
Appendix 1 – Response from the Department of Planning, Housing and Infrastructure

Department of Planning, Housing and Infrastructure
Office of Local Government



Our Ref: A991839

Mr Bola Oyetunji
Auditor General for New South Wales
GPO Box 12
SYDNEY NSW 2001



27 January 2026

Subject: Draft NSW Auditor General's Report on Local Government 2025

Dear Mr Oyetunji

Thank you for your email of 15 December 2025 and the opportunity to respond to your draft Financial Audit Report on Local Government 2025 (the Report).

It is pleasing that your audits indicate that the quality of financial reporting has improved. I also note that the reported council operating losses and the infrastructure spending needs indicate that there is still more to be done to address financial sustainability across the sector. You will be aware the NSW Government's response to the Standing Committee on State Development's recommendations on the ability of local governments to fund infrastructure and services seeks to address many of the concerns you have raised. It includes an action to streamline financial reporting to reduce unnecessary complexity.

In relation to the specific findings in the Report, particularly the recommendations to the Office of Local Government (OLG), Department of Planning, Housing and Infrastructure, I provide the following notes for your information.

The regulatory framework

As the responsible agency for regulation of the NSW local government sector, OLG is committed to improving the capacity and capability of all councils while also managing the appropriate regulatory burden. OLG continually monitors and improves its processes and frameworks and seeks to reduce reporting obligations while ensuring councils operate within the requirements of the *Local Government Act 1993* (the Act) and remain answerable to their communities.

Each year OLG releases an updated Code of Accounting Practice and Financial Reporting (the Code) for use by councils and Joint Organisations to prepare their annual financial statements. The Audit Office has been an active participant in the Code Working Group, working with OLG, key stakeholders, and councils. The 2025/26 Code Working Group considered a range of issues,

Locked Bag 3015 Nowra NSW 2541
olg@olg.nsw.gov.au

02 4428 4100
www.olg.nsw.gov.au

including simplifying reporting requirements and providing additional guidance about materiality. I can confirm that the OLG and the Code Working Group remain committed to continuing to streamline the Code and designing improvements that consider the proportionate impact on councils of varying size, risk profiles and complexity.

Council liquidity and cash flow

In August 2025, OLG released revised Quarterly Budget Review Statement (QBRs) Guidelines introducing a standardised reporting template that requires councils to report to its councillors and communities on an individual fund level. The guidelines also introduced a new requirement for councils to provide OLG with an electronic QBRs throughout the financial year. Reporting clear, up-to-date financial information will increase the ability of councillors, the public and OLG to oversee council budgets throughout the financial year.

The Audit report cites an increasing number of councils reporting operating losses for the financial year ended 30 June 2025 with 19 councils with insufficient cash and investments and 2 councils breaching the Act by spending restricted cash without approval.

OLG monitors the financial performance of all councils using a risk management framework to identify those requiring a greater level of scrutiny and assistance. The introduction of standardised QBRs reporting will provide more timely insights into their financial health. It should be noted that OLG meets with these identified councils regularly to ensure that cash flow and long term financial sustainability issues are being addressed.

Major capital projects

The need for improvement in this area has been highlighted in the Report with a number of council capital works projects running into difficulty. These often adversely impact the financial sustainability of councils. The need to better address the challenges associated with capital expenditure within the local government sector is recognised by OLG and a review and revision of the framework has commenced.

AI and cyber security

As noted in response to the Audit Office's Local Government report 2024, updated Cyber Security Guidelines were released for the sector in January 2025 in conjunction with Cyber Security NSW. Further, OLG has collaborated with Cyber Security NSW to establish quarterly Cyber Security Councils Forum events to support information sharing on cyber security risks and highlight good practices within councils and to guide councils' implementation of cyber security control frameworks.

OLG would be pleased to collaborate with either Digital NSW or Cyber Security NSW in the preparation of a framework to guide councils on the responsible implementation of Artificial Intelligence.

Department of Planning, Housing and Infrastructure
Office of Local Government



[Redacted]

Yours Sincerely

A handwritten signature in black ink, appearing to read "Kiersten Fishburn".

Kiersten Fishburn
Secretary

Locked Bag 3015 Nowra NSW 2541
olg@olg.nsw.gov.au

02 4428 4100
www.olg.nsw.gov.au