

Introduction

Since the Local Government Act 2002 was introduced, local authorities have adopted a variety of rates postponement policies. The Act allows local authorities to determine their own rates postponement policies - unlike previous legislation, which specified the grounds on which postponement could be offered. Under rates postponement policies, councils allow ratepayers to defer paying their annual rates until a future date.

This report examines two kinds of rates postponement policies - optional rates postponement and postponement on the grounds of hardship. Both these policies apply only to residential ratepayers. Postponement on the grounds of hardship was allowed under previous legislation. However, optional rates postponement is a new development, enabled by the 2002 legislation. A group of councils and a private management company have formed a consortium to offer optional rates postponement. The consortium currently has 14 member councils. All councils offering optional rates postponement are part of the rates postponement consortium.

The concept of rates postponement is straightforward, but designing and implementing a rates postponement policy requires councils to consider complex legal, ethical, and financial issues. Councils need to take into account the interests of ratepayers who may wish to postpone their rates and the interests of other residents. While we have provided our view on a range of issues affecting residential rates postponement, it should be noted that this is general advice, and councils may wish to seek their own advice for specific situations. Why we did the audit At the moment, the total number of ratepayers postponing their rates under either policy is very small. However, optional rates postponement is being promoted to councils around the country, and the number of ratepayers postponing their rates is expected to increase. For this reason, we considered an audit on rates postponement was timely.

Our findings

Councils' rates postponement policies are generally well designed and councils are administering them in the interests of ratepayers. Optional rates postponement allows ratepayers who are asset rich but income poor to use the equity in their properties to guarantee the future payment of rates. These ratepayers can then use the income they would have spent on rates for other purposes.

Summary

Hardship policies are designed to relieve extreme financial hardship. However, we note that eligibility criteria for these policies are generally fairly strict, and only a very small number of ratepayers take them up. The decision-making and consultation process followed by councils that have adopted optional rates postponement policies adequately complied with the provisions in the Local Government Act. The consortium as a whole has done a good job of assessing and managing the risks associated with offering optional rates postponement. Overall, the structure and management of the rates postponement consortium seems reasonable. However, there are some areas that will need to be refined as the number of councils and ratepayers participating in optional rates postponement grows. We have identified some areas where councils could improve their rates postponement policies and procedures. For example, it would be good practice for councils offering rates postponement on the grounds of hardship to advise applicants to seek independent advice before they sign up for rates postponement. Further specific recommendations are included in the body of the report.