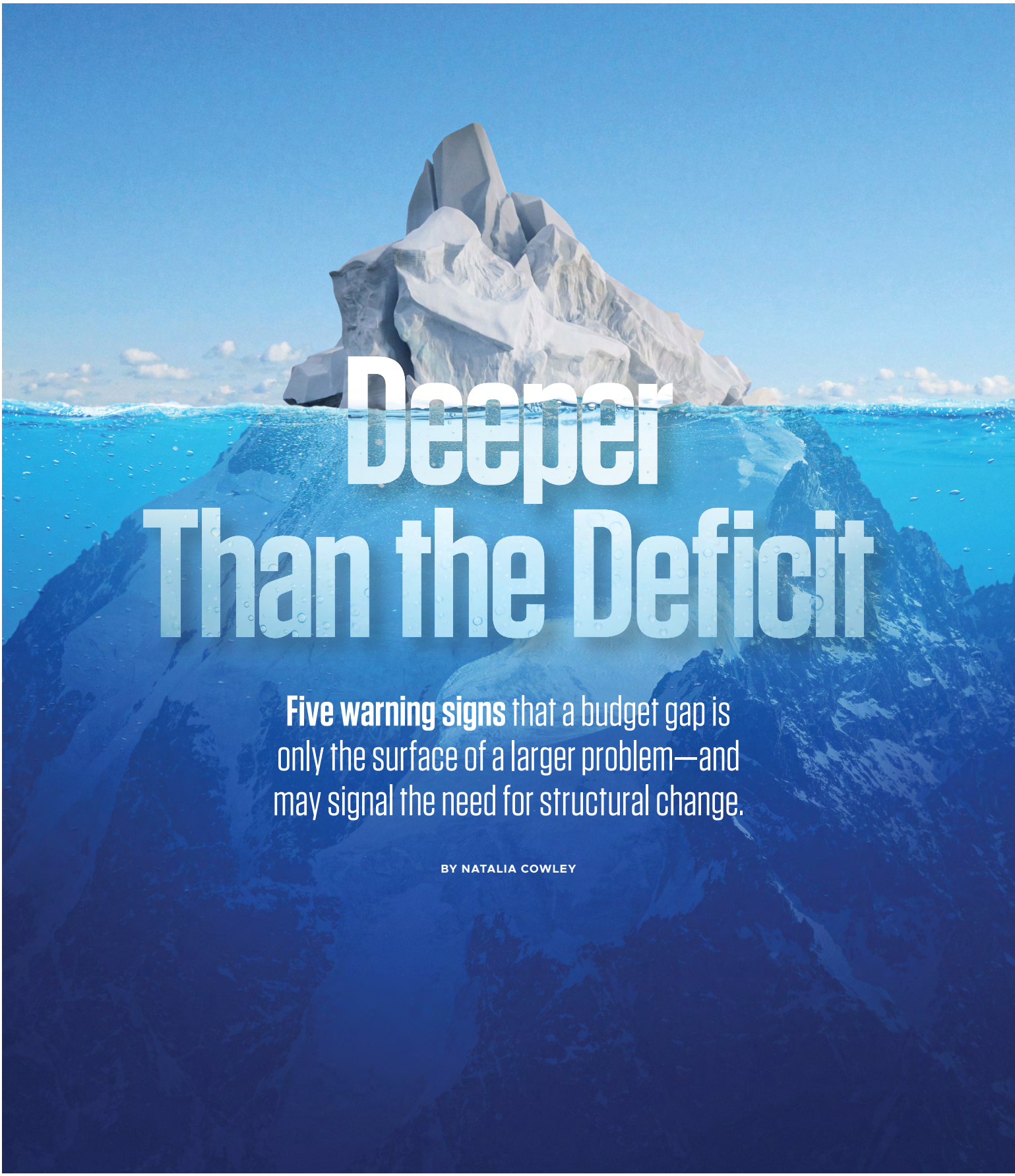

Deeper Than the Deficit

Five warning signs that a budget gap is only the surface of a larger problem—and may signal the need for structural change.

BY NATALIA COWLEY

A budget deficit is rarely just a budget problem. For local governments, deteriorating financial performance is often the most visible symptom of something much larger: an operating model that is no longer capable of producing the services, infrastructure, financial sustainability, and community outcomes expected of it.

That distinction matters. A local government can balance a budget for one year and still remain fundamentally unsustainable. It can cut expenditures without changing the system that created the deficit. It can appoint another capable executive without changing its trajectory.

The question for executives and finance professionals is therefore not simply, "How do we close the gap?" It is: "What needs to change about the organization to enable its internal system to produce the outcomes it is expected to deliver?" This is the point where leadership transitions to organizational intervention. I call this process inflection: materially changing what an organization is capable of delivering when its existing systems, assumptions, capabilities, or operating model are no longer sufficient.

For local governments facing sustained financial pressure, five signals can help identify when a budget problem has become an operating problem.

A Simple Diagnostic

Start with five questions:

1. Is the organization experiencing ongoing annual operating losses?
2. Is unrestricted operating cash insufficient to cover approximately two months' of operational expenditure?
3. Is the staff vacancy rate persistently above 18 percent?
4. Is the organization carrying an expanding backlog of aging infrastructure?
5. Is public trust deteriorating, with increasing conflict, misinformation, or hostility surrounding the organization's decisions?

The more of these conditions that exist simultaneously, the less likely it is that incremental efficiency measures will restore sustainability. When several are present, executives and governing bodies should stop asking only how to repair the budget and start asking whether the organization itself needs to be redesigned.

That requires four forms of intervention: financial, capability, operating-model, and leadership. In other words, it requires inflection.

#1 Persistent Operating Losses: Stop managing the deficit and reconstruct the baseline.

A government that loses money year after year is not experiencing a temporary variance. It has established an operating model that costs more than its sustainable revenue base can support. The first response should therefore be neither optimism nor across-the-board cuts. It should be reconstruction.

At the City of Coffs Harbour in Australia, I inherited an organization carrying six consecutive years of projected operating deficits. The response was to stop treating each annual budget as an isolated exercise and reconstruct the financial baseline. Costs were reduced. Attention was redirected toward revenue-producing activities. The capital expenditure program was reduced to a level closer to historical delivery capacity. The objective was not to find vague "efficiencies." It was to establish a budget that could actually balance at the bottom line.

That distinction is important. A budget balanced by assuming that unspecified efficiencies will somehow emerge is not a reset. It is a hope. A reset establishes a clear financial destination and then works backward to identify the interventions required to reach it.

This is an inflection approach to financial management: start with the outcome the organization must achieve, then redesign the system around that outcome. The discipline must continue after the budget is adopted. Monthly financial accountability should be sufficiently granular to identify whether the organization is actually moving toward the required trajectory. If the answer is no, intervention needs to occur before the annual accounts reveal that the plan failed.

The objective is not simply to produce a balanced budget. It is to create an organization that can reliably produce a sustainable financial result.

#2 Liquidity: Make unrestricted cash an executive issue, not merely a finance issue.

Profitability and liquidity are different problems. A government can report an accounting surplus and still experience acute cash pressure. Conversely, an organization can temporarily carry a deficit while maintaining sufficient liquidity to execute a recovery plan. For that reason, one of the most useful numbers to lock in on is unrestricted cash.

Executives and governing bodies should know the monthly allowance of unrestricted cash and understand what it means in relation to the organization's immediate operating commitments. The purpose is not to create another financial dashboard. It is to create an early-warning mechanism. When unrestricted liquidity approaches an emergency threshold, the organization should already know what actions will be triggered.

Several relatively simple interventions can improve liquidity. Reducing capital expenditure to a level consistent with actual historical delivery capacity can prevent cash from being committed to projects the organization doesn't have the capacity to deliver. Accelerating the recovery of outstanding property tax debt can convert an accounting receivable into usable cash. Prompt acquittal of grants can prevent cash from remaining unnecessarily tied to completed or delayed programs.

These measures do not necessarily increase revenue. They release capacity that already exists inside the system. That is an important distinction. Financial inflection is not always about finding more money. Sometimes it is about making the organization more disciplined about the money it already has.

#3 Persistent Vacancies: An apparently harmless budget assumption can conceal a structural capacity problem.

A large vacancy pool can look like a staffing problem. It may actually be a resource-allocation problem. Governments can carry funded positions for months or years, even where there is little realistic prospect of filling them. Meanwhile, existing employees operate under resource constraints while the organization continues to carry the financial assumption that those positions will eventually be occupied.

Vacancies that have remained unfilled for more than 12 months deserve particular scrutiny. The organization has effectively demonstrated that it can operate without those positions. The question then becomes whether the roles remain essential, whether their responsibilities can be redesigned, or whether resources should be redirected toward services of greater community value.

This does not mean indiscriminate workforce reduction. It means putting the workforce requirement in context with the services the community actually needs. The traditional local government model of a highly specialized employee responsible for one narrow output may become increasingly difficult to sustain. A smaller organization may need to combine responsibilities—for example, property, insurance, and risk management—rather than maintain separate specialist positions for each.

The trade-off is real. Some governments may need to accept greater depth in fewer services rather than attempting to maintain every service at maximum depth.

An organization with constrained resources cannot pretend that everything can remain unchanged. The goal is to make an intentional decision about where capability is most valuable rather than allowing historical

The City of Coffs Harbour, Australia, addressed persistent budget deficits by rethinking its financial baseline and how resources were allocated.

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structures to make that decision by default. That is capability inflection: changing not simply how many people an organization employs, but what those people collectively make the organization capable of delivering.

#4 **Infrastructure and Delivery:** Yesterday's operating model will not solve tomorrow's problem.

Local government has another structural challenge: the cost of delivering infrastructure and services continues to rise while the available financial capacity to fund them is constrained. Organizations can also find themselves paying what might be described as a local government premium—where suppliers charge more for delivering relatively standard services into the public sector because of procurement complexity, risk allocation, contract structures, or market dynamics.

The response cannot always be to negotiate harder with the same suppliers. Sometimes the organization needs to change the way it produces the output.

The City of Coffs Harbour identified an opportunity to develop an internal capability to manufacture precast bridges rather than relying exclusively on external procurement. That capability subsequently expanded to provide services to other local governments, creating an additional revenue stream.

The broader lesson is more important than the particular example. If the current production model is unaffordable, redesign the production model. The same thinking can apply to roads, waste, maintenance, construction, technology, and other services. Governments should examine alternative construction techniques, materials, automation, robotics, shared services, internal production, and commercial partnerships where these can deliver the required outcome at a materially different cost.

The question should not be, "How do we continue doing this more efficiently?" It should be, "Is this still the right way to produce the outcome?" That is the difference between optimization and inflection. Optimization makes an existing system better. Inflection asks whether the system itself needs to change.

The City of Coffs Harbour, Australia, has made changes to its operations as part of a broader approach to balancing financial sustainability with the needs of the community.

Providing context is not public relations.
It is a form of organizational risk management.

#5 **Public Trust:** Financial transparency requires more than publishing the numbers.

A government can make a technically sound financial decision and still lose the community if people do not understand why that decision was made. This is becoming increasingly important as political polarization, social media, misinformation, and declining institutional trust reshape the environment in which governments operate.

Publishing a budget is not the same as explaining it. Residents need context. A $20 million expenditure reduction may appear devastating if viewed in isolation, but it may look prudent if residents understand that the alternative is an organization that cannot sustainably fund essential services. A reduction in capital expenditure may appear to mean that the government is "doing less"; it may actually mean the government is protecting its ability to maintain existing infrastructure and remain financially viable.

Executives therefore need to provide context for their decisions. Providing context is not public relations. It is a form of organizational risk management. The objective is not to persuade everyone to agree. It is to provide enough information for the community to understand the logic behind the decision, distinguish fact from speculation, and participate in a more informed conversation.

This can also create a valuable self-calibrating effect. When more members of the community understand the facts, misinformation has less room to fill the vacuum.

The same principle can be applied internally. At Moree Plains Shire Council in Australia, the organization had allocated grant funding for improvements to community halls but didn't have sufficient internal capacity to deliver all the works itself. Rather than allowing the funding to remain bottlenecked by governmental resources, the government allocated the funding to community organizations and delegated project management to them. The money

Community-managed improvements to Moree War Memorial Hall, left, and Boomi Memorial Hall illustrate how Moree Plains Shire expanded capacity through a different operating model.

was spent. The facilities were improved. The community became part of the delivery mechanism.

The solution was not more internal capacity. It was a different operating model.

When the Budget Becomes the Symptom

These five signals rarely exist in isolation. Persistent operating losses can reduce liquidity. Liquidity pressure can constrain staffing and infrastructure investment. Vacancies can reduce delivery capacity. Delivery failures can increase community frustration. Declining trust can make necessary financial decisions harder to implement. The organization becomes caught in a reinforcing cycle.

At that point, the budget is telling you something important. It is telling you that the organization may no longer be configured for the environment in which it is operating. That is the moment governing bodies need to change the question. Instead of asking,"How can we get this year's budget back on track?" They should ask, "What must this organization become capable of doing that it cannot do today?"

That question changes the intervention. It may require reconstructing the financial baseline. It may require reallocating resources. It may require redesigning the operating model. It may require creating new capabilities or eliminating capabilities that no longer create sufficient value. It may require changing decision rights, procurement thresholds, accountability mechanisms, service models, or the relationship between the organization and its community.

And it may require an inflector.

The Role of the Inflector

Leadership remains essential—but inflection is the next executive tier. Leadership improves performance within an existing system, while inflection changes the system's capacity to perform. That distinction is particularly important during disruption. A leader might ask, "How do I get this organization to execute better?" An inflector asks, "What has to change about this organization for it to produce a materially different outcome?"

For local government finance professionals, this is more than a semantic distinction. It changes what success looks like.

The objective is not simply to produce a better budget. It is to reconfigure an organization capable of producing sustainable outcomes after the intervention is over. That means embedding the change into systems, standards, decision rights, resource allocation, accountability, and organizational expectations.

A financial reset that depends on the personal discipline of one CEO is not a durable reset. A genuine reset changes the organization so that the next CEO inherits a stronger institution rather than simply inheriting the previous CEO's unfinished work. The ultimate test is therefore not whether the organization survives the crisis. It is whether the crisis forced it to become capable of something better.

When the budget is only the symptom, balancing the books is not the cure. The cure is changing what the organization is capable of delivering.

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