

Report No:	RCN11-06-01
File No:	F102
Date:	1 June 2011
<b>Decision Required</b>	

## REPORT SUMMARY

**Report to:** Tasman District Council  
**Meeting Date:** 9 June 2011  
**Subject:** Budgeted Interest Rate on Council Debt  
**Report Author:** Murray Staite, Corporate Services Manager

### EXECUTIVE SUMMARY

Council's current interest rate on external debt is 5.64%. Over the last year staff have undertaken some \$24 million of swaps meaning that 62% of Council's current debt of \$130 million is protected from short term interest rate rises.

While increased interest rates are expected over the term of the next financial year, staff are of the view that an interest rate of 6.6% is appropriate, for inclusion in the final Annual Plan 2011/2012, while still providing Council with a conservative buffer.

### RECOMMENDATION

That the interest rate in the final Annual Plan 2011/2012 be 6.6%

### DRAFT RESOLUTION

**THAT the Tasman District Council receives the Budgeted Interest Rate on Council Debt (RCN11-06-01) and sets the interest rate in the final Annual Plan 2011/2012 at 6.6%.**

Report No:	RCN11-06-01
File No:	F102
Report Date:	1 June 2011
<b>Decision Required</b>	

**Report to:** Tasman District Council  
**Meeting Date:** 9 June 2011  
**Subject:** Budgeted Interest Rate on Council Debt  
**Report Author:** Murray Staite, Corporate Services Manager

## **1. Purpose**

- 1.1 To consider the appropriate interest rate on debt to be included in Council's final Annual Plan 2011/2012.

## **2. Background**

- 2.1 Council's 2009-2019 Ten Year Plan included an interest rate on Council debt of 7.1%. This interest rate has been progressively reduced over several years to the 6.8% that was included in the Draft Annual Plan 2011/2012.

## **3. Matters to be Considered**

- 3.1 Council's current interest rate on external debt is 5.64%. Over the last year staff have undertaken some \$24 million of swaps meaning that 62% of Council's current debt of \$130 million is protected from short term interest rate rises.
- 3.2 It is this protection from short term interest rate rises that allows Council, if it wishes, to reduce its interest rate down from what was included in the Draft Annual Plan.
- 3.3 Risks to Council's underlying interest rates are the expected interest rate rises over the next financial year, along with the negotiation of a new banking facility. Despite both these potential increases, staff are of the view that a 6.6% interest rate for the 2011/2012 year is appropriate and will still provide Council with an appropriate buffer should increases be higher than expected.
- 3.4 As a note of caution, while the recommendation is to reduce the interest rate for the 2011/2012 financial year, depending on debt costs, the planned interest rate for the 2012/2013 year is likely to be increased above 6.6%.

#### **4. Options**

##### **4.1 Option 1**

Accept the staff recommendation and reduce the interest rate in the final Annual Plan 2011/2012 to 6.6%

##### **4.2 Option 2**

Reject the staff recommendation and leave the interest rate at 6.8%. If this option is preferred and a surplus is generated it would be available to be allocated the following financial year.

#### **5. Significance**

- 5.1 The change in interest rate is not considered significant in terms of Council's Significance Policy.

#### **6. Recommendation**

- 6.1 That the interest rate in the final Annual Plan 2011/2012 be 6.6%

#### **7. Draft Resolution**

**THAT the Tasman District Council receives the report Budgeted Interest Rate on Council Debt (RCN11-06-01) and the interest rate in the final Annual Plan 2011/2012 be 6.6%.**