

Response to research request

Prepared for:

NSW Legislative Council, Standing Committee on
State Development

Subject:

Comparative analysis of NSW local council financial
challenges and responsibilities

Date requested:

16 April 2024

Date completed:

28 May 2024

Request

On 16 April 2024 the Standing Committee on State Development inquiring into the [ability of local governments to fund infrastructure and services](#) requested a briefing from the Parliamentary Research Service. The briefing intends to fill an evidence gap that was identified following a Committee briefing from the Independent Pricing and Regulatory Tribunal (IPART).

This briefing looks at the challenges the NSW local government sector faces in service delivery and responsibilities compared to income.



Response

This response dated 28 May 2024 looks at insights from the Office of Local Government (OLG) [Your Council Report](#) data, and the Australian Bureau of Statistics (ABS) [Government Finance Statistics](#). This response includes insights from literature, being relevant submissions, research, reports or inquiries, that may provide further context to the financial challenges being faced by local government.

Contents

1.	Functions of local councils under the <i>Local Government Act 1993</i>	3
2.	Council groups and population	4
3.	Population does not perfectly match spread of revenue and expenses	6
4.	Rural and large rural councils have seen the highest rise in revenue and expenses per capita	8
5.	Only 4 councils had operating expenses exceeding revenue in 2021-22 while in 2001-02 there were 53	13
6.	Regional and rural councils manage significant road networks compared to metropolitan areas	17
7.	Local council assets are largely land and buildings, rather than cash	20
8.	Local council assets have higher depreciations costs than state assets	22
9.	Local councils spend significantly more on environmental protection and culture ..	24
10.	Grants and subsidies make up an increasing proportion of the revenue sources for councils	25
11.	NSW councils receive more revenue per capita than those in Victoria, but not Queensland	28
12.	NSW councils have similar expenses per capita to Western Australia	29
13.	Further reading	30
	Appendix: NSW councils by OLG groups	33

1. Functions of local councils under the *Local Government Act 1993*

Chapter 5 of the *Local Government Act 1993* identifies the functions of NSW local councils, which are listed in Table 1.

Table 1: Functions of NSW local councils under the *Local Government Act 1993*

Type of function	Examples
Services	Providing community health, recreation, education and information services Environmental protection Waste removal and disposal Land and property, industry and tourism development and assistance
Regulatory	Approvals Orders Building certificate
Ancillary	Resumption of land Powers of entry and inspection
Revenue	Rates Charges Fees Borrowings Investments
Administrative	Employment of staff Management plans Financial reporting Annual reports
Enforcement	Proceedings for breaches of the <i>Local Government Act</i> Prosecution of offences Recovery of rates and charges
Various functions under other Acts	As specified in the Note to section 22 of the <i>Local Government Act 1993</i>

Source: Adapted from [Chapter 5](#) of the *Local Government Act 1993*, accessed 15 May 2024.

Relevant insights from the literature include:

- Local governments are often the service provider of ‘last resort’ in communities where higher levels of government and the private sector have not provided adequate services ([Australian CEOs Group, July 2007](#))¹

¹ Submission by the Australian CEOs Group, [Productivity Commission Inquiry into Assessing Local Government Revenue Raising Capacity](#), July 2007.

- The role of local government has expanded considerably over the last 30 years. It continues to maintain its primary function of 'services to property', but additionally, it now undertakes a growing range of service functions or 'services to people'. ([Australian CEOs Group, July 2007](#)).
- Services to property includes supplying and maintaining local infrastructure (such as local roads, footpaths and drainage), responsibility for waste disposal and recycling services, and regulation of building and planning. Services to people include community housing, health services (such as drug counselling and vaccinations) and education and child care ([Australian CEOs Group, July 2007](#)).
- The expansion of functions is due to a number of external pressures, primarily delegation of responsibility or cost-shifting by other levels of government and rising community expectations. This occurs through a number of ways: direct shifting of responsibilities from higher levels of government to local governments; new or increased compliance requirements for which local government is not adequately compensated; and new or increased fees and/or charges on local government in order for state agencies to recover their own operating expenses, with no offsetting benefit to local government ([Australian CEOs Group, July 2007](#)).

2. Council groups and population

There are approximately 8.1 million residents in NSW, according to 2021-22 Office of Local Government (OLG) [Your Council Report](#) data.

To better identify trends and challenges of councils, this analysis looks at data using groups of councils based on geographic area. These groupings were available from the OLG Your Council Report data, and will be known as OLG groups² for the remainder of this analysis.

Table 2 provides the population details for these groups of councils.

Table 2: OLG groups, examples of councils in each group, and population

OLG group	Examples of councils	Total resident population (2021-22)	Proportion of NSW population (2021-22)
Metropolitan	Parramatta Sydney Waverley	3.9 million	48%
Regional town/city	Coffs Harbour	2.4 million	29%

² OLG groups councils in 2 ways: (1) by 'OLG Group', of which there are 11 groups from '1' to '11' and (2) by classification, which is the typology used in this request.

	Orange Wagga Wagga		
Metropolitan fringe	Central Coast Camden Blue Mountains	1.4 million	17%
Rural	Murrumbidgee Carrathool Bourke	44,700	1%
Large rural	Parkes Glen Innes Severn Walgett	436,800	5%

Source: Office of Local Government (OLG) [Your Council Report](#), 2021-22

Metropolitan fringe councils have the highest rate of population growth compared to the other OLG groups, growing by 7.7% over the four years from 2017-18 to 2021-22. There has been moderate growth in this period in regional town/city councils (4.6%) and low growth in metropolitan councils (0.7%) and large rural councils (0.6%). Resident population in rural councils has declined in this period (-3.6%). Low population growth in metropolitan councils can be explained by the impact of COVID-19: the population fell from 3.97 million to 3.85 million between 2020-21 and 2021-22, having been 3.82 million in 2017-18.

It is difficult to analyse population growth over a longer time period by OLG groups. This is due to council amalgamations in 2003, 2008 and 2016, and the associated reclassification of councils across groups. For example, some rural or large rural councils, or parts of those councils, have been shifted into regional town/city council classifications as a result of amalgamations over time.

Appendix A provides a full list of local councils by OLG groups.

Relevant insights from the literature include:

- Capital cities and some regional and metropolitan centres must service the needs of a highly transient, non-rate paying population (tourists, workers, shoppers), but also have access to a significant revenue base reflecting the high-density of primarily commercial property owners, who have a strong capacity to pay local government rates ([Australian CEOs Group, July 2007](#)).³
- Due to their small population bases, rural and remote councils have a limited rating base to finance vast road networks and higher than average staff costs needed to attract and retain staff. These councils may also have to undertake a range of

³ Submission by the Australian CEOs Group, [Productivity Commission Inquiry into Assessing Local Government Revenue Raising Capacity](#), July 2007.

services that would typically be undertaken by higher levels of government or the private sector ([Australian CEOs Group, July 2007](#)).

- Councils and peak bodies made submissions to the Independent Pricing and Regulatory Tribunal (IPART) which claimed that the following general costs increase with an increase in population:
 - ongoing infrastructure maintenance and capital costs
 - asset renewals and depreciation of buildings, roads, footpaths, parks and other assets
 - providing community services such as libraries and aquatic centres
 - providing new and embellished assets
 - increased demand for services in general
 - increases in service-related costs, including overheads such as information and communication technology and human resources
 - maintenance and operational costs of developer-constructed assets
 - increases in secondary dwellings (such as granny flats and other non-rateable properties), which do not offer services and facilities such as off-street parking and little to no recreation. The cost of providing these facilities fall on councils, with no additional land rates payable. This does not align with council views on taxation principles of efficiency or equity.
 - increased service level expectations of new residents in local government areas (LGAs) who demand new and embellished assets and services, with increased maintenance costs
 - costs of maintaining environmentally sensitive land or riparian corridors that have little or no development potential, which can include bushland or land subject to flooding. In some cases, this land has been dedicated to local councils who manage it in perpetuity.
 - costs of acquiring land and property for affordable housing, open spaces and recreation. Sydney-based councils submitted that this is an expensive venture for them ([IPART, June 2021](#)).⁴

3. Population does not perfectly match spread of revenue and expenses

The share of revenue and expenses across the OLG groups of councils differs from the spread of resident population in 2021-22 (Table 3 and Figure 1). While regional town/city councils have 29% of the NSW resident population, they account for 38% of all council

⁴ Independent Pricing and Regulatory Tribunal (IPART), [The impact of population growth on councils costs and revenue](#), Information Paper, June 2021.

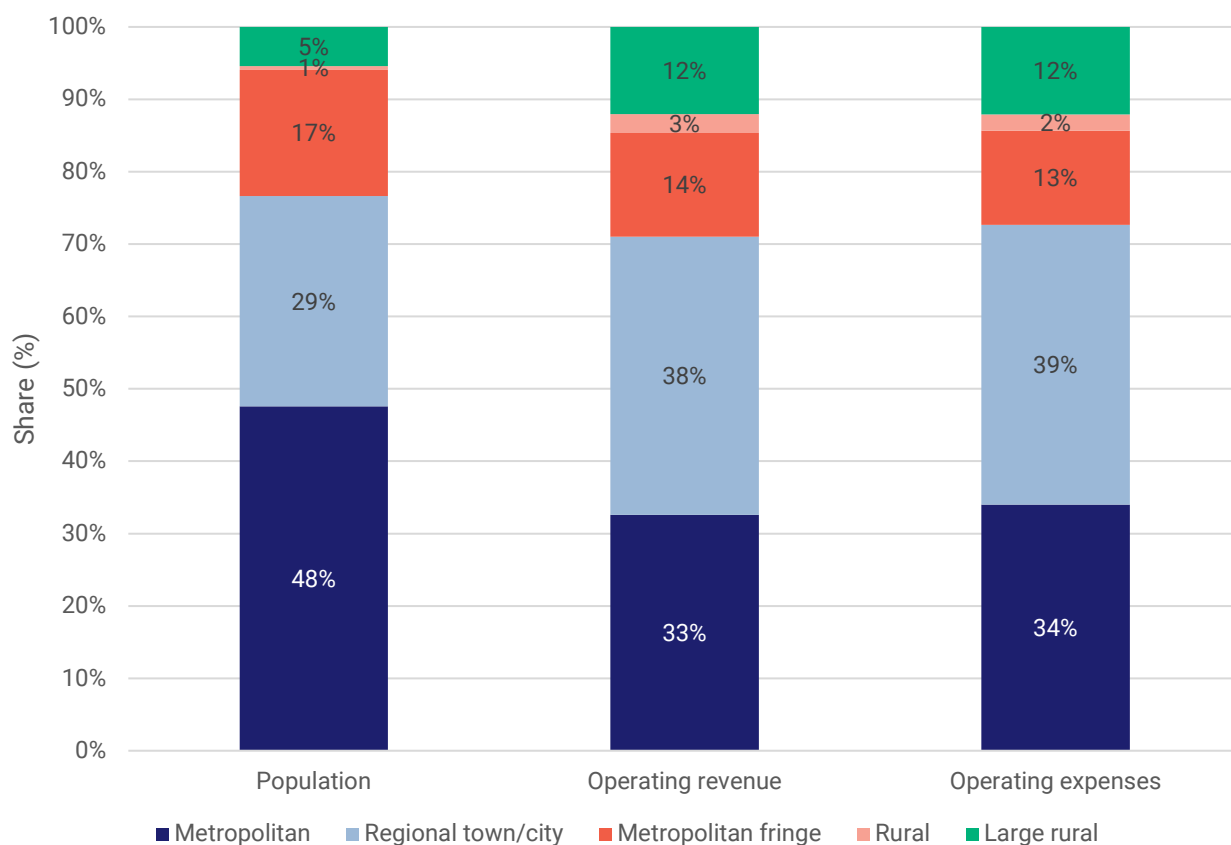
revenue, and 39% of all council expenses. While large rural councils have 5% of the NSW resident population, they account for 12% of council revenue and 12% of expenses.

Table 3: Revenue and expenses by OLG group, 2021-2022

OLG group	Revenue 2021-2022		Expenses 2021-2022	
	Amount	Percentage of NSW total	Amount	Percentage of NSW total
Metropolitan	\$5.7 billion	33%	\$4.6 billion	34%
Regional town/city	\$6.7 billion	38%	\$5.2 billion	39%
Metropolitan fringe	\$2.5 billion	14%	\$1.8 billion	13%
Rural	\$451.8 million	3%	\$303.8 million	2%
Large rural	\$2.1 billion	12%	\$1.6 billion	12%

Source: Office of Local Government (OLG) [Your Council Report](#), 2021-22

Figure 1: NSW local council resident population, revenue and expense shares by OLG group, 2021-22



Source: NSW Parliamentary Research Service using OLG [Your Council Report](#) data, 2021-22

Relevant insights from the literature include:

- Some of the reasons that councils applied for a special variation to increase their general income over the 2021-22 period include:
 - maintaining or improving service levels
 - renewing infrastructure and deteriorating assets
 - improving and ensuring financial sustainability
 - delivering key priorities in a Community Strategic Plan and Delivery Program
 - undertaking large infrastructure projects such as aquatic facilities
 - maintaining assets and infrastructure
 - undertaking long-term maintenance and management of land dedicated by a developer ([IPART, June 2021](#)).⁵
- There are several broad revenue pressures facing local government which diminish their ability to raise their own revenue:
 - Limited access to a sufficiently broad range of revenue, including the ability to access a growth tax
 - Legislative restrictions on its ability to raise revenue in certain areas (in particular in setting rates and user fees/charges)
 - Reduced capacity for some residents to contribute further to own-source revenue ([Australian CEOs Group, July 2007](#)).⁶

4. Rural and large rural councils have seen the highest rise in revenue and expenses per capita

Over the 20 years from 2001-02 to 2021-22, rural councils have seen a 17% increase in revenue per capita. This is the largest increase of any of the OLG groups of councils. Figure 2 shows the long-term trends in revenue per capita growth for all OLG groups of councils over this 20-year period.

Expenses per capita for rural councils has grown by 10% over the same 20-year period. This is also higher than any other OLG group. Figure 3 shows the long-term trends in expenses per capita growth for all OLG groups over the 20 years from 2001-02 to 2021-22

⁵ Independent Pricing and Regulatory Tribunal (IPART), [The impact of population growth on councils costs and revenue](#), Information Paper, June 2021.

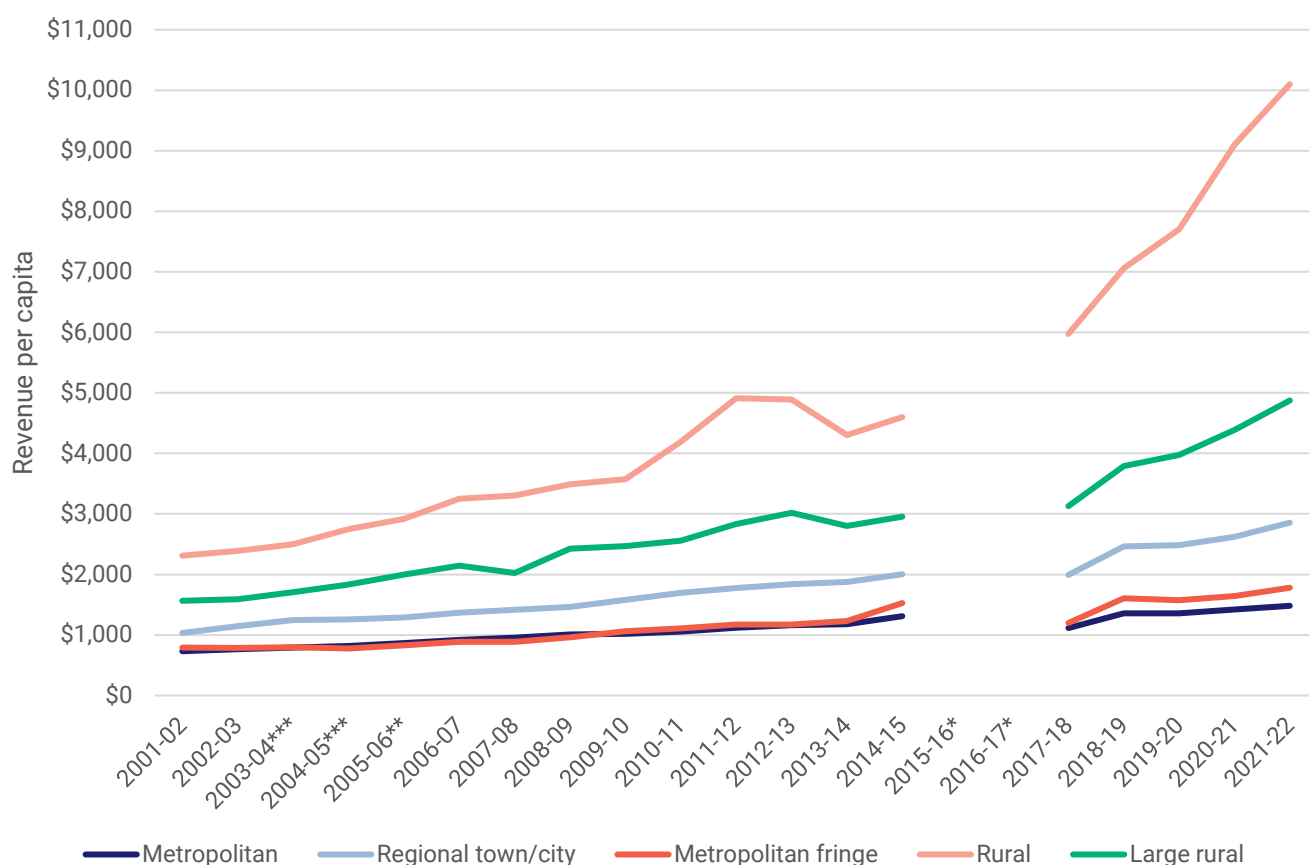
⁶ Submission by the Australian CEOs Group, [Productivity Commission Inquiry into Assessing Local Government Revenue Raising Capacity](#), July 2007.

Large rural councils have seen a 10% increase in revenue per capita, and 8% increase in expenses per capita over the 20 year period.

Metropolitan councils and metropolitan fringe councils have the lowest levels of revenue and expenses per capita compared to the other OLG groups in 2021-22. Over the 20 years from 2001-02 to 2021-22, metropolitan and metropolitan fringe councils have also seen the lowest growth in revenue per capita (5-6%) as well as the lowest growth in expenses per capita (4% in both groups).

Table 4 provides details of the revenue and expenses per capita by OLG group for 2021-22.

Figure 2: Revenue per capita growth by OLG group (nominal)



Source: NSW Parliamentary Research Service using OLG [Your Council Report](#) data

Notes:

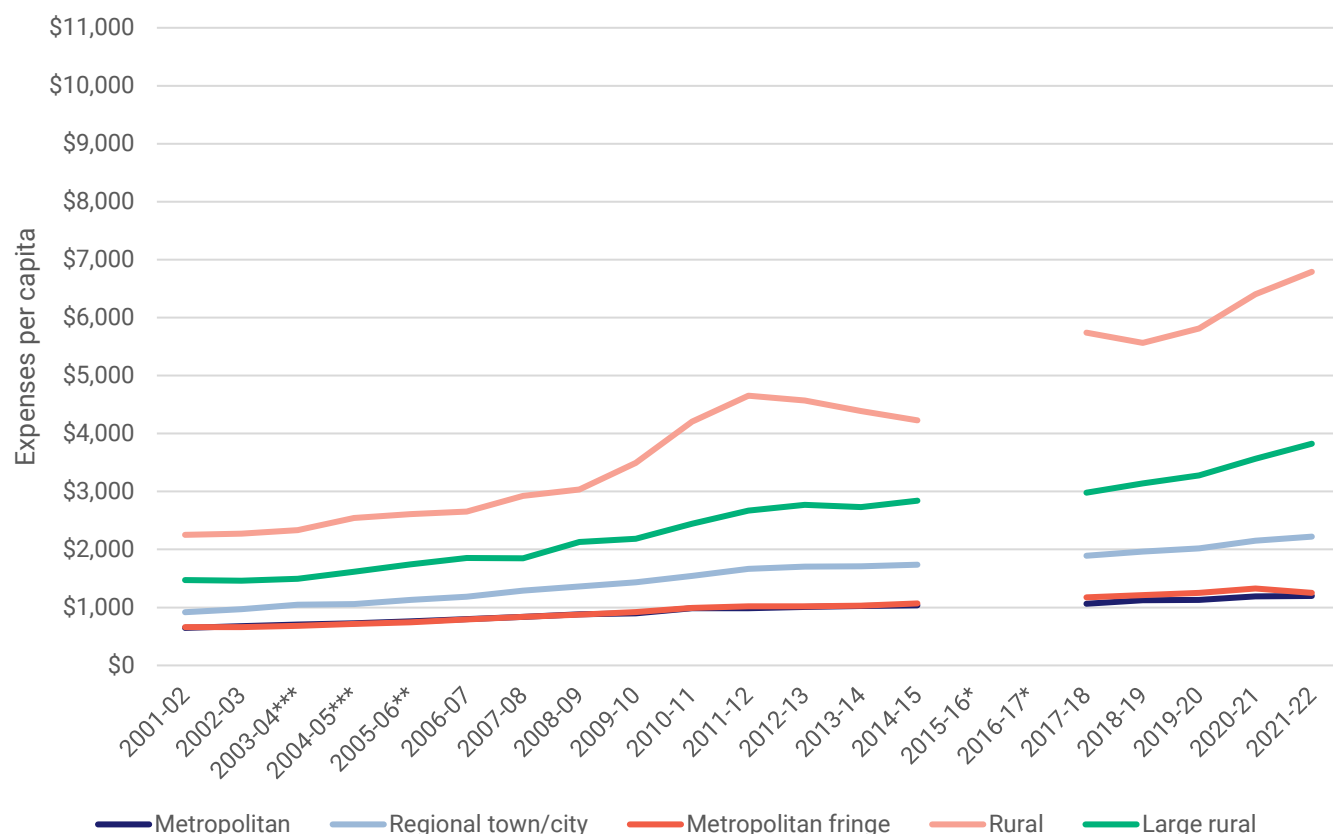
* 2015-16 and 2016-17 has been excluded due to missing data related to NSW council amalgamations. For 2015-16, OLG only had data for 108 councils from 152 councils. For 2016-17, OLG had missing data for 10 councils.

** 2005-06 OLG data had missing population, revenue and expenses data for 4 councils. They are Gwydir Shire; Palerang; Snowy River Shire; and Warrumbungle Shire (all large rural councils).

*** Years where OLG data had available population data, but missing revenue and expenses data. These councils are excluded from any per capita analysis. For 2004-05 they are Clarence Valley (regional town/city); Gwydir Shire

(large rural); and Snowy River Shire (large rural). For 2003-04 they are Bingara Shire (rural); and Lake Macquarie City (regional town/city)

Figure 3: Expenses per capita growth by OLG group (nominal)



Source: NSW Parliamentary Research Service using OLG [Your Council Report](#) data

Notes:

* 2015-16 and 2016-17 has been excluded due to missing data related to NSW council amalgamations. For 2015-16, OLG only had data for 108 councils from 152 councils. For 2016-17, OLG had missing data for 10 councils.

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Table 4: Revenue and expenses per capita by OLG group, 2021-2022

OLG group	Revenue per capita	Expenses per capita
Metropolitan	\$1,482	\$1,198
Regional town/city	\$2,855	\$2,222
Metropolitan fringe	\$1,780	\$1,250
Rural	\$10,099	\$6,790
Large rural	\$4,874	\$3,825

Source: NSW Parliamentary Research Service using OLG [Your Council Report](#) data, 2021-22

Relevant insights from the literature include:

- Local government expenditure is characterised by:
 - Being like a service-based industry, with a significant proportion of expenditure in the form of the delivery of human-based services to the community
 - Extensive utilisation of contracts to deliver services as an alternative to in-house delivery
 - The requirement to maintain, renew, upgrade and construct new assets (Municipal Association of Victoria, 2007).⁷
- Costs on a per capita basis are much higher for regional and rural councils because: they have lower population bases from which to recoup rates revenue; they often provide additional services to their communities (such as aged care); they often service larger geographical areas and may need to provide multiple access points for service delivery; and some regional councils hold and maintain significant asset bases ([IPART, June 2021](#)).⁸
- Metropolitan and metropolitan fringe councils have lower annual costs per person than other council types due to economies of scale arising from higher population densities in smaller geographic areas ([IPART, June 2021](#)).
- The static or declining population bases of rural agricultural, rural remote, and to a lesser extent urban fringe councils, translates to stable to declining council revenue. These councils are shown to have higher debt-service ratios; potential liquidity problems; and lower rates coverage (defined as total rates received as a percentage of total costs) ([Australian CEOs Group, July 2007](#)).⁹

⁷ Municipal Association of Victoria, *Local Government Cost Index Report*, 2007 as cited in the Australian CEOs Group, *Productivity Commission Inquiry into Assessing Local Government Revenue Raising Capacity*, July 2007.

⁸ Independent Pricing and Regulatory Tribunal (IPART), *The impact of population growth on councils costs and revenue*, Information Paper, June 2021.

⁹ Submission by the Australian CEOs Group, *Productivity Commission Inquiry into Assessing Local Government Revenue Raising Capacity*, July 2007.

- Remote and regional councils are particularly dependent on grants. They typically have a sparse population meaning a significantly smaller rate base while covering a large geography. This means higher cost per capita in the provision of essential services like roads, sewerage and water. This issue is compounded by population decline in many remote councils. Seventy per cent of remote councils saw a population decrease from 2014 to 2018, in comparison to 38 percent of all LGAs ([SGS Economics and Planning, August 2022](#)).¹⁰

5. Only 4 councils had operating expenses exceeding revenue in 2021-22 while in 2001-02 there were 53

Only 4 councils had expenses exceeding revenue in 2021-22. These were:

- Snowy Valleys (large rural) - \$79.5 million in expenses, \$73.5 million in revenue
- Murray River (large rural) - \$68.3 million in expenses, \$64.9 million in revenue
- Hunters Hill (metropolitan) - \$19.7 million in expenses, \$18.8 million in revenue
- Burwood (metropolitan) - \$56.5 million in expenses, \$56.3 million in revenue.

In 2021-22, 5 councils had revenue levels that were 2-3 times larger than expense levels. The 5 councils with high levels of revenue exceeding expenses were:

- Brewarrina (rural) - \$47.7 million in revenue, \$13.2 million in expenses
- Shellharbour (regional town/city) - \$291.9 million in revenue, \$123.1 million in expenses
- Hills Shire (metropolitan fringe) - \$364.4 million in revenue, \$156.7 million in expenses
- Camden (metropolitan fringe) - \$290.5 million in revenue, \$135.6 million in expenses
- Kyogle (large rural) - \$62.8 million in revenue, \$32.2 million in expenses,

In 2001-02, 53 councils had expenses exceeding revenue. Of these, 62% were rural or large rural councils. The councils with some of the highest level of expenses exceeding revenue in 2001-02 were:

- Bogan Shire (rural) - \$10.3 million in expenses, \$7.1 million in revenue

¹⁰ SGS Economics and Planning, [Research for submission to Local Government Productivity Inquiry](#), Australian Local Government Association, August 2022.

- Tumbarumba (rural) - \$8.3 million in expenses, \$6.6 million in revenue
- Narromine Shire (rural)- \$14.8 million in expenses, \$11.8 million in revenue
- Narrabri Shire (large rural) - \$30.0 million in expenses, \$24.3 million in revenue
- Cobar Shire (large rural) - \$16.4 million in expenses, \$13.8 million in revenue.

When looking at groups of councils between 2001-02 to 2021-22, expenses only exceeded revenue levels in one year and for one OLG group: rural councils in 2013-14 (Figure 4).

In Figure 4, '1.0' is the level where expenses equals revenue. A ratio above 1.0 is where expenses exceeded revenue. The ratio of expenses to revenue have generally been at their lowest for all OLG groups since 2018-19.

Figure 4: Ratio of expenses to revenue by OLG group



Source: NSW Parliamentary Research Service using OLG [Your Council Report](#) data

Interpretation: 1.0 is the level where expenses equals revenue. A ratio greater than 1.0 is where expenses exceeds revenue

Notes:

* 2015-16 and 2016-17 has been excluded due to missing data related to NSW council amalgamations. For 2015-16, OLG only had data for 108 councils from 152 councils. For 2016-17, OLG had missing data for 10 councils.

** 2005-06 OLG data had missing population, revenue and expenses data for 4 councils. They are Gwydir Shire; Palerang; Snowy River Shire; and Warrumbungle Shire (all large rural councils).

*** Years where OLG data had available population data, but missing revenue and expenses data. These councils are excluded from any per capita analysis. For 2004-05 they are Clarence Valley (regional town/city); Gwydir Shire (large rural); and Snowy River Shire (large rural). For 2003-04 they are Bingara Shire (rural); and Lake Macquarie City (regional town/city).

Relevant insights from the literature include:

- Council costs vary depending on several factors:
 - Younger families increase demand for facilities such as community facilities and recreational spaces such as sports fields and playgrounds
 - Older generations have different expectations and demand services such as community halls and libraries
 - Social housing such as community housing and aged care are increasingly operated by public benevolent institutions or charitable organisations that are exempt from paying rates. Councils with this type of residential accommodation continue to provide services such as libraries, footpaths, open space and leisure facilities. However, no revenue is recouped for these costs. Social housing is not evenly distributed across councils and some councils experience higher levels of non-rateable properties
 - Pensioners pay reduced rates. The NSW Government funds 55% of the pensioner rebate, with the remaining 45% subsidised by the council
 - Councils that settle humanitarian entrants or refugees into their local government area (LGA) face different types of costs to provide and support for this type of population growth
 - Day visitors come into some LGAs for employment. While these visitors do not pay rates, they contribute to wear and tear on local infrastructure (e.g. increased traffic on roads)
 - Increasing numbers of tourists use, but do not pay for, local facilities in some LGAs such as Byron Bay, Tamworth and Waverly. While councils can recoup revenue from hotels that are categorised as 'businesses' for rating purposes, residential properties that are let as Airbnbs or other holiday lettings must be charged residential rates.
 - Secondary dwellings do not provide facilities such as off-street parking and have little or no recreation space. Costs of providing these facilities fall on

councils without adding to rate revenue. Submissions note this does not align with taxation principles of efficiency or equity ([IPART, June 2021](#)).¹¹

- Regional and rural councils face different cost pressures:
 - Regional and rural councils provide a more diverse range of services to their communities – for example, aged care, childcare, water and sewerage services.
 - Regional and rural councils have smaller rate bases over which to spread growth-related costs.
 - Regional and rural communities are typically more geographically dispersed with lower population density. To ensure services are accessible and equitable councils may need to pay for outreach services and multiple delivery points.
 - In some cases, regional and rural ratepayers have less capacity to pay and are already paying rates much greater than ratepayers in metropolitan areas.
 - Many regional and rural councils are facing critical housing shortages, which is leading to increases in secondary dwellings that add to population density but not to rates revenue.
 - Some regional and rural councils have been more successful than others in obtaining grants for infrastructure projects. Where councils are successful, the ongoing maintenance and operating costs of that infrastructure must be paid for by ratepayers.
 - Depreciation of ageing asset bases and asset renewals are significant issues for regional and rural councils. Many have substantial backlogs. Increases to the rate peg are insufficient to cover these costs ([IPART, June 2021](#)).
- Two regions stand out as having lower financial sustainability ratios and outlooks – being the coastal and near coastal areas of the North Coast, and western NSW:
 - For the north coast regions, many of the councils were highly prone to floods; suffer from holiday peak crowds (placing pressure on facilities); and have high demand for a large variety of services due to the age mix of local and tourist populations
 - For western NSW, many of the councils have declining populations; large land areas and road networks; very low population densities; low rate bases, so councils are heavily reliant on government operating and capital

¹¹ Independent Pricing and Regulatory Tribunal (IPART), [The impact of population growth on councils costs and revenue](#), Information Paper, June 2021.

grants; and are susceptible to the full range of natural disasters of drought, floods and bushfires ([Treasury Corporation, April 2013](#)).¹²

6. Regional and rural councils manage significant road networks compared to metropolitan areas

Large rural, regional town/city and rural councils manage a significant proportion of the NSW local road network compared to metropolitan and metropolitan fringe councils (Table 5). The difference is more pronounced for rural and large rural councils when compared on a per capita basis to other OLG groups.

Table 5: Management of NSW local road network by OLG group, 2021-22

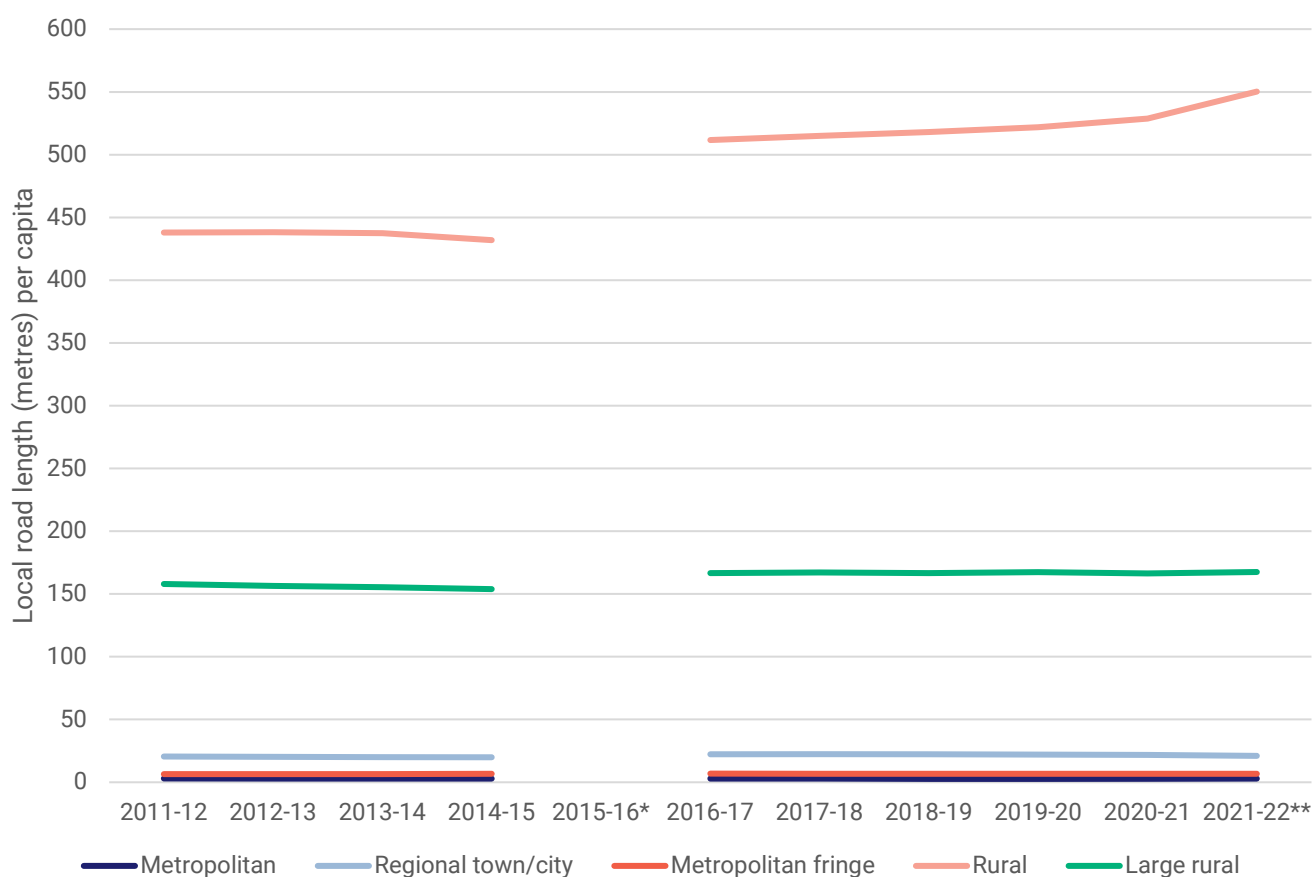
OLG group	Total road length managed 2021-22 (% of total NSW local road network)	Road length managed per capita 2021-22
Metropolitan	10,985 km (7%)	3 m per capita
Regional town/city	50,437 km (30%)	21 m per capita
Metropolitan fringe	9,289 km (6%)	7 m per capita
Rural	24,113 km (14%)	550 m per capita
Large rural	72,433 km (43%)	168 m per capita

Source: NSW Parliamentary Research Service using OLG [Your Council Report](#) data, 2021-22

Only rural councils saw a significant change in road length per capita over the 10 years from 2011-12 (Figure 5), having increased from 438 metres per capita in 2011-12 to 550 metres per capita in 2021-22. This may have partly been influenced by the reclassification of councils, or parts of councils across the OLG groups after the 2016 NSW council amalgamations.

¹² Treasury Corporation (TCorp), [Financial Sustainability of the New South Wales Local Government Sector: Findings, recommendations and analysis](#), April 2013.

Figure 5: Local road length (metres) per capita by OLG group



Source: NSW Parliamentary Research Service using OLG [Your Council Report](#) data

Notes:

* 2015-16 has been excluded due to missing data related to NSW council amalgamations. For 2015-16, OLG only had data for 108 councils from 152 councils.

** In 2021-22, OLG had no road data for Balranald (rural); Cabonne (large rural); Clarence Valley (regional town/city) and Weddin (rural). They are excluded from any road length per capita analysis.

The councils with largest total local road length under management in 2021-22 were:

- Lachlan (large rural) – 3,982km under management (648 metres per capita)
- Mid-Coast (regional town/city) – 3,630km under management (38 metres per capita)
- Tamworth Regional (regional town/city) – 3,230km under management (51 metres per capita)
- Bland (large rural) – 3,147km under management (568 metres per capita)
- Murray River (large rural) – 3,065km under management (240 metres per capita).

The NSW local councils with the largest road length per capita in 2021-22 were:

- Central Darling (rural) – 1,361 metres of road per capita
- Brewarrina (rural) – 1,043 metres of road per capita
- Bourke (rural) – 1,016 metres of road per capita
- Carrathool (rural) – 909 metres of road per capita
- Bogan (rural) – 650 metres of road per capita.

Relevant insights from the literature include:

- Councils are experiencing difficulties maintaining their road networks to the original design standards, let alone upgrading them to modern lane widths, safety standards or load-bearing capacities that cater for higher-productivity freight vehicles, higher traffic volumes, and congestion. These impositions require wider and stronger roads and significantly larger intersections and filter lanes – requirements which were never envisaged in 1996 ([Australian Local Government Association, 2020a](#))¹³
- Locally controlled roads account for approximately 77% of total road length in Australia, or 678,000 kilometres and could circle the earth 16.5 times. The National Transport Commission estimates 36% of all kilometres travelled in Australia are on local roads ([Australian Local Government Association, 2020b](#))¹⁴
- Local roads make up approximately 30% of total local government infrastructure assets ([Australian Local Government Association 2021](#))¹⁵
- Over the past decade, demand for local roads has increased, as has the cost of maintaining roads, but untied grants to local councils have not kept pace. The primary grants relied upon by councils are the Financial Assistance Grants from the federal government, but the indexation of these grants has not matched the cost increases faced by councils. If indexation had kept pace with local government costs, 2022-23 grants would be almost \$600 million, or 20%, higher ([Grattan Institute 2023](#))¹⁶
- The less costly option (in present-value terms) for roads is known as a ‘stitch-in-time’ model, where repairs and rehabilitation occur at the optimal time to prevent accelerating deterioration that would require more costly interventions later. Many road managers find that stitch-in-time pavement strategies provide a return on

¹³ Australian Local Government Association, [Background on Local Government Funding](#), 2020a, accessed 28 May 2024.

¹⁴ Australian Local Government Association, *Roads and Infrastructure Funding*, 2020b, accessed 28 May 2024.

¹⁵ Australian Local Government Association, [2021 National State of the Assets Report](#), 2021.

¹⁶ Grattan Institute, [Potholes and pitfalls: How to fix local roads](#), November 2023.

investment of around two to three times better than that achieved when assets are allowed to either deteriorate in an uncontrolled manner, or to a condition where full replacement is necessary ([Grattan Institute 2023](#)).

7. Local council assets are largely land and buildings, rather than cash

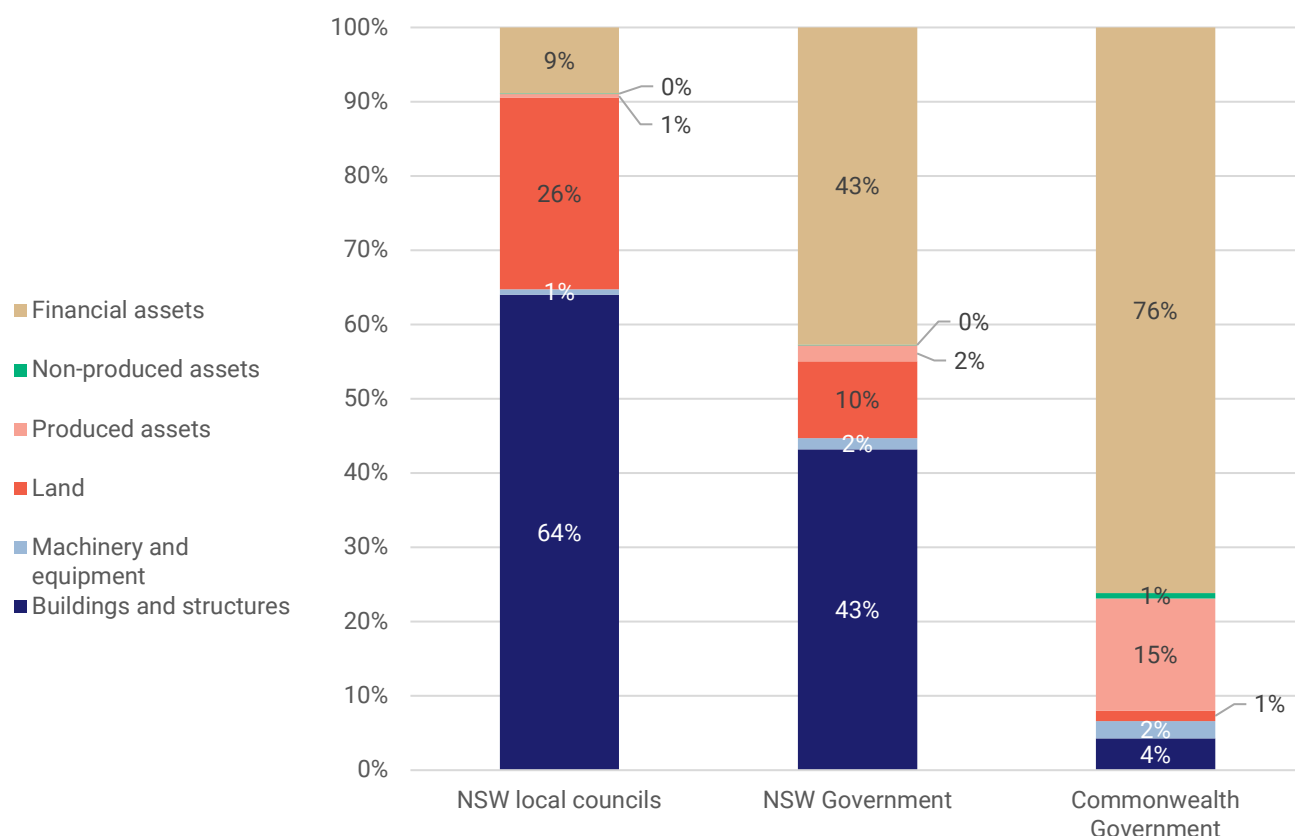
In 2022-23 there were approximately \$1.5 trillion dollars in financial and non-financial assets under management between NSW councils, the NSW Government, and the Commonwealth Government. Of the \$1.5 trillion, councils manage 15% (or \$234.6 billion) of these assets. The NSW Government manages 34% (or \$508.4 billion) and the Commonwealth Government manages 51% (or \$771.2 billion).

Figure 6 shows the split of asset types under management across the 3 levels of government for 2022-23. It shows that a significant proportion of council assets under management are buildings and structures (64%) and land (26%); which together comprise 90% of all council assets under management in total. In comparison, buildings and structures and land assets make up 53% of total assets of the NSW Government.

A significant proportion of the Commonwealth Government's assets are financial assets, such as cash or deposits (76%).

Analysis over the 10-year period from 2011-12 to 2021-22 indicates that the composition of assets has largely remained unchanged for councils. The most significant changes were a 2% increase in the share of council assets that are financial assets, and a -3% decrease in the share of council assets that are land.

Figure 6: Composition of assets under management in 2022-23



Source: ABS [Government Finance Statistics](#), Tables 130, 231 and 331 (April 2024)

Relevant insights from the literature include:

- The financial pressures experienced by local governments are most clearly exhibited in the inadequate funding of asset maintenance of local government infrastructure. This neglect has long-term financial implications as it reduces the useful life of local government infrastructure (and hence bringing forward the need for expensive replacement of assets) and exposes local government to greater risk from litigation. It also has intergenerational implications as persistent infrastructure gaps eventually manifest by shifting the burden from current ratepayers to future ratepayers to fund infrastructure renewal or replacement. ([Australian CEOs Group, July 2007](#)).¹⁷

¹⁷ Submission by the Australian CEOs Group, [Productivity Commission Inquiry into Assessing Local Government Revenue Raising Capacity](#), July 2007.

- Nearly 1 in 10 of all local government assets need significant attention, and 3 in every 100 assets may need to be replaced. Replacing poor quality infrastructure is estimated to cost \$51 billion. Replacing infrastructure in fair condition will range from \$106 billion to \$138 billion ([Australian Local Government Association 2021](#))¹⁸
- Greenfield developments require construction of new assets such as roads, stormwater management assets, open space and in some cases the purchase of environmental conservation land. While some local infrastructure is initially constructed and paid for by developers, council provide the ongoing management and maintenance of the assets. Councils also note greenfield developments have an impact on existing assets and increase demand for community services across the LGA ([IPART, June 2021](#))¹⁹

8. Local council assets have higher depreciations costs than state assets

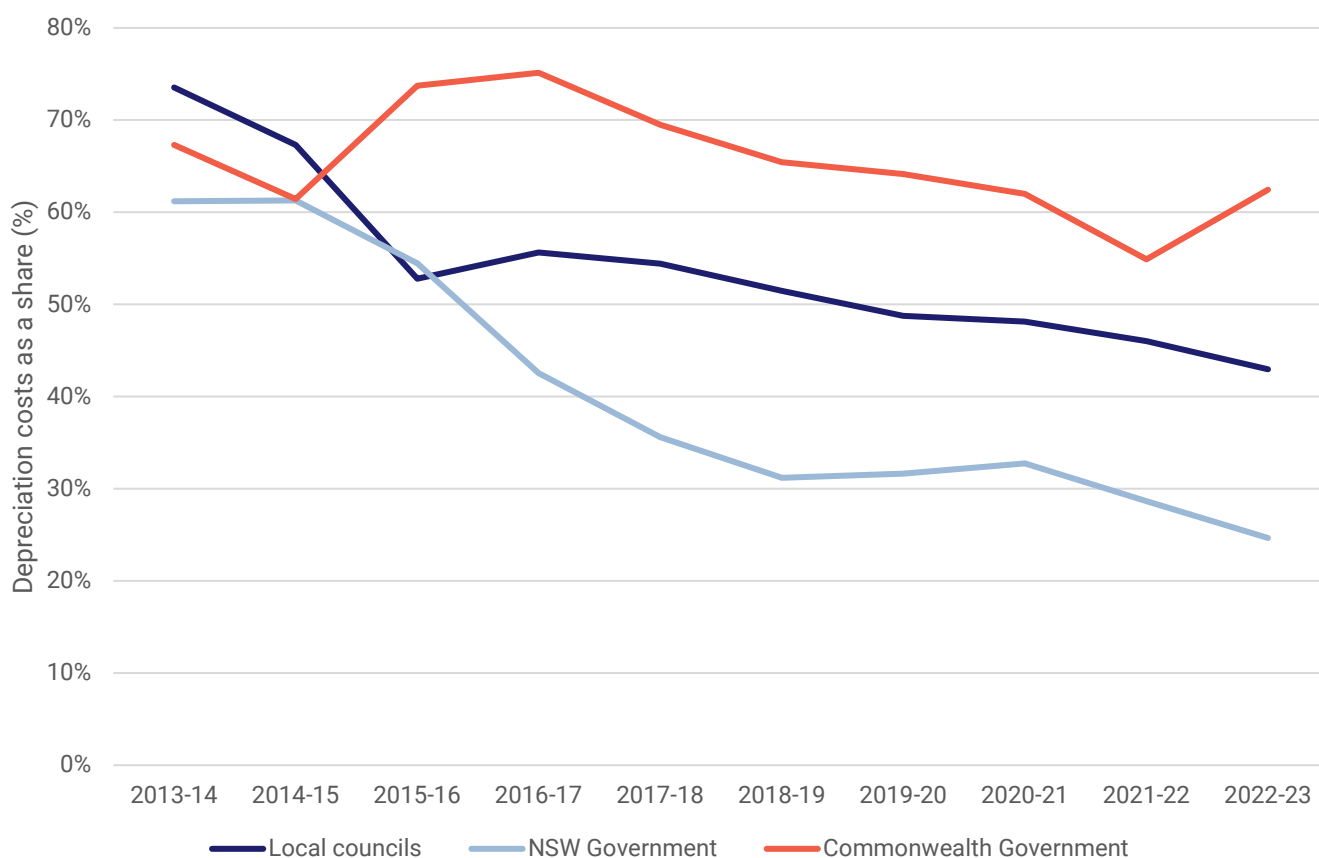
Over the 9 years from 2013-14 to 2022-23, new non-financial assets acquired by councils have generally had higher depreciation costs than those for the NSW Government (Figure 7). This finding refers to depreciation costs as a percentage of the cost of the new non-financial asset acquisition.

In 2022-23, depreciation costs were 43% of the costs associated with acquiring non-financial assets for councils, and 25% for the NSW Government. In 2011-12, these depreciation costs were higher for both councils (74%) and the NSW Government (61%).

¹⁸ Australian Local Government Association, [2021 National State of the Assets Report](#), 2021.

¹⁹ Independent Pricing and Regulatory Tribunal (IPART), [The impact of population growth on councils costs and revenue](#), Information Paper, June 2021.

Figure 7: Depreciation costs as a percentage of the cost of non-financial asset acquisition



Source: ABS [Government Finance Statistics](#), Tables 130, 231 and 331 (April 2024)

Relevant insights from the literature include:

- Around 20% of local government expenditure is being spent on maintaining depreciating assets – compared with less than 6% for the states and 2% for the Commonwealth ([Australian Local Government Association 2020](#))²⁰
- There is increasing recognition that local government assets are aging and concern that renewal expenditure is not occurring at the rate necessary to maintain service levels from existing assets. This follows changes in Australian Accounting Standards in the 1990s and legislative requirements for local governments to follow such standards. These changes require governments to recognise infrastructure (e.g. roads, stormwater drains, buildings) as assets and depreciate

²⁰ Australian Local Government Association, [Current Financial Arrangements](#), 2020, accessed 28 May 2024.

them over their useful lives. These changes showed for the first time the total costs of service delivery by local governments inclusive of asset consumption ([Comrie, December 2012](#))²¹

9. Local councils spend significantly more on environmental protection and culture

Councils had \$15.2 billion of expenses in 2022-23. In this period the NSW Government had \$113.2 billion, and the Commonwealth Government had \$639.3 billion of expenses.

There are significant differences in the composition of expense types across the 3 levels of government. Environmental protection accounted for 19% of council expenses, compared to 2% for the NSW Government and 1% for the Commonwealth Government. Recreation, culture and religion accounted for 14% of council expenses, compared to 2% for the NSW Government and 1% for the Commonwealth Government. Housing and community amenities accounted for 9% of council expenses in 2022-23, compared to 2% for the NSW Government and 1% for the Commonwealth Government.

Table 6 shows the composition of expense types for all categories across the 3 levels of government in 2022-23. Darker shades of green in Table 1 indicate where there was a higher proportion of spending for the relevant level of government.

Table 6: Composition of expense types in 2022-23 by government level

Types of expenses	NSW local councils	NSW Government	Commonwealth Government
General public services	25%	13%	22%
Public order and safety	3%	9%	1%
Economic affairs	5%	5%	4%
Environmental protection	19%	2%	1%
Housing and community amenities	9%	2%	1%
Health	1%	26%	17%
Recreation, culture and religion	14%	2%	1%
Education	1%	20%	8%
Social Protection	3%	8%	36%
Transport	20%	13%	2%
Defence (null for local and state)	0%	0%	7%
Total expenses in 2022-23	\$15.2 billion	\$113.2 billion	\$639.3 billion

²¹ J Comrie, [Strengthening Local Government Revenue](#), Background Paper, Search Conference for the Australian Centre of Excellence for Local Government, December 2012.

Source: ABS [Government Finance Statistics](#), Tables 130, 231 and 331 (April 2024)

Over the 9-year period from 2013-14 to 2022-23, there has been little change in the composition of expenses for councils. The most significant changes were a 1.3% increase in the share of expenses for environmental protection, and a -1.1% decrease in the share of expenses for housing and community amenities.

Relevant insights from the literature include:

- Councils are occasionally required to fund the continuation of several funding programs that were instigated by the NSW Government, but for which funding commitments have, over time, either been reduced or removed entirely. The three main funding programs councils currently continue to fund are library subsidies; flood mitigation; and the road safety program ([Local Government NSW, 2023](#))²²
- Councils absorb the costs of service and market gaps that should have been provided by state or federal governments: This is particularly an issue in rural and regional NSW, where councils often must step in to provide or support a service that is traditionally delivered either directly or through subsidised private providers. This can be for a diverse range of services from aged, disability or childcare through to medical services, education, or public transport services ([Local Government NSW, 2023](#))
- Local Government NSW estimated that cost shifting and responsibility transfers from state and federal government in the 10-year period before 2021 imposed a cumulative total burden of \$6.2 billion for local governments in NSW ([NSW Legislative Council Public Accountability Committee, March 2021](#))²³
- According to Local Government NSW, the cost to NSW councils of cost shifting was \$1.36 billion in 2021-22, or \$460.67 per ratepayer ([Local Government NSW, 2023](#)).

10. Grants and subsidies make up an increasing proportion of the revenue sources for councils

The proportion of council revenue that comes from grants and subsidies has increased in the 9 year period from 2013-14 to 2022-23, from 8% in 2013-14 to 21% in 2022-23. Current

²² Local Government NSW, [LGNSW Cost Shifting Report – How State Costs Affect Council Rates](#), Morrison Low, 2023.

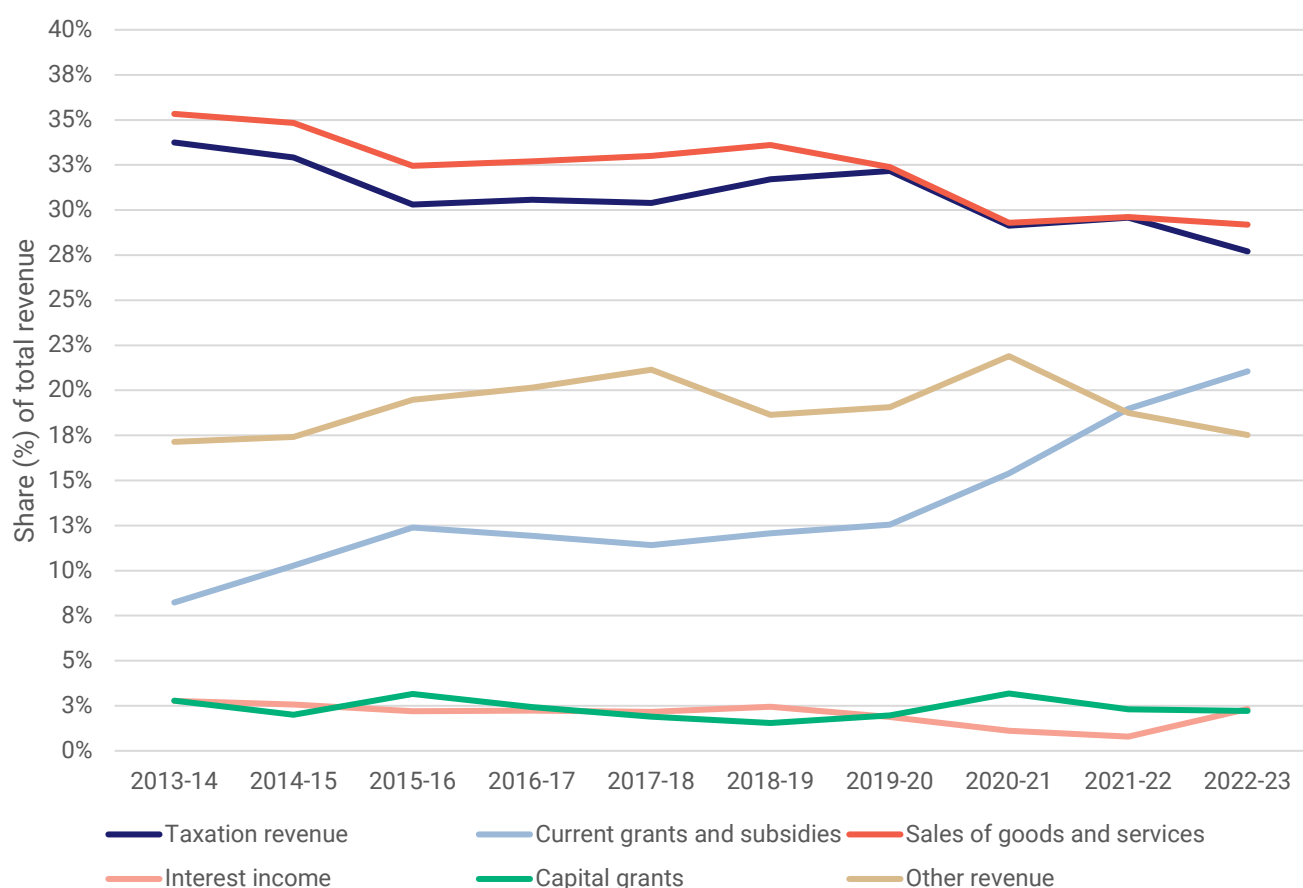
²³ NSW Legislative Council Public Accountability Committee, [Integrity, efficacy and value for money of NSW Government grant programs](#), First Report, March 2021.

grants and subsidies is cash received from voluntary transfers by government and other entities.

Capital grants have decreased slightly as a share of total council revenue. It made up 3% of revenue in 2013-14, compared to 2% in 2022-23. Recipients of capital grants are mandated to spend the money on capital projects, such as the acquisition of non-financial assets.

Figure 8 shows how the composition of revenue categories has changed over time. In addition to the trends in grant revenue, there has also been a 6% decrease in the share of income from taxation revenue for councils between 2013-14 and 2022-23 period.

Figure 8: Change in composition of revenue types for councils over time



Source: ABS [Government Finance Statistics](#), Table 331 (April 2024)

Analysis of NSW Government and Commonwealth Government expenses over time indicates little structural change for the Commonwealth Government, and some change for the NSW Government.

For the NSW Government, over the 9 years from 2013-14 to 2022-23 the share of income from dividends decreased by 3%, while the share of income from taxation revenue and royalty revenue increased by 2%. The share of revenue from capital grants for the NSW Government only increased by 1% over the 9 years.

Relevant insights from the literature include:

- For some rural and remote councils where own-source revenue-raising capacity is limited, grants can account for more than 50% of council revenue ([Australian Local Government Association, 2020a](#)).²⁴
- Unfunded mandates are where a decision, action or legislative reform by state government has taken place without adequate financial compensation being provided to local government. Unfunded mandates can include ([NSW Legislative Council General Purpose Standing Committee, 2003](#))²⁵
 - Increases in charges and levies imposed on local government.
 - Additional or new costs associated with regulatory functions imposed on local government.
 - State imposed concessions or exemptions from rate-payments, such as pensioner concessions and non-payment of rates by the State government (e.g. State Forest plantations and voluntary conservation agreements).
 - Costs associated with providing additional services that were previously provided by the Federal or the State Government.
 - Costs associated with providing services required by the community in the absence of them being provided by the State Government (e.g. aged care and youth facilities).
 - Costs incurred as an indirect result of government and industry decisions (e.g. increased strain on rural roads due to closure of railway lines and use of larger trucks).

²⁴ Australian Local Government Association, [Background on Local Government Funding](#), 2020a, accessed 28 May 2024.

²⁵ NSW Legislative Council General Purpose Standing Committee, [Local Government Amalgamations](#), Chapter 3: Local government finances, December 2003.

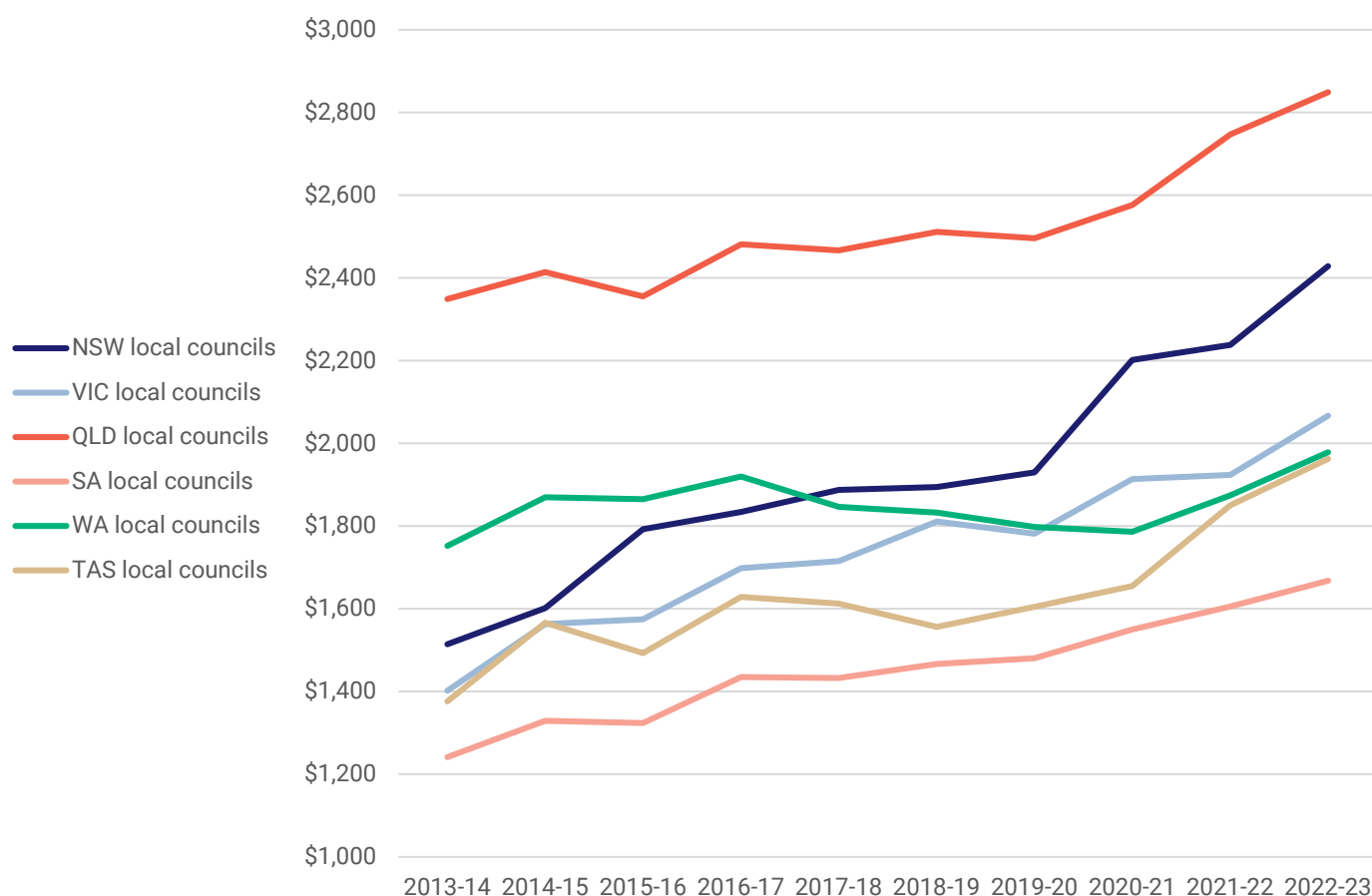
11. NSW councils receive more revenue per capita than those in Victoria, but not Queensland

In 2022-23 NSW councils received \$2,428 in total revenue per capita. This is higher than Victorian councils, which received \$2,067 in revenue per capita, but not Queensland councils, which received \$2,849 in revenue per capita.

In 2013-14 Queensland councils also had the most revenue per capita of any other state at \$2,349 in revenue per capita. At that time NSW councils received significantly lower revenue per capita compared to Queensland, at \$1,534 in revenue per capita.

Over the 9 years from 2013-14 to 2022-23, South Australian local councils have consistently received the lowest amount of revenue per capita (Figure 9). In 2022-23, South Australian local councils only received \$1,470 in revenue per capita.

Figure 9: Revenue per capita of Australian local councils by state (nominal)



Source: ABS [Government Finance Statistics](#), Tables 331-336 (April 2024); ABS [Regional population](#) (March 2024)

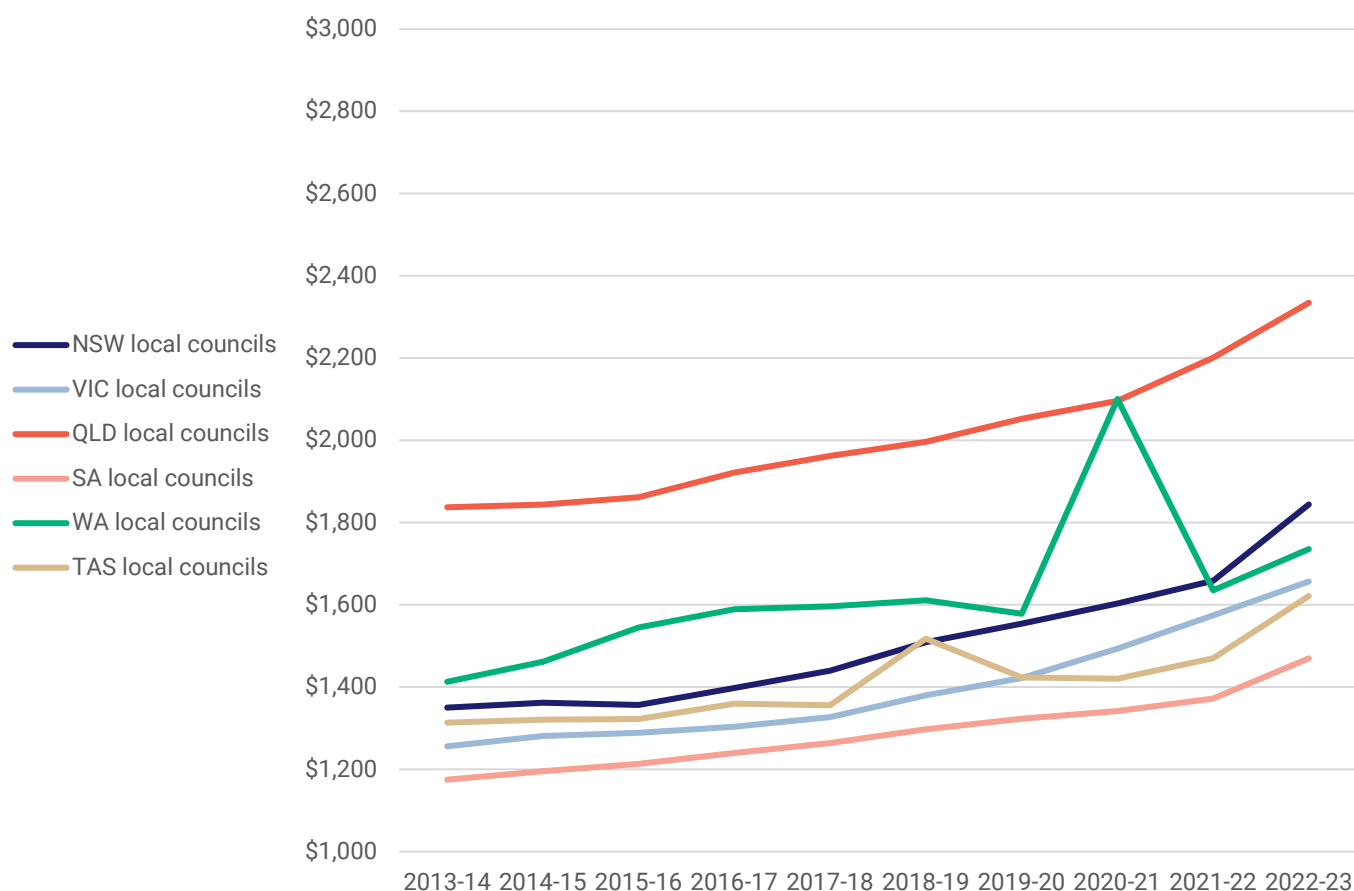
12. NSW councils have similar expenses per capita to Western Australia

In 2022-23, NSW councils had \$1,844 in expenses per capita. This is similar to WA local councils, who had \$1,736 in expenses per capita in the same year.

Queensland local councils had significantly higher expenses per capita than any of the other Australian state's councils in 2022-23, at \$2,335 per capita.

Figure 10 shows how expenses per capita have changed over the 9 year period from 2013-14 to 2022-23. As expenses have slowly risen for all local councils by state, they have maintained similar positions in relation to each other over time.

Figure 10: Expenses per capita of Australian local councils by state (nominal)



Source: ABS [Government Finance Statistics](#), Tables 331-336 (April 2024); ABS [Regional population](#) (March 2024)

13. Further reading

Australian Local Government Association (ALGA)

[2021 National State of the Assets Report](#), report, 2021.

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J Drew and N Campbell, [Autopsy of municipal failure: the case of Central Darling Shire](#), *Australasian Journal of Regional Studies*, 2016, 22(2), 79-102

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J Drew and B Dollery, [A fair go? A response to the Independent Local Government Review Panel's assessment of Municipal taxation in NSW](#), *Australian Tax Forum*, 30, 2015

P Abelson and R Joyeux, [New development: Smoke and mirrors – fallacies in the New South Wales government's views on local government financial capacity](#), *Public Money & Management*, July 2015

J Comrie, [Strengthening local government revenue: background paper](#), *Australian Centre for Excellence for Local Government*, Updated December 2012

B Dollery et al, [The local capacity, local community and local governance dimensions of sustainability in Australian local government](#), *Commonwealth Journal of Local Governance*, May 2011, 8/9

Centre for International Economics

[Evaluation of infrastructure contributions reform in New South Wales](#), report prepared for NSW Productivity Commission, 2020.

Grattan Institute

[Potholes and pitfalls: How to fix local roads](#), report, 2023.

Independent Pricing and Regulatory Tribunal (IPART)

[The impact of population growth on council costs and revenue](#), Information Paper, 2021.

[Revenue framework for local government](#), Information Paper, 2010.

[Comparative analysis of local government revenue and expenditure in Australia](#), Information Paper, 2009.

Local Government NSW

[Cost Shifting 2023: How State Costs Eat Council Rates](#), report, 2023.

[Modernising local government: Local government for the 21st century](#), consultation report, 2011.

McKell Institute

[Giving local governments the reboot: improving the financial sustainability of local governments](#), report, 2016.

NSW Productivity Commission

[Review of infrastructure contributions in New South Wales](#), report, 2020.

Office of Local Government NSW

[Finances 2021/22](#), webpage, accessed 28 May 2024.

[Assets 2021/22](#), webpage, accessed 28 May 2024.

[Services 2021/22](#), webpage, accessed 28 May 2024.

[Local Government Infrastructure Audit](#), report, 2013.

Parliamentary Committee inquiries

House of Representatives, Standing Committee on Regional Development, [Inquiry into local government sustainability](#), webpage, accessed 28 May 2024.

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House of Representatives, Standing Committee on Economics, Finance and Public Administration, [Inquiry into local government and cost shifting](#), report, 2003.

NSW Legislative Council, Portfolio Committee No. 5 – Justice and Communities, [Local Government amalgamations in NSW](#), report, 2003.

SGS Economics and Planning

[Alternative sources of income for local government](#), report for Rural Councils Victoria, 2022.

[Research for submission to local government productivity inquiry](#), research for ALGA, 2022.

South Australian Productivity Commission

[Local Government Inquiry](#), report, 2019.

Treasury Corporation (TCorp)

[Financial sustainability of the New South Wales Local Government Sector](#), report, 2013.

University of Tasmania

[Funding Tasmanian local government in the future: Key issues and reform options](#), background paper, 2023.

Appendix: NSW councils by OLG groups

This appendix provides information about the OLG groups used in this response in 2 ways. In the first table councils are listed alphabetically, and in the second table they are organised by OLG group.

NSW local councils and their OLG group

Council	OLG Group	Council	OLG Group
Albury	Regional Town/City	Coffs Harbour	Regional Town/City
Armidale Regional	Regional Town/City	Coolamon	Rural
Ballina	Regional Town/City	Coonamble	Rural
Balranald	Rural	Cootamundra-Gundagai Regional	Large Rural
Bathurst Regional	Regional Town/City	Cowra	Large Rural
Bayside	Metropolitan	Cumberland	Metropolitan
Bega Valley	Regional Town/City	Dubbo Regional	Regional Town/City
Bellingen	Large Rural	Dungog	Large Rural
Berrigan	Large Rural	Edward River	Large Rural
Blacktown	Metropolitan	Eurobodalla	Regional Town/City
Bland	Large Rural	Fairfield	Metropolitan
Blayney	Large Rural	Federation	Large Rural
Blue Mountains	Metropolitan Fringe	Forbes	Large Rural
Bogan	Rural	Georges River	Metropolitan
Bourke	Rural	Gilgandra	Rural
Brewarrina	Rural	Glen Innes Severn	Large Rural
Broken Hill	Regional Town/City	Goulburn Mulwaree	Regional Town/City
Burwood	Metropolitan	Greater Hume	Large Rural
Byron	Regional Town/City	Griffith	Regional Town/City
Cabonne	Large Rural	Gunnedah	Large Rural
Camden	Metropolitan Fringe	Gwydir	Large Rural
Campbelltown	Metropolitan Fringe	Hawkesbury	Metropolitan Fringe
Canada Bay	Metropolitan	Hay	Rural
Canterbury-Bankstown	Metropolitan	Hills	Metropolitan Fringe
Carrathool	Rural	Hilltops	Large Rural
Central Coast	Metropolitan Fringe	Hornsby	Metropolitan Fringe
Central Darling	Rural	Hunters Hill	Metropolitan
Cessnock	Regional Town/City	Inner West	Metropolitan
Clarence Valley	Regional Town/City	Inverell	Large Rural
Cobar	Large Rural	Junee	Large Rural
Kempsey	Regional Town/City	Port Stephens	Regional Town/City

Council	OLG Group	Council	OLG Group
Kiama	Regional Town/City	Queanbeyan-Palerang Regional	Regional Town/City
Ku-ring-gai	Metropolitan	Randwick	Metropolitan
Kyogle	Large Rural	Richmond Valley	Regional Town/City
Lachlan	Large Rural	Ryde	Metropolitan
Lake Macquarie	Regional Town/City	Shellharbour	Regional Town/City
Lane Cove	Metropolitan	Shoalhaven	Regional Town/City
Leeton	Large Rural	Singleton	Regional Town/City
Lismore	Regional Town/City	Snowy Monaro Regional	Regional Town/City
Lithgow	Regional Town/City	Snowy Valleys	Large Rural
Liverpool	Metropolitan	Strathfield	Metropolitan
Liverpool Plains	Large Rural	Sutherland	Metropolitan
Lockhart	Rural	Sydney	Metropolitan
Maitland	Regional Town/City	Tamworth Regional	Regional Town/City
Mid-Coast	Regional Town/City	Temora	Large Rural
Mid-Western Regional	Regional Town/City	Tenterfield	Large Rural
Moree Plains	Large Rural	Tweed	Regional Town/City
Mosman	Metropolitan	Upper Hunter	Large Rural
Murray River	Large Rural	Upper Lachlan	Large Rural
Murrumbidgee	Rural	Uralla	Large Rural
Muswellbrook	Large Rural	Wagga Wagga	Regional Town/City
Nambucca Valley	Large Rural	Walcha	Rural
Narrabri	Large Rural	Walgett	Large Rural
Narrandera	Large Rural	Warren	Rural
Narromine	Large Rural	Warrumbungle	Large Rural
Newcastle	Regional Town/City	Waverley	Metropolitan
North Sydney	Metropolitan	Weddin	Rural
Northern Beaches	Metropolitan	Wentworth	Large Rural
Oberon	Large Rural	Willoughby	Metropolitan
Orange	Regional Town/City	Wingecarribee	Regional Town/City
Parkes	Large Rural	Wollondilly	Metropolitan Fringe
Parramatta	Metropolitan	Wollongong	Regional Town/City
Penrith	Metropolitan Fringe	Woollahra	Metropolitan
Port Macquarie-Hastings	Regional Town/City	Yass Valley	Large Rural

OLG group and their constituent councils


Large rural			
Bellingen	Forbes	Liverpool Plains	Temora
Berrigan	Glen Innes Severn	Moree Plains	Tenterfield
Bland	Greater Hume	Murray River	Upper Hunter
Blayney	Gunnedah	Muswellbrook	Upper Lachlan
Cabonne	Gwydir	Nambucca Valley	Uralla
Cobar	Hilltops	Narrabri	Walgett
Cootamundra-Gundagai Regional	Inverell	Narrandera	Warrumbungle
Cowra	Junee	Narromine	Wentworth
Dungog	Kyogle	Oberon	Yass Valley
Edward River	Lachlan	Parkes	
Federation	Leeton	Snowy Valleys	
Metropolitan			
Bayside	Georges River	North Sydney	Sydney
Blacktown	Hunters Hill	Northern Beaches	Waverley
Burwood	Inner West	Parramatta	Willoughby
Canada Bay	Ku-ring-gai	Randwick	Woollahra
Canterbury-Bankstown	Lane Cove	Ryde	
Cumberland	Liverpool	Strathfield	
Fairfield	Mosman	Sutherland	
Metropolitan Fringe			
Blue Mountains	Central Coast	Hornsby	
Camden	Hawkesbury	Penrith	
Campbelltown	Hills	Wollondilly	

Regional Town/City			
Albury	Dubbo Regional	Mid-Coast	Singleton
Armidale Regional	Eurobodalla	Mid-Western Regional	Snowy Monaro Regional
Ballina	Goulburn Mulwaree	Newcastle	Tamworth Regional
Bathurst Regional	Griffith	Orange	Tweed
Bega Valley	Kempsey	Port Macquarie-Hastings	Wagga Wagga
Broken Hill	Kiama	Port Stephens	Wingecarribee
Byron	Lake Macquarie	Queanbeyan-Palerang Regional	Wollongong
Cessnock	Lismore	Richmond Valley	
Clarence Valley	Lithgow	Shellharbour	
Coffs Harbour	Maitland	Shoalhaven	
Rural			
Balranald	Carrathool	Gilgandra	Walcha
Bogan	Central Darling	Hay	Warren
Bourke	Coolamon	Lockhart	
Brewarrina	Coonamble	Murrumbidgee	

Source: Office of Local Government (OLG) [Your Council Report](#), 2021-22

Disclaimer

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**Acknowledgement of country**

The Parliament of New South Wales acknowledges and respects the traditional lands of all Aboriginal people and pays respects to all Elders past and present. We acknowledge the Gadigal people as the traditional custodians of the land on which the Parliament of New South Wales stands.