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LOCAL GOVERNMENT NEW ZEALAND TECHNICAL ASSISTANCE FACILITY

PORT VILA MUNICIPAL COUNCIL

PROPERTY TAX INFLATION ADJUSTMENT

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This report has been prepared by Peter Wimsett, Manager of Strategy and District Development at Tararua District Council, after a visit to Port Vila in February 2018.

This report is the opinion of Peter Wimsett. It should be used in conjunction with other reports and information and does not necessarily reflect the views of Local Government New Zealand, Tararua District Council or the Ministry of Foreign Affairs and Trade.

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Property Tax Inflation Adjustment

Introduction

Councils generally, are impacted by the reducing purchasing power caused by inflation. This is where the cost of goods and services purchased to deliver the same level of service rise over time.

The impact of inflation can be significant. For example, if compounded inflation for 10 years was 25%, then services may have to *reduce by a quarter* unless additional funding is found or efficiencies are made. In these conditions, you might expect some council services to continue while others reduce or fail/cease. Reputational damage would increase, while avenues to effect efficiency gains would become exhausted, or no longer able to be considered or explored due to limited capacity and reducing resources.

In New Zealand, councils adjust their property taxes annually for inflation by changing the rate of property tax. Doing so annually smooths the impact on property owners or occupiers/tenants, making it easier for them to plan for and to understand why this is necessary against the current market.

Port Vila Municipal Council

Port Vila Municipal Council does not adjust its property tax for inflation. It could do so simply by increasing the percentage rate of the property tax. For example, a 1% increase in the tax would result in the current 5.5% moving to 5.555% or a 3% increase to 5.665%. Such a change would need annual Ministerial approval.

This approach to increasing the rate could allow for changes to services, greatly enhancing the ability of councils in Vanuatu to respond to the needs of their communities and stakeholders.

The private sector reassesses local and global inflation on an ongoing basis as it seeks to price its goods and services. The markets are generally good at forecasting inflation into their calculations. Many economies have targeted low level inflation to create certainty in the markets. Budgeting for inflation is achievable by obtaining forecast estimates for inflation.

Local government requirements for goods and services tend to have a different emphasis than general consumers. Councils are usually big consumers of energy for obtaining raw materials and for building and construction. This results in a higher exposure to commodity markets and changing exchange rates. Consequently, inflation is often higher than consumer price increases. This means that councils may find that their industry inflation is higher than general consumer inflation. Other costs that increase

Suggested steps to calculate the annual increase (or decrease) in costs.

1 Assess the future cost of services broken into labour, materials and energy etc.

2 Work out the number of properties or their values for a basis of charging

3 Determine a rate by dividing the forecast cost by the total quantity or total value, or a mixture of both

4 Multiply the rate by each individual property value, or a flat amount to determine the debt to be paid

5 Present budget and funding request for rate to Minister of Internal Affairs for review, enquiry and approval. Once approved, the new property tax would be gazetted annually to provide formal notice of the change.

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differently are the labour market and building material costs, where imports may be affected by the country's exchange rate.

Separating property valuation from revenue generation

A result of this suggested change is to separate property valuation from the need to generate revenue. Property valuation becomes a means of allocating the cost of services across the community. As a method of allocation, property tax helps ensure affordability by targeting value or wealth.

The need for rate increases contrasts with both "who pays" and "how" they are targeted.

Property valuations are a method for ensuring there is a consistent, equitable method for spreading the cost of services across a community. A council may also increase equity and fairness of charging to users of its services by charging fixed fees or charges.

A further objective is to widen the revenue base so that taxes or charges include all who benefit or may benefit from services, as a public good. For example, new building developments widen the revenue base when a building is valued and included in the property database. In those instances, the extra revenue generated is sometimes less than the increasing cost of their demand for more council services. The valuation process, while important, is less important than having a method of generating sufficient funds to pay for council services.

When the next property revaluation is completed, many years of market place property value increases will finally be recognised in the council property tax database. The consequence is that the percentage rate of property tax will likely need to reduce significantly. This change in the property tax rate will be essential to manage public reaction to published property increases from the property revaluation. A reduction in the percentage rate of property tax will ensure that only the right amount of revenue to run council is collected.

These changes will set Port Vila Municipal Council on a path to more sustainable revenue funding from property taxes.