

## **REFORMING AUSTRALIA'S FISCAL FEDERALISM: SHOULD MUNICIPAL BOND BANKS PLAY A GREATER ROLE?**

### **Bligh Grant**

Senior Lecturer, Institute for Governance and Public Policy, University of Technology Sydney, Ultimo, NSW, Australia, 2007.

Email: [Bligh.Grant@uts.edu.au](mailto:Bligh.Grant@uts.edu.au)

### **Ronald Woods**

Research Officer, Institute for Governance and Public Policy, University of Technology Sydney, Ultimo, NSW, Australia, 2007.

Email: [RonaldWoods@uts.edu.au](mailto:RonaldWoods@uts.edu.au)

**ABSTRACT:** The theoretical benefits of decentralisation (political, administrative, and fiscal, for example) have been the subject of debate across a range of polities and supra-national political economies for several decades. However, the question of how finance might best follow function – and the attendant oversight of this process – is less resolved. Against the backdrop of mooted reforms to the Australian federation that may well have an impact upon the design of and scope for local and regional governance arrangements, this paper provides an account of the formation and functioning of the Local Government Finance Authority of South Australia (LGFA) the New Zealand Local Government Funding Agency (NZLGFA) and the Municipal Finance Authority of British Columbia (MFABC). The case studies suggest that own-source sub-national finance can be augmented through the use of such instruments. The broader introduction of such financial instruments is also considered.

**KEY WORDS:** Municipal bond banks; municipal debt; municipal finance; White Paper on Reform of the Federation; White Paper on Reforming Australia's Taxation System.

### **1. INTRODUCTION**

Scholars of local government are adept at representing the putative benefits of decentralised systems of political economy, wherein, advantages are accrued based upon 'finance' following 'function' (see, for example, Robotti and Dollery, 2009). However, in many jurisdictions public policies designed to pursue these theoretical advantages can be the source of significant debate (Shah and Shah, 2006). Arguably, this is the

case in the contemporary Australian context. Against a history of the increasing fiscal dominance of federal government (Philimore, 2013) we examine the Australian Government's 'White Paper on the Reform of the Federation' (PM, 2014) and the potential contribution that instruments of sub-national finance, specifically municipal bond banks, could make to a more decentralised fiscal landscape. The 'Terms of Reference' (ToR) for the White Paper were released by the [then] Abbott Government in June 2014 and were followed by a 'Discussion Paper' (DP&C 2015) which gave scant regard to local government (see Grant, 2015). The process was subsequently terminated at a meeting of the Council of Australian Governments (COAG) in March 2016 under the Prime Ministership of Malcolm Turnbull (COAG, 2016). Despite this unfortunate lack of political will to proceed with the process, as pointed to by several authors (see, for example, Grant *et al.*, 2016) the vexed issue of the proper allocation of tax assignment across Australia's three-tiered federal polity is a perennial one. As such, the truncated White Paper process still affords us the opportunity to reflect upon the putative dimensions of possible reforms.

Our discussion here proceeds from an examination of the 'Terms of Reference' ('ToR') of the White Paper on the Reform of the Federation and a brief account of contemporary municipal finance in Australia. Following this, drawing on the work of Dollery *et al.* (2013) we examine the workings of three sub-national municipal bond banks, the Local Government Finance Authority of South Australia (LGFA), the New Zealand Local Government Funding Agency (NZLGFA) and the Municipal Finance Authority of British Columbia (MFABC). We argue that these institutions provide examples of subnational finance pointing to a direction for decentralising reforms; also to a form of social democratic capitalisation that *prima facie* avoids being grounded in merely the motive for financial gains. The scope for further comparative work is sketched.

## 2. MUNICIPAL FINANCE IN AUSTRALIA

Despite being consistently described as the 'poor cousin' of Australia's three-tier federal system of government (see, for example, Aulich, 2005) Australian local government is a significant element of the nation-state's political economy. For example, it employs approximately 192 500 people (DIRD, 2014: 4); it is responsible for \$106.3 billion of infrastructure and collects \$6.4 billion in rates annually (ALGA, 2014a). In 2014 the Department of Infrastructure and Regional Development

(DIRD, 2014: 11) estimated that for the financial year 2011-12 local government had a net worth of \$331.57 billion, with liabilities totalling \$18.22 billion. Local government finance in Australia has several main features. First, notwithstanding the high degree of vertical fiscal imbalance (VFI) that characterises the federation, and despite variability across individual local governments, Australia's 562 local governments are largely self-funded. Own-source revenue comprises on average 88 per cent of all income, with grants from state and federal governments constituting the remainder (DIRD, 2014: 8). Second, state-based Local Government Grants Commissions (LGGCs) award federally-supplied grants to individual municipalities according to principles of inter-municipal equity (Dollery *et al.*, 2013: 2). Third, while local governments in all jurisdictions have been awarded residual authority beyond *ultra-vires* in the last two decades, compared with its international counterparts in many settings, activities of local governments in Australia are heavily (although variably) monitored and constrained (Grant and Dollery, 2012; Dollery *et al.*, 2009). Fourth, local governments have been subject to acts of financial *largesse* by federal government. Historically Labor governments have awarded monies framed by policy considerations of nation-building, equity and regional economic prosperity; alternatively, conservative governments have channelled monies for the purposes of maintaining road and road stock (Kelly *et al.*, 2009; ALGA, 2014b). Fifth, despite some observations to the contrary (see, for example, PC, 2014: 2) Australian local government is consistently viewed as not having the fiscal capacity to maintain or renew the large stock of infrastructure – particularly transport infrastructure – that falls under its purview (Dollery *et al.*, 2013). Sixth, and perhaps ironically, municipalities generally carry “extraordinarily low levels of debt relative to the security [of] their income base and the nature of [their] responsibilities” (Comrie, 2013: i). Notwithstanding the great diversity across the Australian local government sector, “on average, councils have more money in the bank than they have debt” (Comrie, 2013: i).

### **3. REFORM CONTEXT: WHITE PAPER ON THE REFORM OF THE FEDERATION**

It is against this backdrop that the Australian Government's initiation of two White Papers, the ‘White Paper on the Reform of the Federation’ and the ‘White Paper on Reform of Australia's Taxation System’ were announced in June 2014 (PM, 2014). A brief consideration of the ToRs of

the White Paper on Reform of the Federation in this context is instructive as this serves to link our consideration of the arguments for decentralisation mentioned in the introduction with the examination of municipal financial instruments that follows.

For the most part the ToRs adopt a tone of what might be described as ‘economic administrative neutrality’. For example, the objectives of ‘efficiency’, ‘effectiveness’ and ‘accountability’ are initially identified with *inter alia* several aims: “to reduce and end, as far as possible, the waste duplication and second-guessing between different levels of government”; “to achieve a more efficient and effective federation, and in so doing, improve national productivity”; and to “ensure our federal system ... is better understood and valued by Australians”, “has clearer allocation of roles and responsibilities”; “enhances governments’ autonomy, flexibility and efficiency and political accountability and supports Australia’s economic growth and international competitiveness” (PM, 2014).

At the same time, these goals are combined with statements representative of the idea that ‘finance should follow function’. For example: “The White Paper will seek to clarify roles and responsibilities to ensure that, as far as possible, the States and Territories are *sovereign in their own sphere*” (PM, 2014; emphasis added). Further, under ‘Issues to be considered’, the ToRs *inter alia* assert that consideration will be given to: “the practicalities of limiting Commonwealth policies and funding to core national interest matters”; “reducing or, if appropriate, eliminating overlap between Local, State and Commonwealth responsibility”; and “achieving agreement between State and Commonwealth governments about their distinct and mutually exclusive responsibilities and subsequent funding sources for associated programmes”. ToRs do recognise a role for overlapping responsibilities between jurisdictions (for example, one of the aims of the White Paper is to “achie[ve] equity and sustainability in the funding of any programmes that are deemed to be the responsibility of more than one level of government”). However, arguably this is more of a concession to the idea of jurisdictional integrity than an endorsement of ‘cooperative federalism’ (see, for example, Head, 2006; Phillimore, 2013).

Further, ‘subsidiarity’, defined as “where responsibility lies with the lowest level of government possible, allowing flexible approaches to improving outcomes” is listed alongside other values (“equity, efficiency and effectiveness of service delivery”; “accountability for performance in delivering outcomes”; ‘fiscal sustainability’) that are to inform the drafting of the White Paper. Moreover, while the ToRs state that

consideration must be given to horizontal fiscal equalisation on equity grounds, it is also asserted that any reforms need to be “implemented in a way that avoids creating *disincentives* for [States] to improve their own revenue generation or to make the reforms necessary to improve the operation of their economies” (PM, 2014; emphasis added).

On this interpretation, the White Paper process presents the possibility of radical reform, if not the probability of this eventuating. In particular, the endorsement of the ‘value’ of subsidiarity in the ToRs can be described as critical of the increased power of the Commonwealth since federation (Dollery, 2002), but appreciative toward possibilities for increased responsibilities and authority for sub-national governments. In essence, the ToRs suggest that the issue of ‘finance following function’ ought to be grasped in the forthcoming White Paper. While the release of the White Paper on Reforming Australia’s Taxation System has been delayed until sometime in 2016, media speculation highlighted the need for urgent, radical reform (see, for example, Coorey, 2014) and the ToRs for the White Paper on Reforming the Federation emphasise that both papers would be ‘closely aligned’ (PM, 2014).

In this context it is important to recognise that within the ToRs for the White Paper on Reform of the Federation, discussion of subsidiarity and sub-national sovereignty is overwhelmingly concerned with reforming the relationship between the Commonwealth and the constituent states in Australia’s federation. Framed as such, local and regional structures of government and governance form a relatively minor area of interest in the sense that they can legitimately be viewed as mere creatures of state government statute, rather than the well-springs of a thriving democratic polity. Further, these alternative views, wherein local government is conceptualised as either the efficient provider of services, or the foundation of democratic participation, represent not merely different ideological positions concerning the role of government in Australia’s political economy, but also important elements of Australia’s party-political history (see, for example, Kelly *et al*, 2009). Moreover, the subsequently released ‘Reform of the Federation Discussion Paper’ (DP&C, 2015) has all but overlooked local government (see, for example, Grant, 2015). However, this ought not to proscribe us thoroughly exploring alternatives for sub-national funding as part of the on-going White Paper process. It is our contention that encouraging the development of municipal bond banking in the Australian context comprises a possible option for ‘finance following function’ and ethically defensible means of moving beyond the party-political nature of local

government in Australia's political history. The next section of the paper provides an 'ideal-type' account of the functioning of municipal bond banking and examines the functioning of such extant institutions.

#### 4. MUNICIPAL BOND BANKS

Both the development and optimal form of Australia's fiscal federalism has been the subject of long standing scholarship and political debate (for an overview, see Dollery *et al.*, 2013) of which the current White Paper processes are part (Grant *et al.*, 2016). However, unlike both the theory and practice of local government finance in comparable polities, municipal bonds have played a very marginal role in the Australian context. The rudimentary mechanics of bond banks are conceptually simple; this is one element of their appeal. Dollery *et al.* (2013: 231-2) defined a municipal bond bank as "an entity that sells its own securities and relends bond proceeds to local government entities". It is important to note that this generic definition can include public institutions, for-profit firms or non-profit organisations, as is the case in the United States (see, for example, Mysac, 2012). Securities issued by municipal bond banks nonetheless rely upon the same fundamental asset, namely a tax base. While municipal bond banks can issue bonds for a variety of reasons, such as the financing of infrastructure, the issuance of long-term bond pools for the purpose of refinancing existing debt is common (Dollery *et al.*, 2013: 234).

Drawing on the fact that local governments are legislatively empowered to tax (in particular, land) a financial institution – a bond bank – can be legally created. This bond bank then issues bonds for sale (i.e.: offering a return of interest paid over a specified time period of maturation) in a variety of markets: for example, municipal bonds can be issued on the 'open market' – where they compete against a range of other investment products such as shares or bonds offered by other governments. Alternatively, municipal bonds can be offered for sale to select clients, in some cases only to municipalities themselves. The bond bank then uses the cash acquired through the sale of bonds to acquire debt obligations from participating councils and in some cases other legal entities. In this sense bond banks are indeed banks – they derive an income from lending money – but they can also be defined as a 'chain good' in economic theory (McNutt, 1999). They can also be classified as a 'vertical shared service' (see, for example, Dollery *et al.*, 2012: 219-243).

Loans to participating entities are repaid to the bond bank according to an agreed upon schedule and these monies in turn are used to repay

investors. Security for the bonds is reinforced by the fact that in most instances municipalities are borrowers from a particular municipal bond bank, and as such their tax bases all form an element to the underlying solvency of the bank. In many instances sovereign governments guarantee the bonds. This high level of security affects the yield able to be offered by the bonds, with low risk resulting in low yield. However, an advantage is that the price of finance subsequently offered to participating entities – the interest on loans made to local governments – can be kept below commercial rates for projects with levels of risk that are lower than those generally recognised by commercial banks.

This simple account of the operation of municipal bond banks by no means implies that these types of financial institutions are immune from failure, or indeed, from sophistry, in the sense that many financial institutions and specific credit instruments have been in recent memory, particularly in association with the Global Financial Crisis (see, for example, McKibbin and Stoeckel, 2010). Further, in the post-GFC environment the problem of burgeoning sub-national debt in, for example, the People's Republic of China (PRC) and due, at least in part, to the soft budgetary constraints engendered by the national government implicitly guaranteeing local debt obligations is (arguably) a spectre that haunts the global financial media as well as being a pressing issue of public policy (see, for example, Weihua, 2014).

Nor does this simple account of the operation of bond banks reflect other putative advantages *and* disadvantages of these institutions (Dollery *et al.*, 2013: 233-236). Scholarship concerned with both the theory and operation of municipal bonds is extensive, particularly in the United States, where the 'muni- market' comprised \$3.7 trillion in 2012 (Doty, 2012: xiv; see also Feldstein and Fabozzi, 2008; O'Hara, 2012; Johnson *et al.*, 2014). From an Australian perspective, it is enlightening to peruse the moral defence of state governments in the United States as 'fiscal sovereigns' that is put forward in standard texts discussing 'the muni-market', inclusive of the justification for the tax-exempt status of interest paid on municipal bonds. For instance, it was only following the U.S. Supreme Court decision in *South Carolina versus Baker (108 Sup. Ct. 1355)* in 1988 that the issue of whether or not this tax exempt status had a federal constitutional grounding (as opposed to a legislative one) was 'unequivocally put to rest' (Johnson *et al.*, 2014: 22). However, in this context rather than engage in a general description of municipal bonds more thoroughly or investigate their normative basis in any detail, we provide an account of three extant municipal bond banks as illustrative

examples of the type of diversity that can characterise these institutions. These examples have been drawn from Dollery *et al.* (2013) but have been updated and contextualised for our discussion here.

### ***The Local Government Finance Authority of South Australia***

The first illustrative example is the Local Government Finance Authority of South Australia (LGFA). The LGFA was established in January 1984 under the *Local Government Finance Authority Act 1983*. The Authority is a statutory corporation of the South Australian Government, operating under the *Public Corporations Act 1993* (Dollery *et al.*, 2013: 239-240). All local councils in South Australia are automatically members, although the use of LGFA by those councils for investment and loans purposes is entirely voluntary – in other words they can choose to source funds from commercial banks. Nevertheless, in 2012/2013, every council in South Australia had transacted business with LGFA (LGFA, 2013: 5). In accordance with the *Local Government Finance Authority Act 1983*, all liabilities are guaranteed by the Treasurer of South Australia (LGFA, 2015: 9). The LGFA is overseen by a seven-member Board of Trustees derived from state and local government, all of whom serve for two years.

Aligning with the general description of municipal bond banks offered above, the functions of LGFA are to develop and implement a borrowing and investment program for the benefit of councils and prescribed local government bodies, and to engage in other financial activities as determined by the Minister for Local Government in consultation with the South Australian Local Government Association (South Australian Auditor-General, 2013: 965). The LGFA utilises a number of financial instruments, including loans and held-to-maturity financial assets (i.e.: bonds) which can be disposed of in an existing market if required (South Australian Auditor-General, 2013: 966). In essence, the LGFA operates as a bank, the exclusive clients of which are South Australian local authorities and Prescribed Local Government Bodies, to whom it offers funds on flexible terms. The LGFA offers fixed-rate and floating-rate types of loans, and several types of secure investments, namely ‘at call deposits’ and ‘short term deposits’ ranging from 30 to 180 days, and ‘long term deposits’, which vary from one to five years (Dollery *et al.*, 2013: 242).

The LGFA is a modest financial institution. In the financial year 2014/2015 it generated a profit of \$5.626 million before tax (LGFA, 2015: 3), up from \$4.350 million in 2012/2013 (LGFA, 2013: 5). Based



on an audit carried out by the South Australian Auditor-General for the year ended 30 June 2012, the Statement of Financial Position showed net assets of \$55.5 million; net loans and advances to customers increased by \$50.9 million; and deposits from customers increased by \$37.6 million (South Australian Auditor-General 2013: 961). As of March 2014, the LGFA was able to 'celebrate 30 years of success' (LGFA, 2014).

In the Australian context there is debate over the "suboptimal use of debt finance within local government and speculation that this is contributing to an under-provision of infrastructure by the sector" (see, for example, Ernst and Young 2013: 1). There have been calls for the establishment of a national collective financing vehicle for the local government sector that could address this suboptimal use of debt (Dollery *et al.*, 2013). Were such a body to come into being, there would be likely implications for the ongoing functioning of the LGFA in South Australia.

#### ***New Zealand Local Government Funding Agency***

The New Zealand Local Government Funding Agency Ltd. (NZLGFA) was enabled under the *Local Government Borrowing Act 2011* and was incorporated on 1 December 2011 (New Zealand Local Government Funding Agency, 2011). The NZLGFA is a 'Council Controlled Organisation' (CCO) operating under the *Local Government Act 2002*, and is owned by 30 Local Authority Councils and the Crown. It operates on the basis of the primary objective of "optimising the debt funding terms and conditions for participating locals authorities" (NZLGFA, 2014a: 6) and does so by providing the New Zealand local governments with:

- estimated savings in annual interest costs;
- longer-term borrowings; and
- greater certainty of access to the debt market, subject to them operating in accordance with sound business practice (NZLGFA 2014a: 6)

Similar to the South Australian LGFA, the NZLGFA conforms to the Dollery *et al.*, (2012) definition of a 'vertical shared service'. It issues bonds on the open market which are secured by the capital value of New Zealand local government and from which member councils can then

draw upon for funding purposes. In other words, the NZLGFA provides access to a potentially far larger source of funds, provided that investors find the bonds attractive in terms of both security and rate of return (Dollery *et al.*, 2013).

The NZLGFA has a Board of Directors that is responsible for the strategic direction and control of the organisation's activities (NZLGFA 2014b: 5). The Board comprises between four and seven directors, with a majority of independent directors who are required to comply with a formal Charter, meet on a regular basis (no less than six times a year) and adhere to a 'no surprises approach' in its dealings with its shareholders (NZLGFA, 2014b: 5-7). This includes providing shareholders with an Annual Report (including a 'Directors' Report', a 'Financial Statement' and an 'Auditor's Report'), a 'Half Yearly Report', providing the Director's commentary on operations for the relevant six month period, and a 'Statement of Intent' delivered to Shareholders on or before 30 June each year. All of these documents are made available to the public on the organisation's website.

The NZLGFA issued its inaugural bonds on 15 February 2012. Local demand emerged from institutional fund managers, retail investors and financial institutions. Demand also emerged from global investors on the basis that the bonds would be tax free to those located offshore (NAB 2012). By March 2012 all of NZLGFA debt issues had been fully subscribed, in every case investors having sought many more bonds than the offered volume (Dollery *et al.*, 2013). There are expectations that the LGFA will "grow to be the second largest NZ borrower after the central Government" (NAB, 2012: 1). The net operating profit for the half-year ended 31 December 2013 was \$3.27 million, which was \$0.09 million ahead of the forecast in the 'Statement of Intent'.

LGFA has strong credit fundamentals: both Standard and Poor's and Fitch rated the securities AA+ for the local currency and AA for foreign currency, the same as the New Zealand sovereign ratings (NZLGFA, 2014a: 3). In its credit rating for the NZLGFA, Standard and Poor's (2011) noted that its strengths included, first, an 'extremely high' likelihood of extraordinary support from the New Zealand government and second its single-purpose focus in lending to the country's local government sector. Nevertheless, one weakness identified was a modest earnings capacity, reflecting the Agency's low-risk and not-for-profit role. The organisation was also described as similar to municipal funding agencies in countries such as Sweden, Denmark, Finland and Japan, all of which supply low-cost funding to their respective local government sectors (Standard and Poor's, 2011: 3). The NZLGFA operates under

favourable policy conditions in the sense that the *Local Government Act 2002* [New Zealand] as amended in 2013, recognises “the crucial role local government plays in developing, attracting and retaining local economic activity to create business friendly environments”. This includes investing over \$8 billion in infrastructure and services annually to enable businesses to operate effectively (Local Government New Zealand, 2014).

### ***The Municipal Finance Authority of British Columbia***

The Municipal Finance Authority of British Columbia (MFABC) is a somewhat more complex institution. It was established in 1970 under the *Municipal Finance Authority Act* to provide “long-term and short-term financing for regional districts and their members municipalities, regional hospital districts and other prescribed institutions in British Columbia (BC)” (MFABC, 2013: 8). The implementation of the Authority was grounded in the logic of accruing economies of scope and scale for all municipalities in the Province, yet its formal establishment was a vexatious issue at the time, with opponents arguing that borrowings of individual municipalities should be underwritten by the Province itself. This opposition was circumvented by local governments within each regional district being jointly and severally liable for each other’s long-term debt borrowings through the Authority – in essence the ‘tax base’ for the authority was at the time of inception (and remains) a theoretical one residing at the district as opposed to the local or provincial level (Bryant, 2011: 1).

As of 2013, the Authority was governed by 39 members appointed from each of the 28 regional districts within the province. The members meet twice a year and approve appointments to a ten-member Board of Trustees, which exercises executive and administrative powers and duties, including policy, strategy and business plans (MFABC, 2014). Since its founding, the Authority has focused on providing long-term capital financing for its clients for periods of five to 30 years (MFABC, 2014). The range of financial services was expanded in the early 1990s by the inclusion of short-term investment opportunities (up to a maximum of five years); interim financing (bridge funding in advance of revenue collections for those awaiting long-term borrowing); and leasing (floating rate financing of capital leases for terms up to five years). The Authority also facilitates access to its clients for pooled investments (fixed income mutual funds offering investing opportunities for operating

cash or surplus funds) managed by a professional investment firm. In addition, it operates a ‘Municipal Investment Plan’, which is a portal for municipal employees and elected officials to access self-directed investment opportunities at reduced management fees (MFABC, 2014).

The *Municipal Finance Authority Act* also requires the establishment of a Debt Reserve Fund, which accumulates monies by withholding one per cent of principal amounts of each loan request. Under the provision of the Act, the Authority has unfettered access to the full property assessment base in the province without requiring approval of any senior level of government. If the Debt Reserve Fund is required to meet obligations, and payments cannot be recovered under the terms of the loan agreements with the regional district, the Trustees may impose a tax on British Columbia taxable land and improvements to restore the fund. The loan agreements stipulate that the Authority will invoice clients for principal payments and interest charged at the regional district level. The regional districts are then responsible for the collection of funds subsequently lent to member municipalities. The loan repayment process follows a ‘sinking fund’ methodology in which clients repay principal amounts in equal annual instalments. Funds received are invested by the Authority and held as an offset against the associated source of financing, which is typically accomplished through providing clients with budget certainty (a fixed loan repayment stream), while eliminating the requirement for ‘balloon payments’ at loan expiry (MFABC, 2013: 11).

The Authority has been described as “a good example of the mutual guarantee model” of financing for local governments (Ernst and Young, 2013: 4). Unlike the LGFA in South Australia, it issues bonds on the open market and as thus has access to a far greater quantum of funds. The transactions of the Authority are *not* guaranteed by the provincial government, which again is different from the LGFA. It is nevertheless a ‘vertical shared service’ – as defined by Dollery *et al.* (2012) – due to the fact that security for the Authority resides in the taxing power of British Columbia’s Regional Districts that were created in 1968, and not in the municipalities themselves. Its *modus operandi* is grounded in operations other than profit maximisation, especially in providing a source of credit to local government authorities and other entities. The secure nature of the Authority, grounded in the taxation capacity of the regional district system, sees it enjoying the highest possible credit rating. As a consequence, it is able to borrow at extremely low rates, to offer loans to its constituent members at extremely competitive rates, and to develop a range of additional financial instruments, including Pooled Investment Funds and a vehicle for local authorities to invest excess funds. While it

is obliged to offer low yields on deposits, these deposits are nonetheless regarded as very secure (Dollery *et al.*, 2013: 254).

## **5. OBSERVATIONS**

Having set out the salient characteristics of local government finance in Australia, we have noted that the system is characterised by high degrees of own-source funding alongside a high degree of vertical fiscal imbalance (VFI), although this relates particularly to the imbalance between revenues available to, and expenditures expected of, state and federal government. Further, the system of public administration is grappling with the issue of sub-national finance, particularly in the context of the need to maintain and improve the substantial transport and other fixed infrastructure for which local governments are responsible. The 'White Paper on the Federation' may not amount to structural reform of finance; alternatively it may entail reinforcement of state fiscal authority. Despite the fact that options for the expansion of local government revenue have not featured in the White Paper on the Reform of the Federation process thus far, in this context municipal bond banks might provide one course of public policy, particularly to buttress own-source revenue beyond its already high levels.

There have been some recent indications that institutions of this type are being developed in jurisdictions other than South Australia. At the time of writing the Municipal Association of Victoria (MAV) was poised to establish a pooled borrowing vehicle for councils, bonds for which will be issued as secure obligations of the MAV in a similar way that they are issued by the LGFA and the MFABC. Moody's Investor Services assigned an Aa2 issuer rating to the LGFV, stating: "The very high credit quality of the participating councils and the mature and supportive institutional framework under which they operate support the ratings" (Moody's Investor Service, 2014). Similarly, the NSW Government's response to the Independent Local Government Review Panel (ILGRP) has agreed with a recommendation that the statutory finance authority of that state, Treasury Corporation, develop a low-cost borrowing facility for local government bodies in that jurisdiction – although the eventual shape of this facility is still unclear (NSW Government, 2014: 5). However (arguably) these new financial instruments ought not to be viewed as being capable of replacing extant grants from the federal government through the states' grant commissions, and the difficulties in providing municipal services and infrastructure in the rural, remote and

very remote parts of the country will require a continuation of a guaranteed and regular system of transfers from central government.

Were a national municipal bond bank or finance authority to be considered in the Australian context, as has been suggested by Dollery *et al.* (2013), models can be drawn upon to help determine its design and operational features. The example of the Local Government Finance Authority of South Australia suggests that all local councils could automatically be members, while leaving actual participation to the voluntary discretion of each local government organisation. Overseen by a seven-member Board of Trustees derived from state and local government, the South Australian body utilises a range of financial instruments developed in consultation with the state's Local Government Association, and it is characterised by modest scale and longevity. The long-functioning Municipal Finance Authority of British Columbia provides an alternative model that draws on the putative authority of regions to tax that were created for precisely that purpose in 1968. With this security, it issues bonds on the open market and has access to a greater quantum of funds that has enabled it to provide long-term capital financing for its clients for periods of five to 30 years, and to develop a range of other products. These include investment in fixed income mutual funds, floating rate financing of capital leases and interim financing. It enjoys the highest possible credit rating. The recently established New Zealand Local Government Funding Agency has drawn on examples of municipal funding agencies in countries such as Japan, Sweden, Denmark and Finland, and provides a model for corporate governance, including a transparent strategic and performance reporting framework and a 'no surprises approach' in its dealings with shareholders. The United States, where municipal bond banks have operated for many years (see Johnson, *et al.* 2014; Mysac, 2012; O'Hara, 2012; Feldstein and Fabozzi, 2008), provides another rich source of models, approaches, principles and practices.

In addition to broad comparisons as to the suitability – or indeed otherwise – of institutional design for particular circumstances, our accounts of the institutions in British Columbia and New Zealand offer ample dimensions of comparative inquiry. In addition to the underlying security for the operation of these institutions, another area of focus for comparative analysis is governance arrangements. For instance, are there any advantages of the MFABC's two-tiered governance structure (a 39 member authority that appoints a ten-member Board of Trustees) over and against the more sharply structured executive of the NZLGFA? Further, ought considerations of inclusivity of representation – on the

basis of gender, ethnicity, or socio-economic disadvantage, for example – be considered? Moreover, we have seen that the MFABC has developed a broader range of financial instruments than those offered by the NZLGFA. How applicable are these in the context of New Zealand – and in Australia?

Additionally, we ought to be aware that the arrangements for financial instruments such as bond banks can affect intergovernmental relations *and* vice versa. For instance, in his account of the introduction of the Local Government Infrastructure Renewal Scheme in New South Wales in 2013, former Minister for Local Government in that jurisdiction, Don Page (2015: 122) noted that in its guaranteeing of loans made by local governments for infrastructure renewal, the state government, with a triple A credit rating, decreased the interest rate on loans by local government, thereby accruing these local governments considerable savings. It is not unreasonable to assume that the same would result in situations where both state/provincial governments *and* central government (such as in New Zealand) were guaranteeing the activities of bond banks.

Nevertheless, as we have emphasised in this paper, the theoretical simplicity of 'ideal-type' municipal bond banks does not militate against the requirement for careful design, maintenance and oversight of such institutions by higher tiers of government. We also suggest that research is required to combine studies in public administration, political economy and financial economics as a bid to satisfy investigating options for 'finance following function' in the context of decentralisation and, more particularly, in the further development of the Australian federal system. It would be remiss for those scholars with a declared interest in the local government and development, in particular economic development, not to pass a keen eye over the development of such financial instruments, rather than leave their design and potential proliferation to those with a narrower view of the role of the public sector.

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