

14 April 2024

Committee Secretary
House of Representatives Standing Committee on Regional Development, Infrastructure and Transport
PO Box 6021
Parliament House
Canberra ACT 2600

By email: rdit.reps@aph.gov.au

Dear Committee Secretary,

RE: Submission - Terms of Reference for the Inquiry into Local Government Sustainability

Thank you for the opportunity to provide a submission on the Terms of Reference for the Inquiry into Local Government Sustainability. This correspondence and its contents are made by myself and are not on behalf of any council.

Current Terms of Reference

The Terms of Reference set by the House of Representatives Standing Committee on Regional Development, Infrastructure and Transport comprehensively outline the scope of their inquiry into issues that local government faces. While the Terms of Reference includes a clause for 'other relevant issues,' giving flexibility to address emerging concerns, there is an explicit mention of specific areas such as financial sustainability, changing service obligations, workforce attraction and retention, and the role of the Australian Government. This explicit detailing suggests that these highlighted issues will receive a focused level of exploration and discussion.

Proposed Change to Terms of Reference

My recommendation is that the Terms of Reference should be amended with an explicit reference to another important element that local governments face: financing mechanisms. Amending the terms of reference to explicitly include investigating improvements in the financing mechanisms of local government would ensure that the inquiry addresses this important area appropriately.

Context of Local Government Financing

Due to recent changes in interest rates affecting local government debt, repayments have become a more significant financial burden for local governments. This situation impacts their ability to fund essential services and infrastructure effectively. It is therefore prudent to amend the Terms of Reference for the inquiry to explicitly include an investigation of solutions to reduce this burden.

Semi-government bonds, issued by state and territory governments, typically have higher ongoing costs compared to Australian Government Bonds.¹ As local councils often rely on their state treasuries for financing, they inherit these higher costs. By addressing improvements in financing directly, the inquiry's focus can include identifying new financing mechanisms to alleviate the financial pressures on local governments.

This could include exploring and considering financing options like municipal bonds or establishing a national financing authority, similar to models used internationally. Analysis from 2013 submits that such mechanisms may help to mitigate the disadvantages of higher costs associated with semi-government bonds and the inefficiencies stemming from fragmented borrowing practices.²

¹ Reserve Bank of Australia. (2024). *Recent Developments in the Semi-Government Bond Market*.

² Ernst & Young. (2013). *National Financing Authority for Local Government – Options Assessment*.

The recommendation is outlined below for consideration.

Recommendation:

That the Terms of Reference includes a reference to investigating improvements in the financing mechanisms of local government.

If you have any questions in relation to the content of this correspondence, please do not hesitate to contact me via email: [REDACTED] or phone: [REDACTED]

Kind regards,

[REDACTED]

Cr Jacob Heremaia

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