



17 June 2014

INTEREST RATE – SPECIAL RATES & CHARGES

ITEM 6

Peter Gillieron

Council Plan Reference: 5.2

Purpose of Report: To consider an adjustment to the interest rate for Special Rate & Charge Schemes

Background

Council, having considered a report on 20 December 2005, used the cash rate set by the Reserve Bank to which it had added a premium of 1.5 % to cover Council's administrative costs on Special rates and charges schemes. At that time, the Reserve Bank's cash rate was in close proximity to the Council's interest rate that it received on its cash investments, and reasonably close to the interest rate for Council's long-term borrowings.

Council had, up to 2005, always charged interest on Special Rate and Charge Schemes in accordance with section 2 of the Penalty Interest Act 1983. The current interest rate is 11.5% and is effective from 3 February 2014. The interest rate is reviewed annually by the Attorney-General. The interest rate is specifically directed at unpaid rates and charges.

Council's practice in recent years has not been to borrow funds for special charge schemes but to fund the schemes from its own reserves. This practice is not expected to change in the short to medium term. Since the global financial crisis, a differential has arisen between the rates for investment and long term borrowing.

Council should reconsider using the Reserve Bank's cash rate and replace it with Council's borrowing rate. Council's interest rate on its borrowings (currently 6%) is higher than the Reserve Bank's cash rate (currently 2.75%)

Officer Direct or Indirect Interest

No Council officers involved in the preparation of this report have a direct or indirect interest in matters for consideration.

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Conclusion

The recommendation, if adopted, will better reflect Council's position as a provider of funds for Special Charge Schemes where there is an "opportunity cost" for the funds it is providing for this purpose.

Recommendation

That the interest rate to apply to Special Rates & Charges from 1 July 2014 be the Council's investment rate (currently 6%) plus an administrative charge of a further 1.5%.