

# Western NSW Local Government Sustainability

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## Executive Summary

Western NSW councils operate under conditions substantially different to those experienced in metropolitan Australia. Large geographic areas, sparse populations, ageing infrastructure networks, constrained workforce pools and increasingly complex governance obligations create operational environments that are both resource-intensive and institutionally demanding.

This report examines whether the current local government governance and funding framework remains appropriately aligned with those realities.

The evidence assembled throughout this review increasingly suggests the emerging challenge may not simply involve isolated financial stress, poor management or temporary workforce shortages. Rather, the pressures evident across parts of Western NSW appear increasingly structural in nature, involving the interaction between:

- Geography
- Infrastructure burden
- Governance complexity
- Workforce capability
- Institutional resilience
- Constrained revenue capacity

Importantly, this report does not advocate simplistic solutions. It argues that reform outcomes are highly context dependent and that future reform should be evidence-based, geographically literate and durable enough to survive political cycles.

The report also identifies an emerging distinction between headline solvency and unrestricted financial resilience. While some councils may remain technically compliant and operationally functional, unrestricted financial flexibility may nevertheless be gradually weakening over time.

Unrestricted funds represent the portion of council financial resources genuinely available to respond to emerging operational, infrastructure or emergency pressures without external restriction.

The central proposition emerging from this work is that remote local government sustainability may fundamentally be an institutional and governance-design issue, rather than merely a short-term financial issue.

Importantly, many Western NSW councils continue delivering substantial outcomes for their communities despite the pressures identified throughout this review. **The issue examined is therefore not one of widespread organisational failure, but whether long-term structural settings remain fully aligned with remote operational reality.**

These concerns are strongly consistent with a substantial body of Australian local government research developed over the past two decades, including:

- The Allan Inquiry into the Financial Sustainability of NSW Local Government
- The PricewaterhouseCoopers National Financial Sustainability Study
- Productivity Commission work regarding local government fiscal capacity
- The Audit Office of NSW local government reporting
- The NSW Independent Local Government Review Panel chaired by Professor Graham Sansom, with Jude Munro AO and Glenn Inglis, particularly its 2013 final report Revitalising Local Government

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- Queensland amalgamation experience
- The work of Professor Joseph Drew and Professor Brian Dollery regarding institutional sustainability, structural reform and local government resilience

## **Key Strategic Observations**

- Geography does not amalgamate
- Infrastructure liability is cumulative and perpetual
- Governance complexity has increased materially over the last three decades
- Institutional sustainability now matters as much as financial sustainability
- Workforce capability shortages are increasingly structural rather than temporary
- Communities of interest have operational and political consequences
- Poorly designed reform can create long-term reversal costs
- Remote councils may require differentiated governance assumptions
- Shared services can improve capability but may also unintentionally centralise employment away from smaller communities
- Sustainability pressure may be systemic across parts of Western NSW rather than isolated to individual councils

### **1. Introduction**

Western NSW councils operate under conditions fundamentally different to those experienced in metropolitan and large regional centres.

Large road networks, dispersed populations, freight disadvantages, environmental exposure, workforce attraction difficulties and limited revenue bases create operating conditions that are unusually infrastructure intensive.

At the same time, modern governance expectations imposed upon councils have increased substantially.

Contemporary councils are expected to manage:

- Sophisticated procurement systems
- Cyber security obligations
- Emergency management responsibilities
- Integrated planning and reporting
- Environmental Regulation
- Asset management frameworks
- Grant administration
- Infrastructure planning
- Increasingly complex community expectations

This report examines whether existing governance and funding assumptions remain appropriately aligned with those realities.

## 2. Historical Reform Context

Local government reform is neither new nor inherently inappropriate.

Governments have historically pursued reform to improve:

- Efficiency
- Governance capability
- Financial sustainability
- Strategic planning
- Infrastructure delivery

The 1993 Hilmer Review into National Competition Policy encouraged greater commercial discipline and efficiency across public institutions. Subsequent local government reform programs across Australia increasingly reflected assumptions that a larger administrative scale would improve efficiency and sustainability.

In NSW, the Independent Local Government Review Panel, chaired by Professor Graham Sansom, with Jude Munro AO and Glenn Inglis, remains particularly relevant. Its 2013 final report, *Revitalising Local Government*, examined governance models, structural arrangements, financial sustainability, service delivery, infrastructure and local representation.

Importantly, the Panel recognised that reform needed to be assessed as an integrated package rather than reduced to single structural measures. **That remains directly relevant to Western NSW, where geography, infrastructure intensity and workforce capability materially alter the practical effect of reform options.**

The Queensland amalgamation reforms of 2007 represented one of the largest structural reform exercises undertaken in Australian local government. While some governance and capability benefits emerged, subsequent experience also demonstrated:

- Transition complexity
- Workforce disruption
- Community resistance
- The political durability risks associated with large-scale forced reform

Equally important are the lessons arising from de-amalgamation experiences elsewhere in Australia, which demonstrated that **poorly aligned structural reform can create substantial reversal costs**, institutional instability and long-term political damage.

Research by Drew and Dollery has consistently argued that economies of scale within local government are highly context-dependent and often weaker than assumed, particularly in geographically dispersed rural environments.

This report, therefore, approaches reform cautiously. It does not reject reform. Rather, it argues reform should be:

- Evidence-based
- Geographically literate
- Operationally realistic
- Durable enough to survive political cycles

### **3. Structural Characteristics of Western NSW**

Western NSW councils operate across some of the most geographically dispersed local government environments in Australia.

Many councils maintain extensive road and infrastructure networks across vast geographic areas with sparse population distribution and limited economies of density. Freight disadvantages, climate exposure, thin labour markets and constrained rating bases compound these pressures.

The result is that infrastructure intensity, workforce sustainability and governance complexity often interact differently to metropolitan environments. This creates structural operating conditions that may not be fully recognised within standardised governance and funding frameworks.

### **4. Financial Sustainability vs Institutional Sustainability**

Traditional local government sustainability discussions have often focused narrowly on accounting indicators or short-term operating results.

However, the evidence increasingly suggests that institutional sustainability may now be equally important.

A council may remain technically solvent while simultaneously experiencing:

- Deteriorating workforce capability
- Declining unrestricted financial flexibility
- Infrastructure renewal stress
- Executive instability
- Specialist skill shortages
- Increasing dependence upon grants or external contractors

This can create increasing dependence on grant programs for core infrastructure renewal, reducing long-term financial flexibility and increasing exposure to policy volatility.

Modern governance complexity has materially increased institutional operating requirements.

This includes:

- Cyber security
- Procurement compliance
- Asset management sophistication
- Integrated planning and reporting
- Environmental Regulation
- Emergency management
- Risk management
- Increasing technical infrastructure planning obligations

This is often compounded by the requirement to replace assets with contemporary standards (*Modern Day Equivalent*), which can materially increase both capital and operational expenditure.

In many remote environments, institutional sustainability may therefore become the limiting factor before formal financial insolvency occurs.

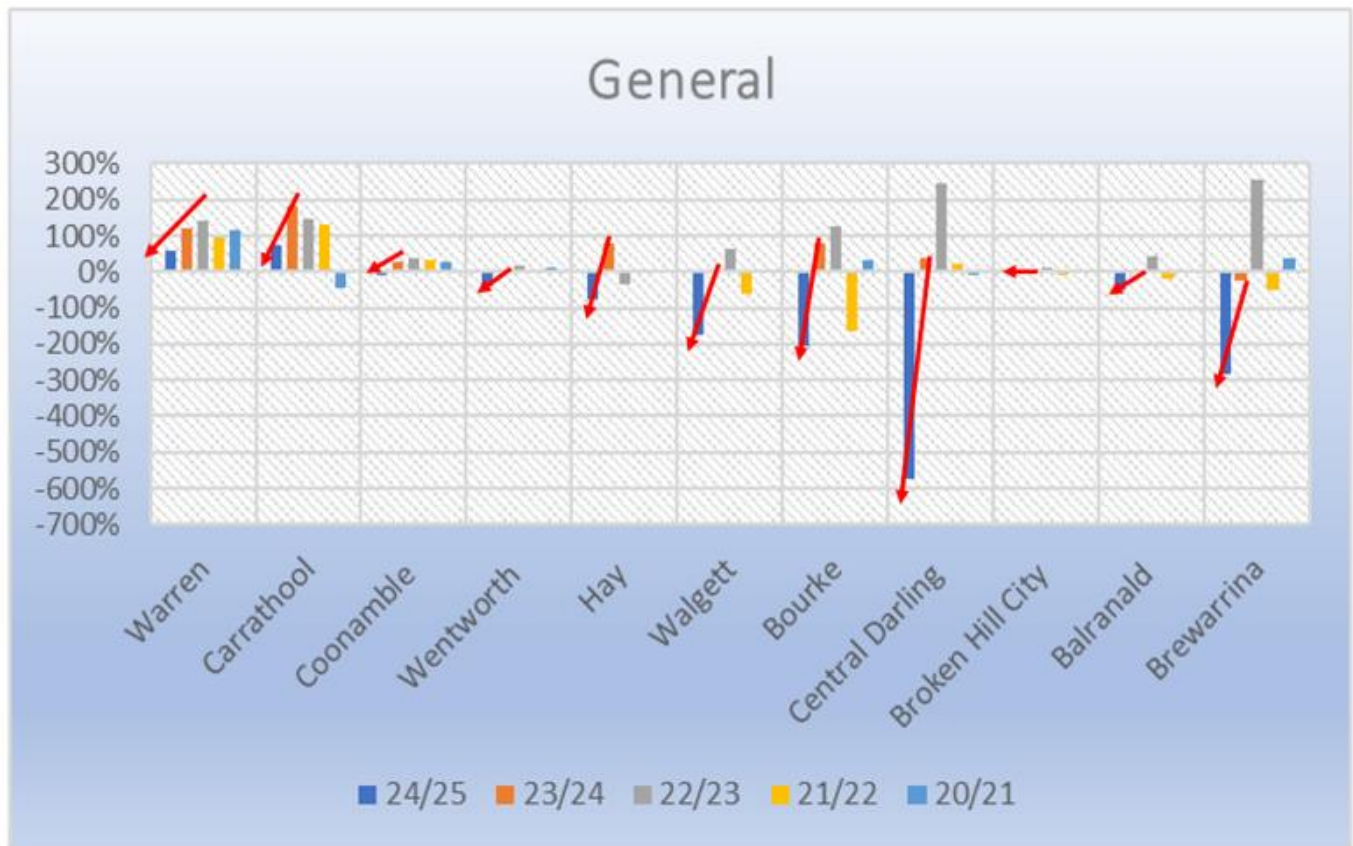


Figure 1. Comparison of Operating Result of General Funds and Trend Lines

Every council except Broken Hill City is trending downwards. Broken Hill City maintains approximately 16 kilometres of road per 1,000 residents, whereas the average for the top four road-intensive councils is approximately 1,055 kilometres per 1,000 residents. This may partially explain the divergence in operating result trends shown in Figure 1.

## 5. Infrastructure Intensity and Geographic Reality

One of the strongest emerging themes throughout this review is the disconnect between:

- Population scale
- Infrastructure responsibility

Preliminary NSW Office of Local Government indicator extraction demonstrates the scale of infrastructure intensity experienced by many Western councils.

Examples include:

- Central Darling: approximately 1,356 road kilometres per 1,000 residents
- Brewarrina: approximately 1,102 road kilometres per 1,000 residents
- Bourke: approximately 1,047 road kilometres per 1,000 residents
- **Balranald: approximately 718 road kilometres per 1,000 residents**

By comparison, **Broken Hill records approximately 16 road kilometres per 1,000 residents.**

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These differences are operationally profound. Refer to Figure 2.

Distance remains distance. Roads remain roads. Infrastructure networks remain physically dispersed regardless of administrative boundaries.

The evidence increasingly suggests that parts of the current funding and governance framework may reflect metropolitan assumptions not fully aligned with remote geographic reality.

Importantly, depreciation and modern accounting standards did not create these infrastructure burdens. Rather, they made long-term liabilities more visible.

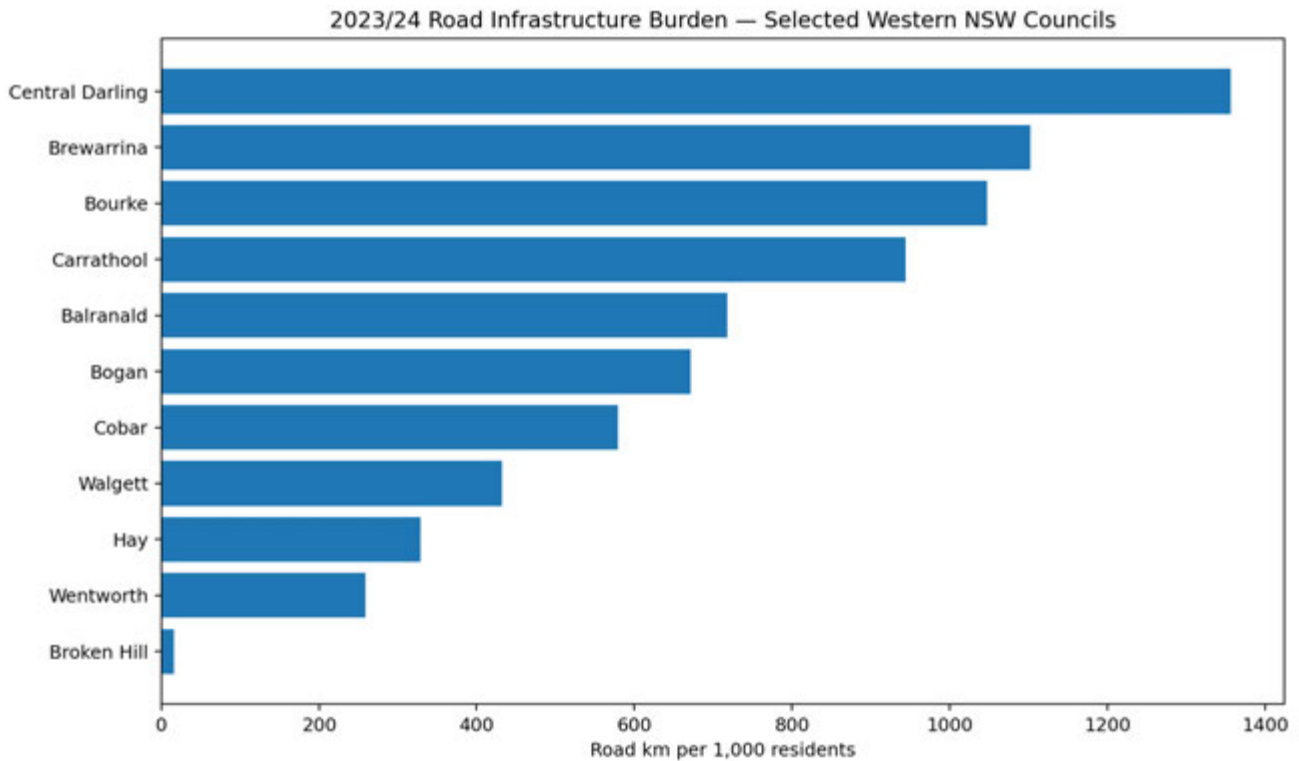


Figure 2. Road Length Kilometres Per 1,000 Residents - Western Councils

## 6. Workforce Capability and Governance Complexity

Workforce sustainability now appears inseparable from financial sustainability.

Many Western NSW councils experience ongoing difficulty attracting and retaining:

- Engineers
- Planners
- Project managers
- Environmental specialists
- Finance professionals
- Governance staff

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- Executive leadership

In many cases, councils are competing nationally for a very limited specialist workforce pool while simultaneously operating within constrained salary environments.

This creates a structural challenge: modern governance complexity increasingly requires specialist capability that some remote councils struggle to sustainably maintain at scale.

This issue is not unique to Western NSW. Similar concerns have emerged in:

- Northern Territory sustainability reviews
- Audit Office reporting
- Queensland reform reviews
- Broader national local government sustainability studies

The issue, therefore, appears systemic rather than isolated.

## 7. The Risk of Unintended Centralisation

Regional capability sharing and technical hub models may provide genuine benefits if implemented appropriately.

However, they also carry risks if implemented poorly.

One of the less discussed consequences of some resource-sharing arrangements is the gradual transfer of professional and administrative positions away from smaller communities into larger regional centres.

Over time, this can create a self-reinforcing cycle:

- Capability concentrates in larger centres
- Employment leaves smaller towns
- Local institutional capacity weakens
- Service dependency increases
- Smaller communities become progressively less sustainable

This report does not argue against shared capability models. Rather, it argues such models must be carefully designed to avoid unintentionally accelerating regional centralisation.

The objective should be regional capability strengthening, not regional hollowing-out.

## 8. Reform Options

Reform Option	Description	Potential Strength	Key Risk
<b>Status Quo</b>	Retain existing structures with incremental improvement.	Administrative continuity	Structural pressures remain unresolved.
<b>Functional Regionalisation</b>	Expand regional specialist and shared-service models.	Improves capability access	Coordination complexity. Hollowing-out communities.
<b>Technical Capability Hubs</b>	Create regional specialist workforce pools.	Targets workforce shortages	Governance and host-model complexity.
<b>Differentiated Governance</b>	Adjust frameworks according to geography and capability.	Better alignment with remote reality	Policy complexity.
<b>Structural Amalgamation</b>	Merge council areas after detailed testing.	Potential scale benefits	Community and reversal risk. Predicted sustainability

			improvements from previous amalgamations have not always been consistently realised.
<b>Regional Infrastructure Authorities</b>	Separate major infrastructure obligations regionally.	Reduces infrastructure burden on councils	Legislative and political complexity. Potentially high establishment and operating costs. Additional institutional layers may also slow delivery and dilute accountability.

## 9. Recommendations

### Immediate Priorities

1. Establish a Western NSW Sustainability Review using 10 to 15-year comparative data.
2. Develop plain-English sustainability dashboards for councils and communities.
3. Improve Western NSW representation in reform and sustainability processes.
4. Separate capital grant effects from operating sustainability reporting.
5. Begin extraction of unrestricted general fund trend data from audited statements.

### Medium-Term Priorities

6. Create regional technical capability hubs for specialist workforce sharing.
7. Review infrastructure disability funding assumptions.
8. Develop remote council governance typologies.
9. Pilot functional consolidation before geographic amalgamation.
10. Review regulatory burden for small remote councils.
11. Create a workforce sustainability and succession program.

### Longer-Term Priorities

12. Investigate regional infrastructure authorities where infrastructure scale exceeds realistic local revenue capacity.
13. Develop durable reform principles capable of surviving political cycles and changes of government.

## 10. Implementation Pathway

### Stage 1 - Evidence and Visibility (0-12 months)

Primary actions:

- Sustainability review
- Dashboard development
- Audited statement extraction
- Comparative trend analysis
- Reform representation review

Outputs:

- Verified evidence-based
- Trend graphs
- Dashboard prototypes
- Sector problem definition

**Success Measure:** Government and sector agreement regarding the nature and scale of the sustainability challenge.

### **Stage 2 - Capability and Funding Pilots (1-3 years)**

Primary actions:

- Regional technical hubs
- Workforce initiatives
- Infrastructure disability funding review
- Improved reporting presentation

Outputs:

- Pilot agreements
- Workforce measures
- Funding reform options
- Capability-sharing models

**Success Measure:** Improved specialist capability access and clearer long-term sustainability visibility.

### **Stage 3 - Structural Options (3-5 years)**

Primary actions:

- Remote council typologies
- Functional consolidation assessment
- Regulatory burden review
- Regional infrastructure authority investigation

Outputs:

- Structural reform options
- Implementation risk assessments
- Governance alternatives

**Success Measure:** Any reform undertaken is evidence-based, geographically realistic and politically durable.

## **11. Likely Objections and Responses**

### ***"This is simply an argument for more funding."***

The report is broader than funding. It addresses governance design, infrastructure intensity, workforce capability, institutional sustainability and reform durability.

### ***"Amalgamation is the obvious solution."***

The evidence suggests amalgamation outcomes are highly context dependent. Geography, workforce distribution, travel, communities of interest and reversal costs require rigorous testing before structural reform.

### ***"Small councils simply need to become more efficient."***

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Efficiency remains important. However, efficiency alone may be insufficient where fixed infrastructure obligations materially exceed local revenue capacity.

***"Differentiated governance means lower standards."***

The objective is not weaker governance. It is proportionate governance that maintains integrity while reducing avoidable process burden where risk profiles differ materially.

***"Regional hubs will become another bureaucracy."***

Any hub model should commence as opt-in, service-focused, performance-measured pilots with clear evaluation frameworks.

## **12. Conclusion**

This report does not conclude that the current local government system is universally failing, nor does it advocate simplistic structural reform.

Instead, the evidence increasingly suggests that parts of Western NSW may be operating under governance and financial assumptions not fully aligned with remote geographic reality.

The report therefore recommends a staged, evidence-based and durable reform approach focused initially on:

- Visibility
- Capability
- Institutional resilience
- Evidence quality, before major structural intervention is contemplated

Most importantly, this report argues that remote local government sustainability should not be viewed merely as a financial issue.

Increasingly, it appears to be:

- An institutional issue
- A governance-design issue
- An infrastructure economics issue
- Ultimately a geographic reality issue

## **References and Source Framework**

### **Core Government and Institutional Sources**

- NSW Office of Local Government; Your Council Data and Time-Series Workbooks
- Audit Office of NSW; Local Government Reports
- Productivity Commission; Local Government Financial Sustainability Material
- Commonwealth Grants Commission principles and horizontal fiscal equalisation material
- Independent Local Government Review Panel. (2013). Revitalising Local Government: Final Report of the NSW Independent Local Government Review Panel. NSW Government.
- Queensland Reform Commission Reports

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- COAG Local Government Reform Material

## **Academic and Research Sources**

- Dollery, B. and Drew, J.; Local Government Structural Reform Literature
- PricewaterhouseCoopers National Financial Sustainability Study
- Allan Inquiry into the Financial Sustainability of NSW Local Government
- Deloitte Northern Territory Council Sustainability Reviews
- Hilmer Review; National Competition Policy

## **Remaining Technical Work**

- Complete unrestricted general fund extraction from audited financial statements
- Refine and standardise graphs and visualisations
- Insert metropolitan and regional-city comparison councils
- Complete final technical proofreading and formatting