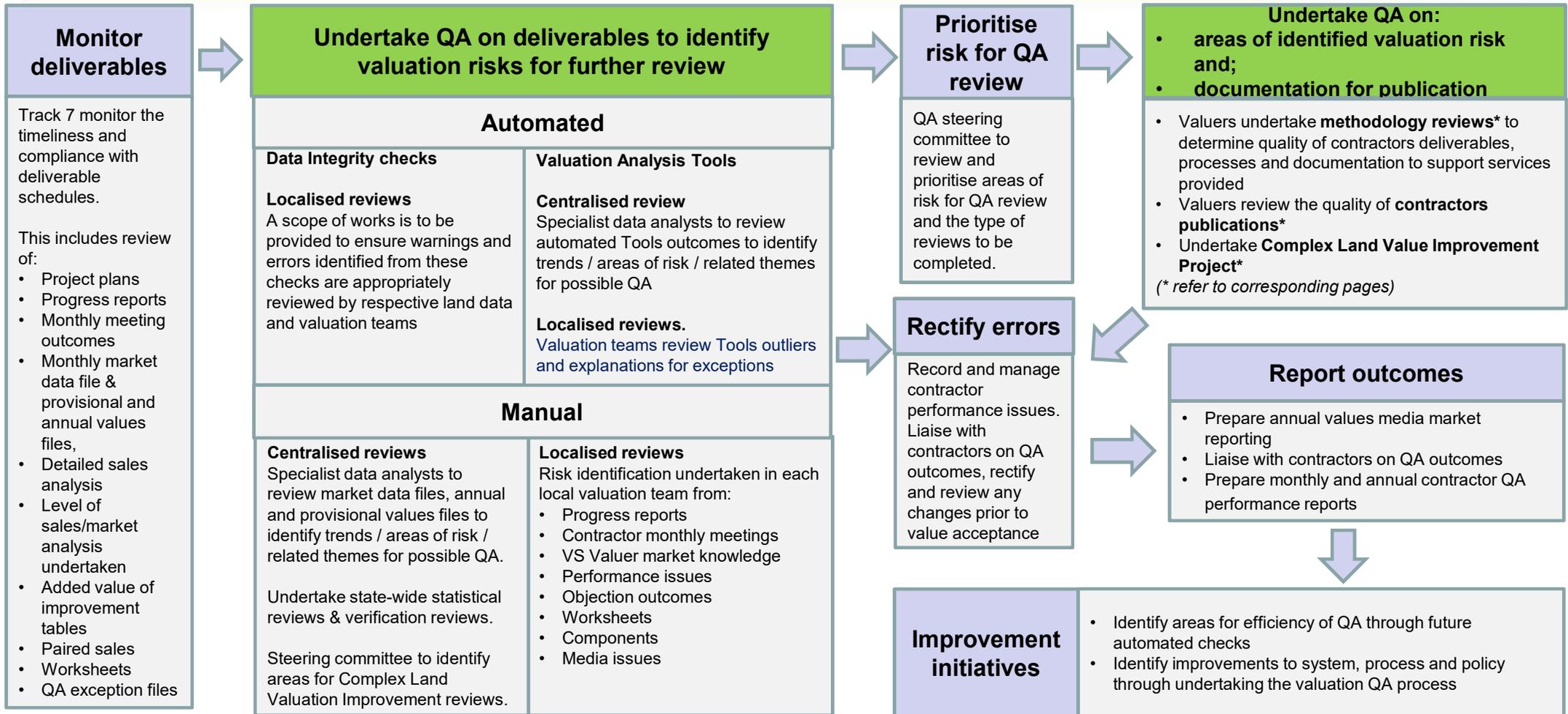
Ongoing development of systems and processes to improve data, valuation accuracy, consistency, transparency and improved information to customers. This includes provision of 'best practice' advice.

6. Annual reporting

Prepare reporting for;

- Regional and state valuation movements and market summaries
- QA outcomes and effectiveness

2.3 QA Program Plan process



2.5 QA Program Plan reporting

Media Reporting

Following the review of contractors Final reports and LGA market summaries, VS will prepare both regional and a state-wide annual valuation market report for publication.

The regional areas are aligned to VS' 18 contract areas to ensure consistency in information provided by contractors

QA reporting

Monthly

- Monthly reporting on contractors performance from QA activities for scorecard and contractor monthly meetings
- Monthly reporting on QA progress to OVG (delivery plan)
- Monthly reporting to Steering Committee.

Annual

VS will prepare separate reports on each contractors performance within each contract area. These reports will include;

- Details of all QA activities and reviews completed
- Commentary on the quality of the annual values in the contract area
- An assessment of the contractors performance
- The reports will link to issues raised in the Audit and Issues Register and the contractors scorecard result.

The VS Quality Management (QM) team will report on the evaluation and effectiveness of the QA activities undertaken against the objectives of the QA Program Plan and overall assessment of the quality of the statewide valuation recommendations.



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3.0 Methodology reviews

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3.0 Methodology reviews

A methodology review will be undertaken for prioritised issues and risks to determine the quality of the values and the compliance with contractual requirements.

The reviews may identify valuation themes or trends which may raise broader issues, such as contractor performance issues to be remedied. This will provide VS and stakeholders with confidence in the quality of the valuation process.

The intent is to gain confidence that the services have been provided as required or to identify where and why this hasn't occurred and recommend remedial action where required.

A methodology review will involve reviewing contractors supporting documentation to check the appropriateness of the methodology approach and rationale followed. A number of critical questions must be considered.

- Does the contractor maintain appropriate documentation?
- Has the contractor followed the most correct valuation methodology approach?
- Is the rationale for the final valuation based on sufficient analysis?

3.0 Methodology reviews

Methodology reviews are to be completed in each contract area to ensure a consistent approach to monitoring contractor performance.

Reviews are to be based on areas of valuation risk to be determined through a data analytics approach. This includes both centralised data analytics and localised reviews. These reviews may be across multiple/different LGA's in each contract area dependent on the area of risk identified.

Each review will require a scope to be developed and approved which identifies what documentation will be reviewed, how and why and what the expected outcomes will be. A review of one area of documentation may lead to the identification of a process flaw in another area that will need to be investigated (critical thinking).

The scope of these reviews may include but is not limited to the following:

- The adequacy of contractors documentation to support their market analysis and valuation methodology adopted
- The level of paired sales analysis or other analysis undertaken to determine an evidence based added value of improvement methodology
- The use of added value methodology to correctly and consistently determine analysed land values
- The level and appropriateness of market analysis undertaken to support land values
- The make-up and selection of appropriate properties within any Component/s or sub market group/s
- The adequacy of the valuation methodology and rationale adopted to determine land values
- An assessment of whether the contractor has correctly applied the valuation methodology including assessment of the consistency and accuracy of land values, highest and best use principles, application of planning requirements and application of Valuation of Land Act or other statutory requirements
- Review of consistency and accuracy may be considered within and across components/LGA's contract areas
- The adequacy of quality assurance services and statistical analysis undertaken by the contractor to ensure that all values are supported by market evidence and are consistently and accurately determined.



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4.0 Complex Land Valuation Improvement Project

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4.0 Complex Land Value Improvement Project

Medium density development sites

The Valuer General has an ongoing program to ensure the integrity of valuations made for complex land values.

This review forms part of the Complex Land Value Improvement program as agreed with the Office of the Valuer General (OVG) and the Land Value Improvement Group. The complex land value review project aims to investigate the valuation of complex land types to ensure accuracy and consistency of all valuation across New South Wales.

It will report on the current valuation practices being adopted to value medium density development sites by rating and taxing contractors under the *Valuation of Land Act 1916*.

The purpose of this project is to review procedures, policies and methodologies (including those employed by industry) to determine best practice, and to ensure consistency and compliance of valuations with policy and contractual requirements. These reviews ensure a consistent valuation approach for complex land types.

The scope of this project includes:

- Review of existing policy guidelines
- Contractors procedural process and documentation
- Identify best practice from other Valuation jurisdictions
- Engagement with industry & stakeholders representing affected property types
- Identification of gaps in policy, guidelines or contractor process
- Identification of procedural/policy improvements
- Testing valuation outcomes
- Provide policy advice to improve overall valuation quality.
- Reviewing the current valuation methodology to identify and report on the best practice methodology to determine medium density residential valuations
- Providing a clear and comprehensive report on how to best value medium density residential properties



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5.0 Quality of publications

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5.0 Quality of publications

VS will review a range of publications to ensure these are of suitable quality and meet contract requirements for publication. These include;

- Contractor's Final Reports
- Contractor's Added Value of Improvement Tables
- Contractor's LGA market commentary
- Worksheets (sample only)

VS will provide regional and state media release commentary developed from the LGA commentary to inform the Valuer General's state-wide media reporting requirements.



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6.0 Quality improvement initiatives

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6.0 Current quality improvement initiatives

The following projects are proposed or in development for the current program to improve QA evaluation and risk identification processes. The initiatives are scheduled to be implemented within Valnet by June 2019 prior to delivery of the 2019 annual values.

- Development of added value of improvements reporting
- Development of data integrity checks for the new file specifications
- Added value of improvements for ancillary improvements
- Worksheet file download – reporting
- Added value of improvements in Tools
- Provision of mid year market movement analysis to Treasury to assist in revenue modelling forecasts
- Review of reporting requirements for Component Reports will be undertaken to deliver a fit for publication report on valuation methodology

Future initiatives will be identified where required as a result of QA outcomes.



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7.0 QA evaluation plan

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7.0 QA evaluation plan

The effectiveness of all QA activities are to be assessed on the basis of the number of individual properties directly supported by the QA activity. The effectiveness measure is to be included in reporting on each QA activity.

Where the activity is directed solely at a group of properties the effectiveness can be measured as all properties in that group.

For example;

- A methodology review of a single component to address a specific risk relevant only to that component is effective in reviewing the quality of all values in that component.
- A review of properties as part of the Complex Land Value Improvement Project is effective in reviewing the quality of all properties within that property group.
- A methodology review into valuation processes across an LGA is effective in reviewing the quality of all valuations in the LGA
- A review of a contractor's final report for an LGA is effective in providing information to all property owners in the LGA



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8.0 QA effectiveness measures

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Where the activity is directed solely at a group of properties the effectiveness can be measured as all properties in that group.

For example;

- A methodology review of a single component to address a specific risk relevant only to that component is effective in reviewing the quality of all values in that component.
- A review of properties as part of the Complex Land Value Improvement Project is effective in reviewing the quality of all properties within that property group.
- A methodology review into valuation processes across an LGA is effective in reviewing the quality of all valuations in the LGA
- A review of a contractor's final report for an LGA is effective in providing information to all property owners in the LGA



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9.0 QA budget

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9.0 QA budget

QA cost assumptions

The 2019 QA Program Plan budget is based on the 2018 QA plans costs.

The costs for the 2018 QA program were for the period 1 April to 31 December 2018. The actual costs for each group were determined from monthly accounting records from each Valuation Services cost centre. The total cost for the 9 month QA program was \$6,189,000 of which \$1,673,000 was attributed to the Objection and Appeals Group for which figures were provided for 12 months.

The total budgeted cost of the QA Program Plan for 2019 (12 months) is estimated to be \$6,100,000.

This budget includes:

- Rating and taxing quality assurance activities = \$3m
- Compliance, contractor performance = \$3.1m
- The budget excludes the Objections and Appeals Group QA budget.