Rating Principles and Discussion Points

The Local Government Act 1989 (the Act) allows a council to raise rates to enable it to perform its functions but it must ensure there is an equitable imposition of rates and a reasonable degree of stability in the level of the rates burden.

When developing a Rating Strategy it is important to consider several rating principles:

- Wealth Tax: Rates are based on a property's value and there is no correlation between the value of a property and the consumption of services
- Equity: Horizontal equity – ratepayers in similar situations should pay similar amounts. Vertical equity – those who are better off should pay more than those worse off
- Efficiency: The extent to which the level of rates impacts on production and consumption decisions
- Simplicity: How easily a rates system can be understood by ratepayers and the practicality and ease of administration
- Benefit: The extent to which there is a link between consumption/benefit and the rate burden
- Capacity to pay: The capacity of ratepayers or groups of ratepayers to pay rates
- Diversity: The capacity of classes of ratepayers to pay rates.

Discussion Points

The principles are to a degree in conflict for example if the Wealth Tax principle is applied purely then the Benefit principle cannot apply at all. Similar conflicts are possible between some of the other principles. (Diversity for example conflicts with Simplicity, if the rates take account of the wide range of ability to pay within a class of ratepayers then the rates system will be more complex than if it did not.)

To help the committee understand how to apply the principles rank the principles above in order of most important to least important to you.

Differential Rates

A differential can be used to provide a discount for some classes of ratepayers (e.g. farms) with this discount being made up for by other ratepayers paying more. Alternatively, a differential can be used to increase rates for some classes of payers (e.g. vacant land) with this being offset by other ratepayers paying less.

If a differential rate is to be applied to provide a discount to farmers what principle is best used to justify that discount?

If a differential rate is to be applied to provide a discount to farmers what is the best way to determine the size of the differential?

If a differential rate is applied to a class of ratepayers to support a particular economic objective, should there be some criteria to determine when that goal has been reached and therefore when the differential should be removed?

Definition of a farm enterprise- Should we make a distinction between commercial farm enterprises and hobby farms?

Other questions to consider

Wealth Tax: Should rates be solely based on the value of a ratepayer's property and that there be no separate rates for farms, business or residential properties?

Equity: Should ratepayers with similar valued properties pay similar rates? Should ratepayers with higher valued properties pay higher rates than those with lower valued properties?

Efficiency: Should farming properties and business properties receive a rate discount to stimulate economic activity in the municipality?

Simplicity: Should the rating system used by the Council be easy to understand and simple to apply?

Benefit: Should rates be set at a level that recognises the amount of services used by ratepayers?

Capacity to pay: Should businesses receive a rate discount because their business is affected by a variety of uncertainties e.g. weather, commodity prices? Should businesses pay higher rates because they operate for profit and can claim a tax deduction for inputs such as rates?

Diversity: Should we make a distinction between farms owned by local families and those owned by multinationals such as pension funds, overseas buyers?