

STAFF REPORT

TO: Mayor and Councillors
FROM: Corporate Services Manager
DATE: 1 June 2010
SUBJECT: Discount on early payment of rates – RCN10-06-07

Purpose of report

To consider revising the prompt payment discount on rate payments for inclusion in the final 2010/2011 annual plan.

Background

After receiving a staff report in February 2010 Council agreed to reduce the early payment discount on rates from 4% to 3%. The staff report indicated that a discount rate of more than 1.8% resulted in ratepayers of the district who pay their rates in several instalments paying higher rates to provide a discount to those that pay their annual rates in one instalment.

In accepting the staff recommendation councillors were aware that a discount of 3% still exceeded the net benefit to council by 1.2%.

Discussion

Since the February meeting the New Zealand Government in May 2010 increased the GST rate from 12.5% to 15% effective from October 2010. For those ratepayers who pay their rates in one instalment the GST applicable will be 12.5% and for those that pay in instalments, excepting instalment 1 which will be at 12.5%, the balance will be at 15%.

This is a cost issue to Council as it is likely that more ratepayers than usual will seek to avoid the increased GST by paying their rates in one instalment. By paying in one instalment the ratepayer not only receives a discount of lower GST but receives an additional 3% from the Council. With the 3% discount not being cost-neutral to Council the cost could be significant if large numbers of ratepayers took up the option.

Options

Option1

Leave the discount at 3% but increase the general rates requirement to pay the additional discount that is likely to be paid out.

Option 2

Reduce the discount to the neutral point of 2% meaning that no matter how many rates are received early and receive a discount council will receive an equal benefit.

The reduction in the discount to 2% will also reduce general rates by \$54,000

Significance

This report is not considered significant in accordance with council's significance policy

Recommendation

That the prompt payment discount of 2% for rates received in advance be included in the final 2010/2011 annual plan.

Murray Staite
Corporate Services Manager