

Call for clarity on council debt

By DENISE PIPER

Debt at the Whangarei District Council is much higher than it is letting on according to its former rates manager.

Bill Harris says the council needs to be more transparent by including internal debt in its overall debt position.

The council internally borrows funds, mostly from the Property Reinvestment Reserve - a fund paid by asset sales which will be used to buy more assets in future.

The money helps lower the council's external debt but has to be paid back with interest.

Mr Harris says internal debt should be clearly stated as part of the council's overall debt in its Long Term Plan,

including showing how it will be paid back.

"Whether the money is borrowed externally or internally, it has to be repaid. It is true debt and therefore should be shown as such," he says.

"The actual amount of debt predicted is \$161 million external plus \$32m internal, being a total of \$193m."

The council says under Audit NZ rules, it can not include internal debt on its financial statements.

But the Office of the Auditor-General says this is a blunt interpretation on internal debt disclosure.

Sarah Lineham, local government sector manager from the Office of the Auditor-General, says in an email to Mr

► BORROWING FROM YOURSELF

What is internal borrowing or internal debt? For a household, internal borrowing would be like using money from a savings account to reduce the mortgage.

Say for instance you have a \$100,000 mortgage and \$10,000 set aside for a trip to Europe.

The trip to Europe is in five years' time, so in the meantime you use that savings to reduce the mortgage to \$90,000 - so less interest needs to be paid on the mortgage.

But when it is time for the trip, the \$10,000 needs to be put back into the savings account with interest - otherwise there will be no trip.

Harris that the council's current disclosures could be improved.

While external and internal debt need to be clearly differentiated, it is encouraged to show both as clearly as possible, she says.

"There is grounds to make clear disclosures

outside of the financial statements in respect to the amount of debt (both internal and external) that is being forecast."

Council support services manager Alan Adcock says the council has included internal borrowing in the Long Term Plan as part of its

Financial Strategy section.

This shows the Property Reinvestment Reserve, opening with a balance of \$31.9m this year available for internal borrowing. It also shows the dividend or interest the council will pay and when the fund will be paid back and used to buy property.

But to confuse matters, the reserve is not \$31.9m because property sales have not gone through as expected. Currently the council is borrowing \$10m from the fund plus \$8m from the Community Development Fund - another fund which is not included in the Long Term Plan.

Mr Adcock says this could have been added to

the plan but there are "a million things" that could have gone in.

The council's monthly financial statements clearly outlines internal and external debt, he says. This is available in the Finance and Support Committee agenda.

Meanwhile, local government finance and policy analyst Larry Mitchell will talk at a public meeting about the council's financial situation.

He ranked Whangarei District Council 62nd out of 67 territorial authorities because of its low financial assets.

He will talk at the Old Library Community Arts Centre from 7pm on September 5, in a meeting hosted by 2010 mayoral candidate Warren Slater.