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RATEPAYER BRIEFING

To: The future ratepayers of Auckland
From: Moritz Miersch, Analyst, Auckland Ratepayers' Alliance
Date: 29 September 2015
Re: **Auckland Council debt**

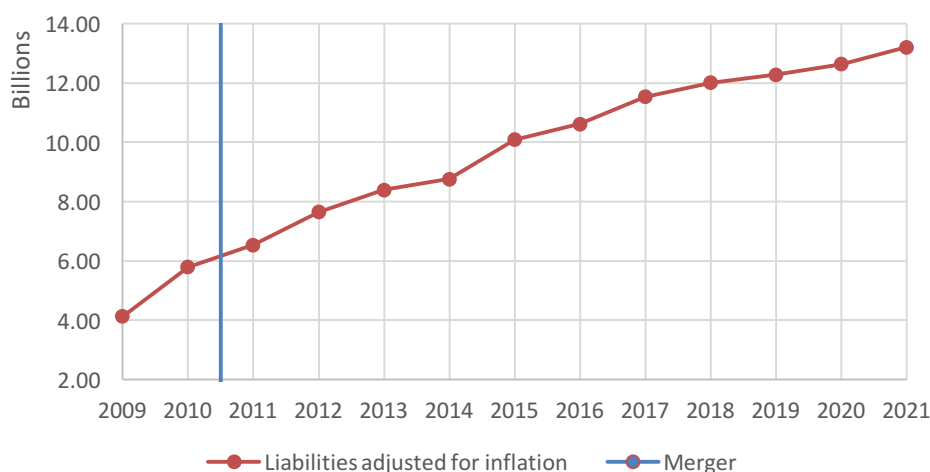
Introduction

This briefing paper has been prepared by the Auckland Ratepayers' Alliance to inform Aucklanders about the extent to which the Super City is running up debt. It compares Auckland Council's total liabilities to that of Kaipara District Council after the latter had to be taken over by the Government in 2012. It also offers a brief perspective on the future trajectory of Auckland Council's financial situation.

The state of Auckland's books

The 2015 annual report Auckland Council released last week shows that the Council's liabilities are stated at \$10.09 billion. This translates to almost \$20,000 of debt per Auckland household.ⁱ Adjusting for inflation this means a 60 percent increase in the past 5 years and a 15 percent increase from last year alone. An even darker picture is painted by the predicted numbers. The Council's ten-year budget adopted this year indicates that the amount of liabilities in the ten years between 2015 and 2025 will double.

Liabilities adjusted for inflation



How does Auckland compare to the failed Kaipara District?

In late 2011 Kaipara District Council was described by the Mangawhai Ratepayers and Residents Association, as “catastrophic and verging on insolvency”ⁱⁱ. The Mayor, Neil Tiller, pointed out that at the time, Kaipara had the highest per capita debt across all of New Zealand.

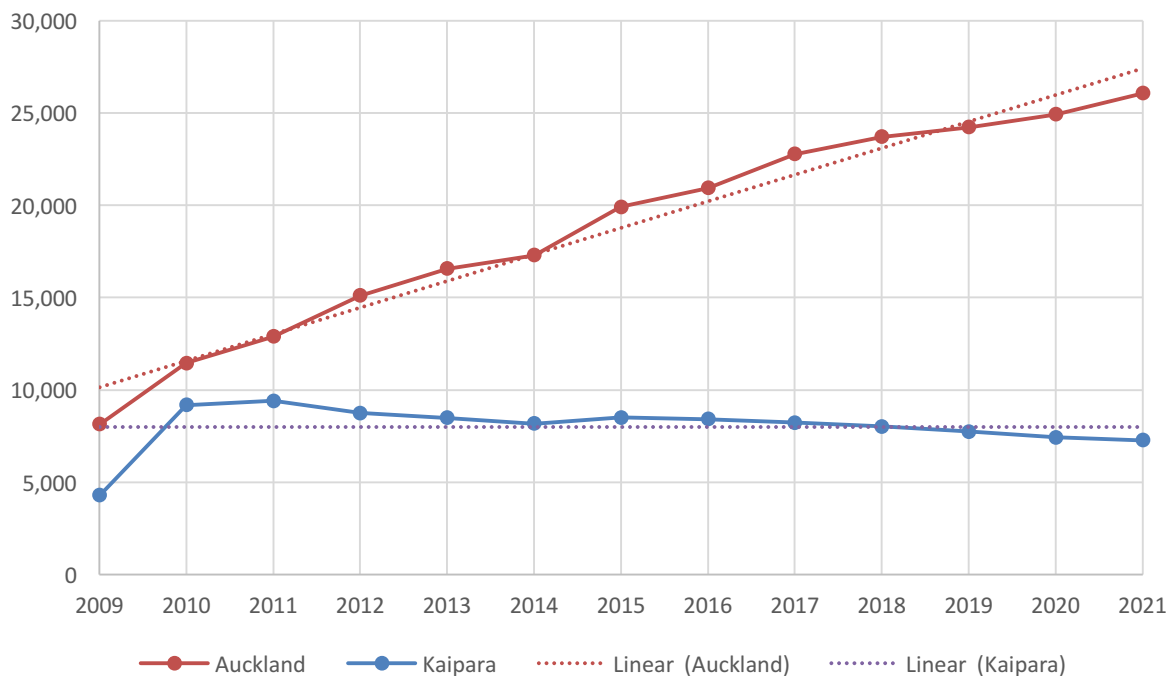
Kaipara District Council got into strife when developed a sewerage system at Mangawhai Heads. In 2006 the cost of the scheme was estimated at \$35.6 million – equivalent to nearly 12 percent of the Council’s total asset base. Soon after, and without the public knowing, the cost of the project blew-out to over \$57.7 million.

This debt combined with the existing borrowings meant that the small population of the Kaipara District needed to service \$85 million of borrowings. The Council was facing raising rates across the region by 31 percent. After this proposal the Government fired the Council, appointing commissioners to take over the management.

By the time commissioners were put in, liabilities were \$8,700 per dwelling¹ – around 44% of Auckland’s current amount.

The key difference between Auckland and Kaipara is that Auckland Council has a much larger asset base, even on a per capita basis. While Auckland Council’s point to this higher asset base to try and justify the red ink, the nature of the Council’s assets means that it is impractical to sell them on for any alternative use, since non-current assets such as roads or public spaces (which constitute the largest part) can be very difficult to liquidate and liabilities still need to be paid. Ultimately it’s Auckland’s current and future ratepayers who will need to cover the interest and repay the debt.ⁱⁱⁱ

Liabilities per dwelling adjusted for inflation



¹ Liabilities (\$95 086 64 tsd) divided by the number of dwellings (10 875)

Conclusion:

In the past 5 years Auckland's liabilities have grown by 60 percent and on the current financial strategy this trend looks set to continue. Liabilities per dwelling in Auckland are much higher than they were when Kaipara was effective put into receivership.

In 2012 Kaipara's Mayor said that "council was never made aware of the enormity" of the financial trouble. Unless actions are taken soon, Auckland's debt situation will sneak up on Auckland ratepayers. While the public express anger regarding rates rises, we need to also stop the Council from mortgaging our city's future.

ⁱ Dwelling number from 2013 census. Note data uses 2015Q2 as a base.

ⁱⁱ Bruce Rogan, Chairman of the Mangawhai Ratepayers and Residents Association

ⁱⁱⁱ Data taken from annual reports and 10-year plans. Dwelling numbers from 2013 census.