Case Study 5
NEW SOUTH WALES

Revenue, Costs & Support Overview

Total Revenue → Increased from $10.3 million in FY2021/22 to $15 million in FY2023/24 (44% increase)

Total Costs → Rose from $1.5 million in FY2021/22 to $2.5 million in FY2023/24 (63% increase)

Profit → Shifted from a $628,750 loss in FY2021/22 to $2.5 million in FY2022/23 and slightly improved to a $318,000 loss in FY2023/24

Government Funding Increase → 14.2% in FY2022/23 and 27.51% in FY2023/24

Indexation → State indexation ranged from 2.7% to 5.7%, while Commonwealth funding adjustments were 1.1%, 8.5%, and 12%

These increases were insufficient to fully onset the rising cost of service delivery, contributing to persistent profit losses

Donations Decline → Decreased by 75% in FY2023/24, limiting additional revenue sources

Introduction

This case study examines the operational and financial sustainability of a nonprofit organisation providing social services across regional New South Wales, including the Wilcannia–Forbes region. The organisation’s experience reflects the intersection of structural cost inequities, short-term contracting, and increasing compliance demands that collectively constrain service planning and workforce stability.

Funding volatility remains the defining feature of its operating environment. Many programs are renewed on short-term extensions, sometimes for as little as three months, pending departmental reviews or program redesigns. This uncertainty restricts forward planning, deters capital investment, and inhibits workforce development. Regional cost factors compound this instability. Outreach commonly involves travel across hundreds of kilometres, yet funding remains benchmarked to metropolitan delivery rates. Fuel, accommodation, and vehicle maintenance costs are absorbed internally, narrowing margins and reducing scope for reinvestment.

“RELATIONSHIPS ARE EVERYTHING IN A SMALL COMMUNITY. WITHOUT TRUST, THERE’S NO ENGAGEMENT AND NO SERVICE.”

As a result, the organisation operates in a position of fragile equilibrium, maintaining essential services through disciplined financial management and local goodwill, but without the flexibility to plan beyond immediate contract periods. Cost increases, particularly in labour, travel, and compliance, continue to outpace revenue adjustments, leaving little capacity to innovate or invest in service renewal.

Key Implications for Policy and System Design

Funding Continuity and Predictability

Short-term contracting cycles and delayed renewal decisions limit strategic planning and investment. Multi-year, indexed agreements are essential to reduce uncertainty, retain skilled staff, and enable service innovation.

Regional Cost Recognition

Current funding formulas benchmarked to metropolitan delivery fail to account for higher rural operating costs such as travel, fuel, and accommodation. Introducing regional loadings would more accurately reflect the real cost of service delivery across dispersed areas.

Workforce Development as a Funded Outcome

Local recruitment strengthens trust and community connection but requires significant supervision and professional development. Funding frameworks should explicitly recognise workforce training and mentoring as core, not incidental, components of service delivery.

Reform Alignment and Administrative Load

Frequent policy reforms and expanding compliance obligations have increased administrative costs without additional funding. Streamlined reporting and proportional compliance expectations are needed to match organisational scale and capacity.

Equity and Service Sustainability

Regional services operate on thin margins, absorbing rising costs to maintain access for vulnerable communities. Sustainable funding models must balance efficiency with equity, ensuring that essential services in rural areas are not undermined by systemic underfunding or culturally inappropriate fly-in-fly-out style competition.

Community and Workforce Connection and Collaboration

The organisation's service model is deeply embedded in the regional communities it serves. Its workforce is largely recruited locally, with employees bringing lived experience and community knowledge that strengthen client engagement and cultural responsiveness. This community-based approach is critical to sustaining trust and ensuring that services are accessible, particularly for vulnerable groups who may be reluctant to engage with external providers.

However, this model also introduces additional cost pressures. Professional social workers are scarce in rural and remote regions, requiring the organisation to train and supervise staff recruited from adjacent sectors. Workforce development thus functions as an unfunded form of community capacity building, retaining employment, embedding local knowledge, and ensuring services reflect community realities. Senior staff spend considerable time on mentoring and supervision, which, while vital to quality assurance, increases labour costs and constrains managerial capacity.

> **"COMMUNITY WORK HERE IS NOT TRANSACTIONAL; IT'S RELATIONAL. THAT'S WHAT MAKES IT EFFECTIVE — AND THAT'S WHAT'S HARDEST TO FUND."**

Despite these challenges, the localised workforce remains central to service effectiveness. The relational trust it fosters enables early intervention and continuity of care that external or fly-in, fly-out models cannot replicate. Yet the lack of recognition for workforce development in funding frameworks perpetuates an imbalance between what is measured and what matters. These investments in human and social capital, essential to regional service delivery, remain invisible in contractual reporting.

Opportunities for inter-organisational collaboration occurs despite, rather than because of, system design at the frontline. However, concerns were raised about larger metro-centric organisations are utilising remote service technology to undercut local delivery, to the dismay to local communities.

Service Ethos and the Strain of Over Delivery

The organisation's values-driven service ethos ensures that clients in need are not turned away, even when contractual outputs have been met. This commitment to accessibility has become a defining aspect of its identity but also a significant source of operational strain. Programs in domestic and family violence, homelessness, and financial counselling frequently operate beyond funded capacity to meet rising demand, placing pressure on staff and infrastructure.

In many of the small towns it services, the organisation functions as a de facto safety net, often the only available support presence. Staff routinely absorb caseloads and responsibilities that exceed contract expectations, driven by ethical commitment and community obligation rather than policy mandate.

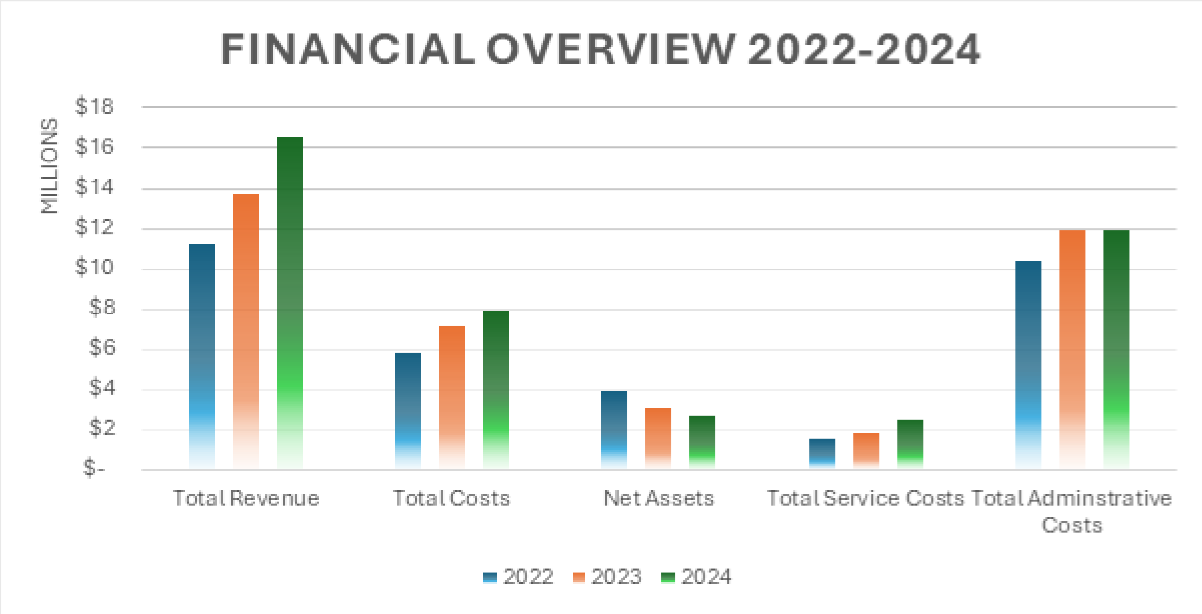
"THE WORKFORCE ISN'T JUST TIRED; IT'S SHRINKING. PEOPLE ARE ASKED TO DO MORE WITH LESS, FOR LONGER."

While this responsiveness underpins strong community trust, it also exposes the organisation to cumulative workforce fatigue, escalating overtime costs, and increasing risk of service interruption. The cost of over delivery (financially and psychologically) has become an embedded feature of regional service life, reflecting structural underfunding rather than managerial inefficiency.

Delivering over the contractual agree amount highlights a key tension between the mission of many social organisations, the actual need in the community and the demand for service implicitly set by government budgeting. When delivery costs are systematically underfunded through contribution-centred funding policy and inaccurate indexation, invariably the gap between need and demand will widen.

Profitability Trends and Cost Growth

The organisation has experienced a steady decline in profitability, moving from a $628,750 loss in FY2021/22 to $870,000 in FY2022/23, before slightly improving to a $318,000 loss in FY2023/24. Despite improved revenue growth over the period, rising costs, particularly in labour, compliance, and operational expenses, have outpaced income increases, creating persistent financial strain. Total costs increased by 27% over three years, while total revenue grew by 31%, reflecting some degree of revenue expansion but insufficient to fully absorb rising expenses. Service delivery costs increased by 63% over the period, largely driven by rising labour costs, superannuation contributions, and recruitment spending. Administrative costs increased by 27%, reflecting heightened compliance obligations, governance requirements, and IT infrastructure investment.



Diverse Revenue, Yet Highly Government Reliant for Core Funding

The organisation's revenue structure is highly concentrated on government grant funding, with a HHI value of over .6500. Commercial income grew from $746,000 in 2022 to $1,676,000 in 2023 (125% increase) but declined to $1,218,000 in 2024 (27.3% decrease). Investment income surged from $47,000 in 2022 to $231,000 in 2023 (388.7% increase) and further rose to $342,400 in 2024 (48.3% increase) suggesting diversifying and further investment potential. Meanwhile, total grant funding declined marginally by 0.4% in 2023 but increased by 8.8% in 2024, emphasising its continued dominance in revenue composition. Government grant funding remains critical, especially in regional and remote areas where alternative revenue sources are limited.

Grant funding is diverse, with allocations varying across service areas. Some grants are project-based with finite timelines, such as Program B, which ceased funding after 2022, while others provide recurrent operational funding, such as Program C, which received stable allocations exceeding $1.1 million annually.

"SHORT CONTRACTS MAKE IT IMPOSSIBLE TO PLAN AHEAD. WE SPEND MONTHS WAITING FOR EXTENSION THAT MIGHT ONLY LAST THREE MORE [MONTHS]."

"WITHOUT MULTI-YEAR CERTAINTY, YOU CAN'T GROW. YOU JUST HANG ON AND HOPE THE NEXT CONTRACT COME THROUGH."

Differences in grant flexibility impact financial planning, as reliance on short-term, competitive grants can create instability. For instance, Program D saw an abrupt increase in funding from $140,200 in 2023 to $452,000 in 2024, reflecting a policy-driven funding shift. Unfortunately, securing multi-year, flexible funding agreements that provide greater predictability and reduce financial risk is not always possible under current grant agreement conditions both at the commonwealth and state levels.

"WE'RE CONSTANTLY HAVING TO PROVE OUT WORTH, THE SYSTEM FUNDS SHORT-TERM PROJECTS BUT EXPECTS LONG-TERM CHANGE."

From 2022 to 2024, Australian government funding priorities have shifted, affecting grant availability for organisations. Human services policy adjustments, particularly in regional development and crisis response, have led to fluctuations in grant allocations. Programs targeting Indigenous services, mental health, and housing support have seen funding increases, while others face cuts or greater competition. For example, Program E, which focuses on crisis intervention, saw funding nearly double from $746,000 in 2023 to $1,327,000 in 2024, aligning with national priorities, while other have decline in real terms over the period.

Expense Ratios and Financial Structure

The organisation's expense ratios highlight its labour-intensive structure, aligning with nonprofit benchmarks but showing growing financial strain:

- **Total Staffing Expense Ratio** increased from 82.7% in FY2021/22 to 84% in FY2023/24, reflecting higher workforce costs relative to overall spending.
- **Direct Labour Expense Ratio** rose from 58.4% to 61.7%, reinforcing that labour remains the dominant cost driver.
- **Activity Expense Ratio** fluctuated between 68.9% and 70%, reflecting sustained investment in direct service delivery.
- **Administrative Expense Ratio** remained around 30%, slightly above the sector benchmark of 25–28%, largely due to increased compliance, reporting, and governance costs.

Financial Pressures and Sustainability Risks

The organisation faces growing financial pressures as rising staffing costs, workforce shortages, and regional wage competition drive up expenses. Compliance and governance obligations further increase administrative costs without corresponding funding adjustments, limiting financial flexibility. While investment in frontline services remains strong, cost containment is increasingly difficult without affecting service delivery.

"WHAT WORKS HERE ISN'T HIGH-TECH, IT'S HIGH TRUST. OUR INNOVATION IS IN RELATIONSHIPS, AND THAT'S THE HARDEST THING TO FUND."

"RELATIONAL WORK IS SLOW, BUT IT'S WHERE THE BREAKTHROUGHS HAPPEN. THE FUNDING SYSTEM DOESN'T MEASURE THAT."

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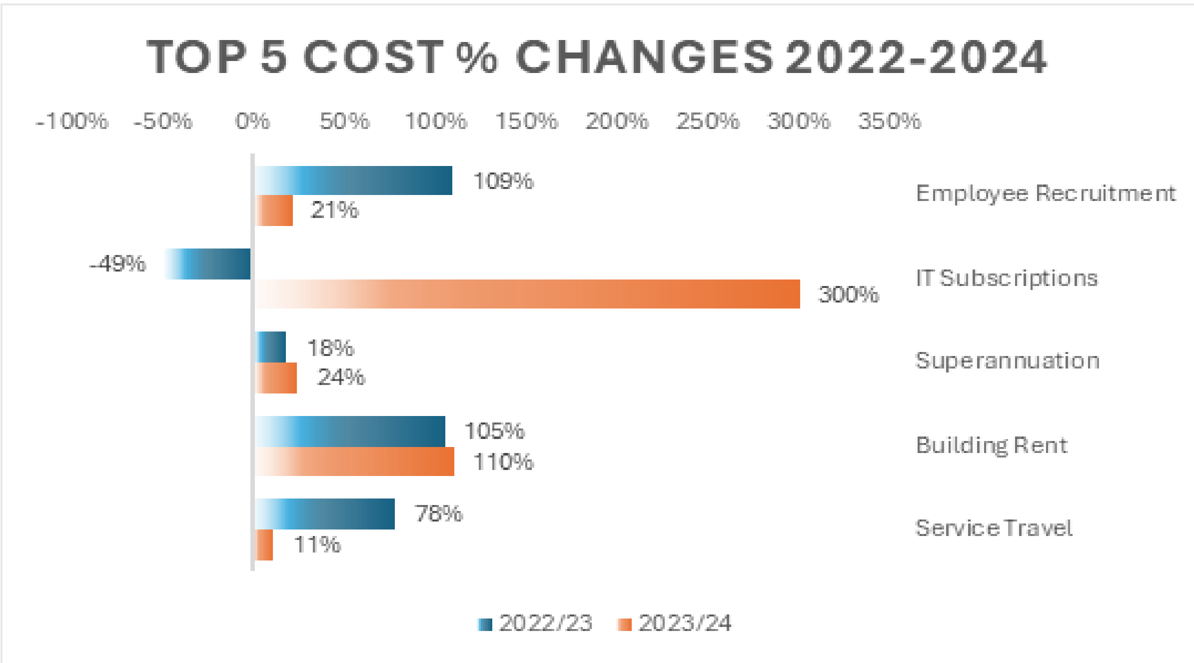
Service delivery income has grown from $10 million in FY2021/22 to $15 million in FY2023/24, driven almost entirely by government grants, which account for over 99% of total revenue. However, service costs have risen even faster, increasing from $1.5 million to $2.5 million over the same period due to higher workforce, infrastructure, and operational expenses. This cost acceleration, combined with a 74.9% decline in donations, highlights the organisation's heavy dependence on government funding and weak revenue diversification.

While government funding increased by 14% in FY2022/23 and 27% in FY2023/24, the rapid rise in expenses, 21% and 35%, respectively, indicates potential long-term sustainability risks. The inability to generate alternative revenue streams reduces financial flexibility, making the organisation vulnerable to policy changes, funding cuts, and rising operational costs. Without strategic cost control or revenue diversification, financial constraints may impact service continuity and long-term viability.

Indexation and supplementation have helped offset rising costs but have not kept pace with expenditure growth. State indexation ranged from 2.75% to 5.75%, while Commonwealth funding increases were applied as lump sums of 1.1%, 8.5%, and 12%, with unclear rates for individual grants. Introduced in FY2022/23, supplementation temporarily eased inflation and workforce pressures but failed to match escalating costs, particularly in labour, travel, and compliance. With service costs rising by 21% in FY2022/23 and 35% in FY2023/24, the planned cessation of supplementation in 2027 poses a significant financial risk as key expenses continue to grow.

Top 5 Cost Drivers



- **Employee Recruitment Costs:** Increased by 109% in FY2022/23 and 21% in FY2023/24, driven by workforce shortages and high turnover.
- **IT Subscription Costs:** Dropped by 49% in FY2022/23 but surged 300% in FY2023/24 due to significant digital infrastructure investments.

- **Superannuation Costs:** Rose by 18% in FY2022/23 and 24% in FY2023/24, reflecting increased employer obligations and workforce expansion.
- **Building Rent:** Increased by 105% in FY2022/23 and 110% in FY2023/24, highlighting rising leasing costs in rural WA.
- **Mileage and Travel Costs:** Grew by 78% in FY2022/23 and 11% in FY2023/24, reflecting the high costs of service delivery across dispersed locations.

Labour Costs, Vacancy Rates, and Recruitment Trends

Total direct labour costs increased by 12% in FY2022/23 and 18% in FY2023/24, reflecting higher wages, workforce expansion, and retention pressures. Superannuation and leave accrual costs also grew significantly, with superannuation rising 18% in FY2022/23 and 24% in FY2023/24, indicating both wage growth and increased retention incentives.

Despite these wage increases, the vacancy rate surged from 10% in FY2021/22 to 16% in FY2022/23, before improving to 8% in FY2023/24. This suggests that workforce shortages peaked in FY2022/23, requiring higher recruitment efforts to stabilise staffing levels in FY2023/24. Further, sharp recruitment cost increases are reinforcing the impact of high turnover and difficulty attracting staff in regional areas. Similarly, the employee turnover rate increased sharply from 25.6% in FY2021/22 to 43.2% in FY2022/23 and 52.3% in FY2023/24, confirming that staff retention remains a major operational challenge.

Despite increased recruitment spending, investment in professional development declined, with mandatory training costs dropping by 2% in FY2023/24. This suggests financial and logistical barriers to upskilling and retaining staff, especially in rural areas. The focus on recruitment over training creates an unsustainable cycle, where resources are spent replacing staff rather than developing them, leading to higher onboarding costs, reduced productivity, and service delivery disruptions.

Operating in regional and remote NSW presents distinct workforce challenges, including limited local availability, increased reliance on urban recruitment, and higher salary expectations driven by cost-of-living pressures. Attracting specialised roles in fields like mental health and social work is difficult, compounded by housing shortages in some areas that hinder staff relocation. These factors contribute to rising workforce costs, making labour the organisation's largest expense, consuming over 60% of total costs.

Service Demand Driving Cost Pressures

Labour remains the dominant cost, with total staffing expenses, including wages, superannuation, and leave accruals, accounting for 64% of total costs. Building rent and maintenance represent 10%, reflecting rising facility expenses, while superannuation contributions make up 27%, further emphasising workforce-related financial pressures.

Rising service demand has placed significant pressure on staffing, infrastructure, and operational costs. Increased workforce requirements have driven higher labour and superannuation expenses, reflecting both staff expansion and wage growth. Expanding service locations and greater facility usage have also contributed to rising rental and maintenance costs, further straining financial resources. The need to reach clients across remote areas has led to increased travel expenses, while growing reliance on digital service delivery has necessitated significant IT infrastructure investment. These trends highlight the ongoing challenge of balancing service expansion with financial sustainability, as core costs continue to rise in response to greater community demand.

Stable Financial Position Despite Deficits

The organisation has consistently run operating deficits over the past three years, with losses of $628,750 in FY2021/22, $870,000 in FY2022/23, and $318,000 in FY2023/24. Despite these annual shortfalls, the organisation remains sufficiently capitalised, solvent, and financially comfortable, holding $2.7 million in net assets at the end of FY2023/24.

While revenue and cost pressures have influenced yearly financial results, the organisation's strong asset position supports long-term sustainability. In a not-for-profit context, deficits can arise due to grant cycles, timing mismatches in funding disbursements, and necessary investment in service expansion. However, the availability of financial reserves ensures operational continuity, even as costs and funding fluctuate.

Cash flow has fluctuated significantly, moving from a negative $326,000 in FY2021/22 to a small surplus of $41,000 in FY2022/23, before dropping to a negative $1.9 million in FY2023/24. Despite these fluctuations, the organisation's financial structure and substantial asset base, including $2.7 million in net assets, allow it to absorb short-term liquidity challenges without immediate solvency risk. Although a large portion of assets is tied up in infrastructure and long-term investments, approximately $1.6 million is available as liquid current assets. This provides a financial buffer to manage unexpected revenue declines or cost increases, ensuring short-term stability and the continuation of operations.

Policy Misalignment, Reform Fatigue and Administrative Burden

The organisation's experience reflects a broader pattern of reform fatigue and administrative overload across the community sector. The organisation operates in a policy environment of continuous change, where new frameworks, targets, and reporting systems are introduced regularly, often without transitional support or additional funding. Each reform brings new compliance requirements, data reporting expectations, and governance obligations that expand administrative workload without corresponding resources. Again, recent fixed-term contract and training reforms in the support and care sector have created additional costs seemingly unintended by policymakers.

Over time, this has reversed the long-promised goal of "red tape reduction." Staff capacity that could be devoted to client work is increasingly absorbed by reporting and audit processes, while the organisation is expected to maintain detailed policies and systems that mirror those of much larger entities. Smaller regional services now spend significant proportions of their budgets meeting administrative expectations that were once covered by core funding.

"FUNDING IS TIED TO OUTPUTS, BUT WHAT MATTERS HERE IS THE TIME AND TRUST IT TAKES TO HELP SOMEONE REBUILD."

Reform cycles have also been disruptive when well-intentioned policies are introduced without implementation funding. For example, investment targets requiring a proportion of early-intervention funding to be delivered by Aboriginal Community Controlled Organisations were implemented without additional funding, resulting in reduced allocations for existing providers. While the organisation supports self-determination and inclusion, it has had to absorb the immediate financial shock of policy changes made at scale. The cumulative effect of this environment is one of instability and exhaustion: the organisation continually adapts to new requirements but is given little space to consolidate or plan.

Conclusion: Community Sustainability and Future Outlook

The cumulative pressures of short-term funding, regional cost inequities, and ongoing reform have left the organisation stable but static. Services continue year to year, but reserves grow only in line with inflation, leaving no margin for renewal or innovation. Government promotion of digital service delivery and tele-practice is often impractical in this context, where internet connectivity is poor and digital literacy is low. Clients continue to depend on face-to-face relationships that cannot be replicated remotely.

Yet, despite these constraints, the organisation remains a cornerstone of its regional community. Its embedded workforce, local credibility, and collaborative networks sustain services where few others operate. The case highlights the need for funding models that account for the additional costs of regional delivery, resource workforce development as a community outcome, and align administrative expectations with realistic capacity.

"WE HOLD THE TRAUMA AND THE HEALING, INNOVATION MEANS TIME, PATIENCE, AND SUPPORT, NOT APPS AND DASHBOARDS."

Ultimately, sustainability in rural service systems is relational as much as financial. It depends on continuity, trust, and the steady development of local capability. All of which are critical to service quality but remain largely invisible in the current policy and funding architecture.

The Centre for Public Value UWA and the UWA Public Policy Institute

The Centre for Public Value UWA (CPV) has recently merged with the UWA PPI as a research subsidiary, strengthening UWA's capacity to influence and inform public policy at state and national levels. As part of the UWA PPI, the CPV's research will now contribute directly to the Institute's broader mission of connecting academic insight with policymakers and communities to drive meaningful, evidence-informed change.

Citation Information

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