

Independent Pricing and Regulatory Tribunal  
New South Wales

# Review of local government election costs

Draft Report

June 2019



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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

**Submissions are due by 19 July 2019.**

We would prefer to receive them electronically via our online submission form <[www.ipart.nsw.gov.au/Home/Consumer\\_Information/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission)>.

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**Local government election cost review**

Independent Pricing and Regulatory Tribunal

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# 1 Executive summary

The Premier has asked IPART to recommend a robust methodology for allocating the costs incurred by the NSW Electoral Commission (the NSWEC) in administering local government elections. The costing methodology is required to minimise the financial burden on councils and ratepayers, while also encouraging the NSWEC to provide its election services in an efficient and cost-effective way. We are also required to have regard to a range of other factors, including the market for electoral services in which the NSWEC operates (see the full Terms of Reference at Appendix A).

We have achieved this by first identifying the efficient costs of the NSWEC providing local government election services and then used our impactor-pays funding hierarchy to allocate these costs between the NSW Government and councils, and amongst councils.

Our funding hierarchy promotes cost-reflective pricing, so that councils pay for the efficient cost of the election services they receive from the NSWEC. We consider it is important that the NSWEC's prices to councils are cost reflective, as this will help to:

- ▼ Ensure the NSWEC's costs are transparent and subject to appropriate scrutiny
- ▼ Promote efficient decisions over time by councils in relation to the provision of election services, and
- ▼ Ensure that the NSWEC is not unduly advantaged or disadvantaged in competing with private providers of election services (and thus help to facilitate competition in the provision of election services, and the efficiency gains over time associated with such competition).<sup>1</sup>

Our funding hierarchy is also practical. It recognises that in some cases it may not be possible to set purely cost-reflective prices, and that some costs may need to be allocated to the NSW Government (or NSW taxpayers) on behalf of the broader community, on the grounds that it may not be administratively efficient or practical (ie, it is too difficult or costly) to allocate costs to impactors or beneficiaries.

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<sup>1</sup> The NSWEC may still retain some degree of competitive advantage relative to private providers, not as a result of our cost allocation, but due to its economies of scale and scope in providing election services.



### **Box 1.1 Recommended methodology for allocating local government election costs**

Our recommended methodology for allocating the costs incurred by the NSWEC requires that:

- ▼ Councils pay for the efficient costs of contestable election services.
  - The direct costs of contestable services are allocated to individual client-councils.
  - Indirect costs of contestable services are allocated to client-councils, mostly on a per-elector basis.
- ▼ The NSW Government pays for non-contestable election services, with the exception of 'enrolment' activities (ie, the provision of a paper or electronic copy of the residential roll to the General Manager of each local government area), which should continue to be paid for by both client and non-client councils.

## **1.1 Price regulation is required for the 2020 local government elections**

Since 2011, councils have had the option of contracting the NSWEC or a private provider to administer their elections. They can also choose to administer their own election without entering into a contract with an election service provider.

We assessed the state of the market for local government election services to understand the current level of competition in the market, and the possible development of competition over the next few years. We found that while the provision of local government election services is at present a near-monopoly, most local government election services are likely to be contestable.

Our finding that the market is a near-monopoly highlights the need to review the efficiency of the NSWEC's proposed costs and to regulate prices, at least in the short-term.

Our finding that most local government election services are likely to be contestable has affected the way we consider efficient costs should be allocated between the NSW Government and councils, and amongst councils. In particular, we have allocated costs in a way that means the NSWEC competes on a level playing field with private providers of local government election services.

In the longer term, if impediments to competition are removed and competitive pressures are increased, then the degree of regulatory oversight could be reduced. Therefore, we have examined the barriers to participating in the market that have been identified by stakeholders and propose measures to better facilitate competition post 2020. These measures would increase councils' range of choices and enhance cost certainty.

Our recommended reforms include:

- ▼ The mandatory unbundling, component pricing and offering of the NSWEC's individual local government election services, with the NSWEC providing binding quotes for each individual election service.
- ▼ The establishment of independent regulatory oversight of the performance of all providers.

- ▼ Reducing the period before an election by which a council has to resolve to engage the NSWEC from 18 months to 9 months.
- ▼ Provision of assistance to councils to further develop their election management capabilities through a training program delivered by the Office of Local Government (OLG).
- ▼ Legislative change (if required) to ensure that a council's General Manager becomes responsible for producing a valid election result if and when the council ceases to engage the NSWEC for *all* election services.

## 1.2 We have identified cost-efficiency savings

We recommend a reduction in the total amount of funding for the NSWEC to provide 2020 local government election services, compared to what the NSWEC proposed. The total amount we are proposing more closely reflects the efficient costs of providing election services.

The impact of our draft recommendation for only those items included in the NSWEC's proposal would be a reduction of \$8.8 million (or 15.6%). That is, we consider the efficient costs of the items in the NSWEC's proposal to be \$47.7 million, compared to \$56.5 million proposed by NSWEC.<sup>2</sup>

Our draft recommendation on the NSWEC's total notional revenue requirement (NRR) for the 2020 local government elections includes the cost of items that the NSWEC did not include in its cost proposal submitted to IPART.<sup>3</sup> As a result, the notional revenue requirement we recommend is only \$2.6 million (or 4.5%) lower than the cost for the 2020 local government elections proposed by the NSWEC.

In determining the efficient costs of the NSWEC providing local government election services, we found that some of the NSWEC's costs are incurred solely to supply local government election services whereas others are common to both local government election services and the NSWEC's other functions (eg, State Government election services). We allocated 28% of the costs common to both local government election services and the NSWEC's other functions to our estimate of the total efficient cost of local government elections in 2020.<sup>4</sup>

Before we publish our Final Report, we intend to examine any updated or more detailed cost estimates provided by the NSWEC.

<sup>2</sup> The NSWEC's proposed costs for the 2020 local government elections include all incremental costs of conducting local government elections and a share of some corporate overheads. The existing funding source of the corporate overheads is the Election Management Fee (EMF). The EMF does not recoup any expenditure on NSWEC executive salaries.

<sup>3</sup> The additional items are: operating expenditure in the form of the NSWEC's executive salaries and Joint Roll Agreement (electoral roll maintenance) costs; an allowance for capital costs, including allowances for depreciation and returns on assets and working capital; and a regulatory tax allowance.

<sup>4</sup> When PWC reviewed the EMF in 2016 it determined the appropriate allocation of head office costs to councils was 27.7%, based on the time the NSWEC's staff spend on local government election activities relative to their other functions. We have reviewed the logic of this allocation and note it appears appropriate. In the absence of better information, we have also allocated 27.7% of its executive salaries and common capital expenses to councils.

### 1.3 Councils should pay a larger share of efficient costs

Once we determined the efficient level of the NSWEC's costs of providing local government election services, we then determined what share of these costs should be allocated to councils.

Consistent with the impactor-pays principle, we recommend councils, in aggregate, pay **a larger share of the efficient costs** of providing local government elections compared to what they have in the past and what the NSWEC proposed for 2020.

Figure 1.1 provides a comparison of our recommend allocation, the NSWEC's past allocation and the NSWEC's proposed allocation of costs. Under our approach:

- ▼ The incremental costs directly traceable to an individual client council – 'direct costs' – are allocated to those client councils.
- ▼ The common costs and remaining incremental costs – 'indirect costs' – of running local council elections are mostly allocated between client councils. The only exception is:
  - The cost of enrolment services, which is allocated between client and non-client councils, since the NSWEC provides these services to both types of council and it can charge both for it.

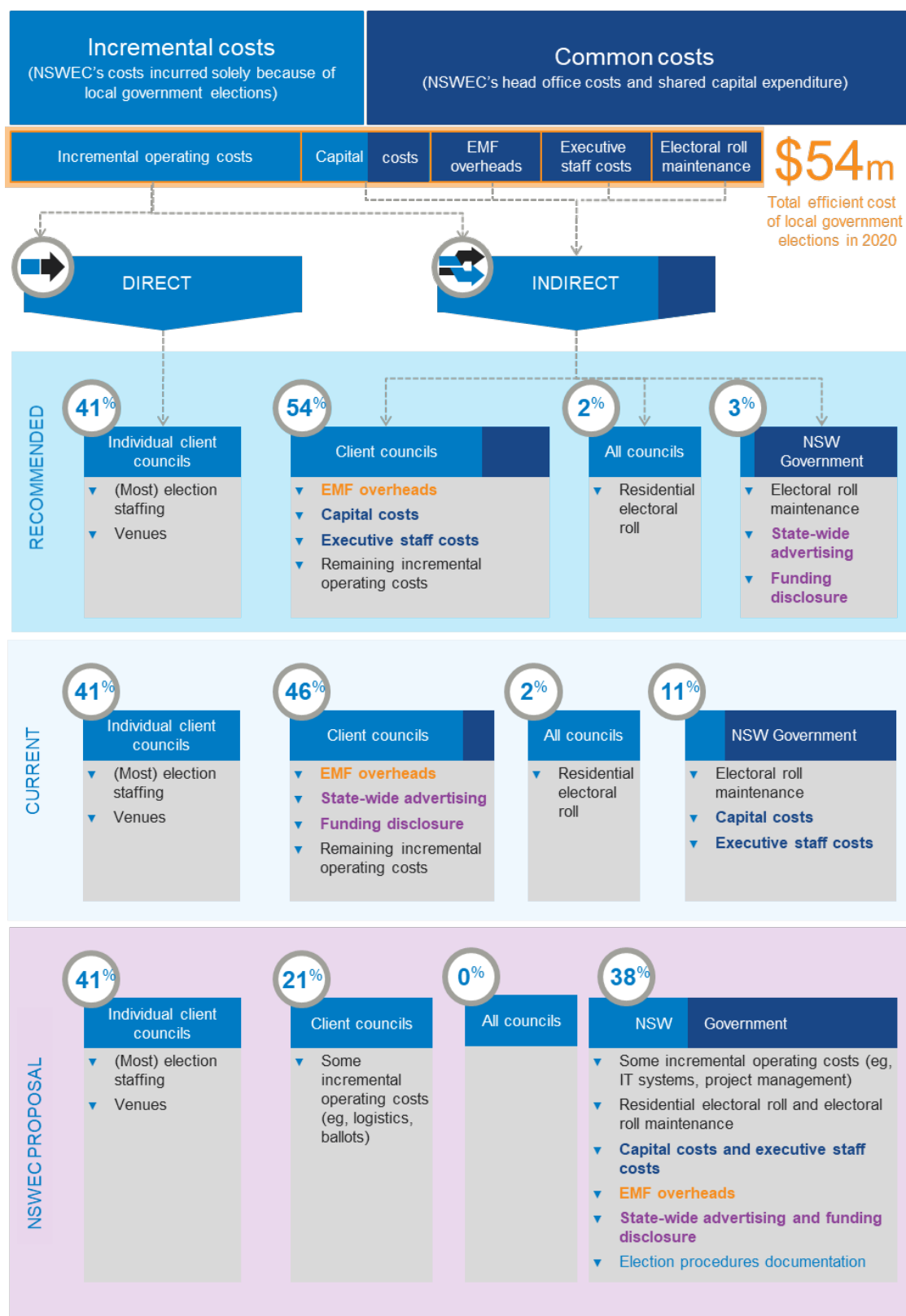
Other costs of local council elections relate to services which the NSWEC also provides to both client and non-client councils, but which we consider should be allocated to the NSW Government for practical reasons. These costs comprise: maintaining the electoral roll; state-wide advertising and community education materials; and funding disclosure.

Under our approach, councils would pay for 96.5% of the NSWEC's cost of local government elections. In contrast:

- ▼ Under the NSWEC's existing allocation of costs, councils would pay for 88.6% of the cost of local government elections.
- ▼ Under the NSWEC's proposed allocation of costs, councils would pay for 62.2% of the cost of local government elections.

This means that while total costs are lower overall under our draft approach, councils would pay more than what they have done in the past and more than what the NSWEC proposed. On average, the increase in council bills would be 62% compared to 2016-17 and around 24% compared to what the NSWEC proposed.

**Figure 1.1 Existing, NSWEC-proposed and IPART-recommended allocations**



**Note:** The Election Management Fee (EMF) is the existing funding source for some corporate overheads.

**Source:** IPART analysis.

## 1.4 Some indirect costs should not be allocated on a per elector basis

Consistent with the impactor-pays principle, we also recommend a more cost-reflective allocation of costs between councils, which is achieved by changing the 'allocator' for some indirect costs so that it more closely matches the main cost-driver for those costs.

We recommend the following changes:

- ▼ Local government boundaries costs<sup>5</sup> should be allocated by the number of councils (ie, evenly between all client councils).
- ▼ Counting and results costs that are venue-specific (eg, venue procurement and labour costs for counting venues)<sup>6</sup> should be allocated by the number of ballots for each client council counted at the venue.
- ▼ Postal voting costs (the costs of sending out applications and processing them) should be allocated by the number of postal ballots for each client council.

## 1.5 We want to hear from you

So far, we have conducted our own research and analysis, sought advice from Ernst & Young (EY) on the efficient costs of administering local government elections, and considered stakeholders' submissions to our Issues Paper.

This Draft Report sets out our draft recommendations and provides information on how we reached these draft recommendations. **We invite all interested parties to make a submission to this Draft Report by 19 July 2019.** Details on how to make a submission are on page ii of this report.

We will hold a **Public Forum on 2 July 2019** to discuss the issues presented in this Draft Report with stakeholders.

We will consider submissions to our Draft Report and feedback received at the Public Forum before providing our final recommendations to the Minister for Local Government by 30 August 2019.

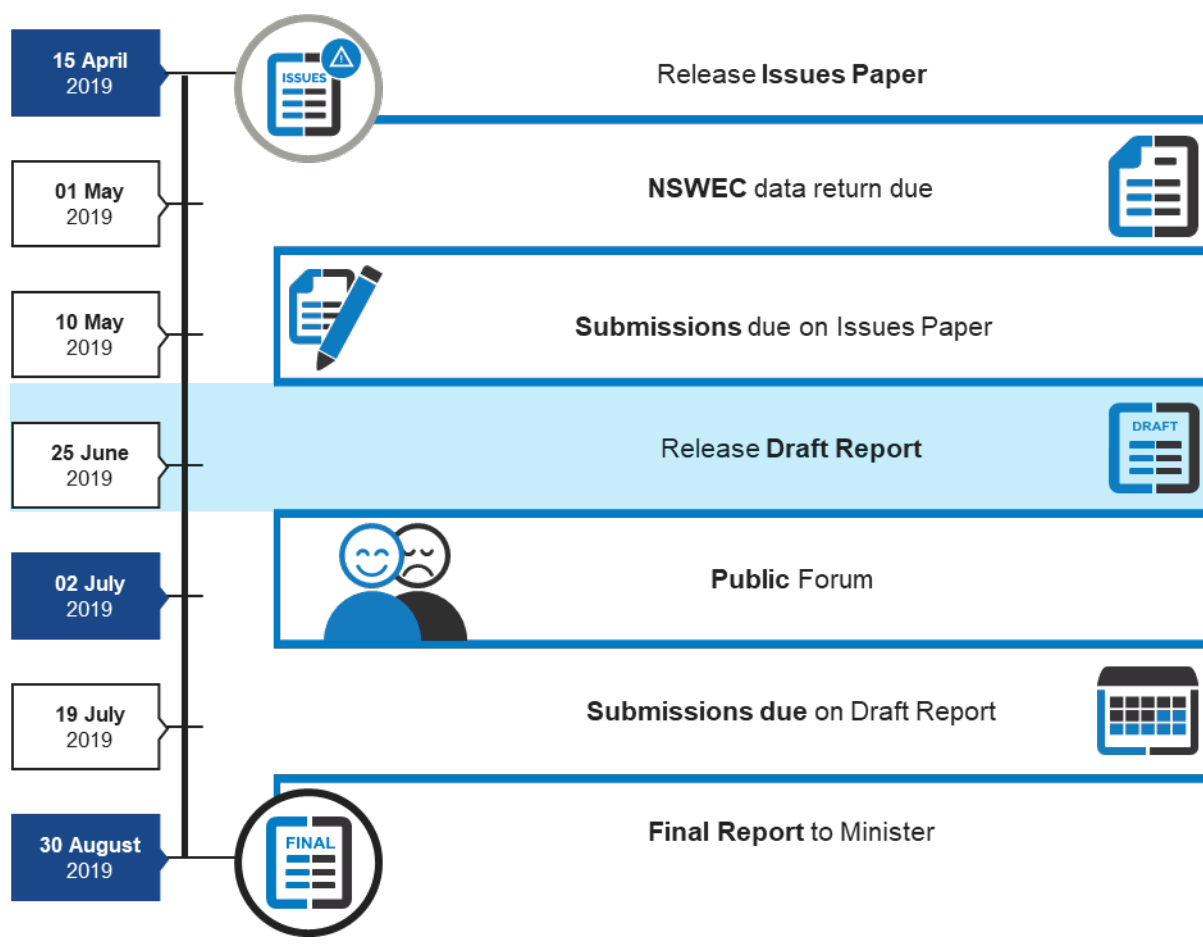
Figure 1.2 shows the timeline for this review.

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<sup>5</sup> This is a sub-component of the 'enrolment' cost item shown in Table 4.1.

<sup>6</sup> In 2016, the NSWEC managed the counting of ballots for several Sydney metropolitan councils at a counting centre at Riverwood.

**Figure 1.2** Timeline for this review



## 1.6 Structure of this report

The following chapters provide context for the review, explain how we have reached our draft recommendations, and compare our recommended costing methodology against the NSWEC's proposal:

- ▼ Chapter 2 examines the state of the market for election services and explains how this has influenced our approach to the review.
- ▼ Chapter 3 explains our draft decisions on the components of the NSWEC's notional revenue requirement.
- ▼ Chapter 4 outlines our draft decisions on the allocation of total efficient costs between the NSW Government and councils, and amongst client -councils.
- ▼ Chapter 5 sets out the impacts of our draft decisions on councils' election bills. Appendix B lists the bill impacts for each council.
- ▼ Chapter 6 examines the barriers to new entry and competition in the market for local council election services that have been identified by stakeholders and proposes measures to better facilitate competition post 2020.

## 1.7 List of draft recommendations

- 1 The NSWEC's notional revenue requirement for the 2020 local government elections should be set at \$53.91 million, as outlined in Table 3.1. 19
- 2 The NSWEC's efficient level of operating expenditure for the 2020 local government elections should be set at \$49.9 million, as outlined in Table 3.2. 23
- 3 Set an allowance for a return on assets for the 2020 local government elections at \$0.43 million, as shown in Table 3.1. 34
- 4 Adopt a real post-tax WACC of 3.2% for the purposes of calculating the allowance for a return on assets, which included: 35
  - A gearing ratio of 45% and an equity beta of 0.45 35
  - Market observations (cost of debt and market risk premium), based on the February 2019 bi-annual market update. 35
- 5 Calculate regulatory depreciation (or return of assets) using a straight line depreciation method for each group of assets, applying the asset lives in Table 3.6. 35
- 6 Set an allowance for regulatory depreciation for the 2020 local government elections at \$2.76 million as shown in Table 3.1. 35
- 7 Set a tax allowance for the 2020 local government elections at \$0.18 million as shown in Table 3.1. 36
- 8 Set an allowance for a return on working capital for the 2020 local government elections at \$0.63 million as shown in Table 3.1. 37
- 9 NSWEC's efficient costs of managing local government elections should be allocated using the impactor-pays funding hierarchy. That is, where possible, costs should be allocated to the parties that create the need for those costs. Where it is impractical to allocate costs in this way, they should be funded by the NSW Government (ie, taxpayers). 38
- 10 Applying the impactor-pays funding hierarchy means the NSWEC should allocate to: 38
  - Client councils (ie, those councils which have engaged the NSWEC to manage their elections), the efficient cost of services it provides exclusively to those councils. 38
  - Client and non-client councils, the efficient cost of enrolment services it provides to both types of council. 38
  - NSW Government, the efficient cost of services it provides to both client and non-client councils, but it is unable to recover from non-client councils (ie, maintaining the electoral roll, state-wide advertising, community education materials and funding disclosure). 38
- 11 The indirect costs the NSWEC allocates to client councils (and, in relation to enrolment services, client and non-client councils) should be shared amongst these councils on a



per-elector basis (ie, the amount a council pays depends on the number of electors in its area), with the following exceptions:	38
– Shared Returning Officer costs should be allocated by the number of electors for each client council in the Shared Returning Officer grouping.	38
– Sydney Town Hall costs should be allocated by the number of ballots for each of the client councils using the Sydney Town Hall for as a polling place (both pre-polling and on election day).	38
– Counting and results costs that are venue-specific (eg, venue procurement costs and labour costs for a counting hub) should be allocated by the number of ballots for each client council in the venue.	39
– Other counting and results costs (eg, project management costs) should be allocated by the number of ballots for each client council.	39
– Local government boundaries costs (part of enrolment services) should be allocated evenly amongst all councils (ie, allocated by the number of client and non-client councils, rather than the number of electors within each of those councils).	39
– Postal voting costs should be allocated by the number of ballots issued by each client council.	39
12 That the NSW Government implement a new market model for local government election services by undertaking the following regulatory reforms:	61
– Legislative reform to require the mandatory unbundling, component pricing and offering of the NSWEC's individual local government election services. In advance of the council elections in 2024, the NSWEC should have unbundled its costs and services, and provide councils with binding quotes for each individual election service, so that councils can decide which election services the NSWEC will provide them with.	61
– The establishment of independent regulatory oversight of:	61
a. The NSWEC's prices for unbundled local government election services, until genuine choice and competition emerges.	61
b. The performance of all service providers, to ensure that all providers provide the mandatory, minimum levels of service (ie, that they comply with the non-discretionary standards of conducting an election).	61
– Legislative change to reduce the period before an election by which a council has to resolve to engage the NSWEC from 18 months to 9 months.	61
– Provision of assistance to councils to further develop their election management capabilities through a training program delivered by the Office of Local Government.	61
– Legislative change, if required, to ensure that a council's General Manager becomes responsible for producing a valid election result if and when the council ceases to engage the NSWEC for all election services.	61



## 2 State of the market

The Terms of Reference for this review require us to assess the state of the market for local government election administration services. The aim of this step was to understand the current level of competitiveness in the market, and the possible development of competition over the next few years. This chapter sets out:

- ▼ Our assessment that the market for the provision of local government election services is at present a near-monopoly.
- ▼ Our finding that most local government election administration services are likely to be contestable in the longer term.

Our findings on the degree of competition in the market have affected subsequent steps in our approach to this review. In particular, our finding that the market is a near-monopoly highlights the need to review the efficiency of the NSWEC's proposed costs and to regulate prices, at least in the short-term. We present our recommendations on NSWEC's efficient costs in Chapter 4.

Our finding that most local government election services are likely to be contestable has affected the way we consider efficient costs should be allocated between the NSW Government and councils, and amongst councils. We present our recommendations on the allocation of NSWEC's efficient costs in Chapter 5.

The implication of both findings is that in the longer term, if impediments to competition are removed and competitive pressures are increased, then the degree of regulatory oversight could be reduced. Therefore, in Chapter 6 we identify the barriers to participating in the market that have been identified by stakeholders and propose measures to better facilitate competition.

### 2.1 The NSWEC provides a range of election-related services

The function of the NSWEC is to provide a range of services for administering elections and regulating the electoral environment.

The NSWEC administers elections for:

- ▼ The Parliament of NSW
- ▼ The NSW Aboriginal Land Council
- ▼ Local government councils (on request)
- ▼ Commercial, statutory and service organisations (on request).

The NSWEC is also responsible for regulating the electoral environment. This includes:

- ▼ Maintaining registers of political parties, candidates, agents, third-party campaigners and lobbyists

- ▼ Publishing disclosures of political donations and electoral expenditure
- ▼ Regulating compliance with election related legislation.<sup>7</sup>

This review focuses on the services the NSWEC provides in administering local government elections. In providing these services the NSWEC incurs costs that are specific to local government elections (we call these ‘incremental’ costs). It also incurs head office costs (eg, salaries, rent) and capital costs that are shared across several (or all) of its functions (we call these ‘common’ costs).

## 2.2 The market for the provision of election services is a near-monopoly

As set out in our Issues Paper, the market for local government election services appears to be highly concentrated. Despite the introduction of contestability in 2012, the NSWEC remains the dominant provider of election services, with a market share of around 95%.<sup>8</sup> There is only one private provider operating in the market; the Australian Election Company. It managed around 9% of local government elections in 2012, with its market share decreasing to around 5% for the 2016 and 2017 elections. It has mainly serviced larger metropolitan and regional councils (eg, Penrith City Council, Kempsey Shire Council).<sup>9</sup>

While the take up of services from private providers has been low, stakeholders have identified a number of barriers to participating in the market (see Chapter 6). In particular, the NSWEC provides the full range of election services and there is no option for councils to provide some of these services themselves (as had been the case previously) and/or via a private provider.<sup>10</sup>

By most measures, the market for local government election services would be considered a monopoly or near-monopoly (see eg Box 2.1 below). When we assess the state of the retail energy market for small customers (ie, residential and business customers) we look at, among other things, the participation of these customers in the market<sup>11</sup> and the extent to which retail energy companies are competing to attract them.<sup>12</sup> We have taken a similar approach here and note that, to date, few councils have participated in the market and opted to use a provider other than the NSWEC – and this number has fallen between elections. There has only been one private provider, in addition to the NSWEC or council self-provision, and thus competition between suppliers has been limited.

Our assessment is that the market for local government election services would not be considered workably competitive. **Being the dominant provider in a near-monopoly market, the NSWEC may not experience sufficient competitive pressure to ensure its costs are efficient and that it is responding to the needs of its customers. Therefore, it is important to assess the efficient costs of service provision, for the benefit of customers/councils.**

<sup>7</sup> NSW Electoral Commission, *Annual Report 2016-17*, p 28.

<sup>8</sup> At the 2016 and 2017 local government elections, it managed 122 of the 128 elections. NSW Electoral Commission, *Report on the 2016 Local Government Elections*, p 7 and NSW Electoral Commission, *Report on the 2017 Local Government Elections*, p 6.

<sup>9</sup> IPART, *Review of local government election costs – Issues Paper*, April 2019, p 17.

<sup>10</sup> Where services are not offered or available on an individual basis we say there is a lack of ‘unbundling’.

<sup>11</sup> IPART, *Review of the performance and competitiveness in the NSW retail energy market – From 1 July 2017 to 30 June 2018 – Final Report*, November 2018, pp 2-3.

<sup>12</sup> Op cit. p 16.

### Box 2.1 Assessing market competitiveness

The Herfindahl-Hirschman index (HHI) is a common measure of market concentration, and is used to assess market competitiveness, often pre- and post- merger and acquisition transactions. It is calculated by squaring the market share of each firm competing in a market and then summing the resulting numbers. It can range from close to zero to 10,000.

The formula for the HHI is:

$$HHI = S_1^2 + S_2^2 + \dots S_n^2$$

Where:  $S_n$  is the market share percentage of firm  $n$  expressed as a whole number (not a decimal).

The closer a market is to a monopoly, the higher the market's concentration (and the lower its competition). If, eg, there were only one firm in an industry, that firm would have 100% market share, and the HHI would equal 10,000 (ie,  $100 \times 100$ ), indicating a monopoly. If there were thousands of firms competing, each would have nearly 0% market share, and the HHI would be close to zero, indicating nearly perfect competition.

A market with an HHI of 1,500 to 2,500 is considered to be a moderately concentrated marketplace, and an HHI of 2,500 or greater to be a highly concentrated marketplace.

The two last local government elections demonstrate a highly concentrated marketplace. The HHI for the 2012 elections was 8,362 (ie,  $91^2 + 9^2$ ) and the HHI for the 2016/2017 elections was 9,050 (ie,  $95^2 + 5^2$ ).

The primary advantage of the HHI is the simplicity of the calculation necessary to determine it and the small amount of data required for the calculation. However, the primary disadvantage is that it is such a simple measure that it fails to take into account the complexities of various markets.

**Source:** See <https://www.justice.gov/atr/herfindahl-hirschman-index>. IPART calculations.

## 2.3 Most election services are likely to be contestable

In our Issues Paper we explained that, in assessing the state of the market, we would consider whether effective competition is only likely for a limited range of local government election services, rather than for each service currently offered by the NSWEC.

We do this because:

- ▼ Private providers would have a competitive advantage if the NSWEC recovers the costs of services that are not contestable from client councils only.<sup>13</sup>
- ▼ It is necessary to regulate the price of services that are not contestable so that the NSWEC does not charge above the efficient cost of providing the services.

<sup>13</sup> We call the councils that engage the NSWEC to conduct their elections 'client' councils and those that do not 'non-client' councils.

The characteristics of a contestable market or service include:

- ▼ Low sunk costs<sup>14</sup>
- ▼ Limited brand loyalty and advertising
- ▼ Limited vertical integration<sup>15</sup>
- ▼ Ability to access technology and skilled labour.

We consider that, in general, the local government election services provided by the NSWEC display these characteristics, and our assessment for this Draft Report is that these services are contestable.

However, we recognise that the NSWEC must provide a number of 'state-wide' election services to all councils – ie, to both client and non-client councils. These are:

- ▼ Maintenance of the residential electoral roll.<sup>16</sup>
- ▼ Supply of electoral roll products for local government elections (including a list of voters registered to automatically receive postal votes).
- ▼ Ensuring funding and disclosure procedures are updated for the latest legislative and operational changes and ready for the election.
- ▼ Running a state-wide election awareness advertising campaign, which includes advertising targeted towards equal access to democracy for electors with disabilities, Culturally and Linguistically Diverse (CALD) electors and Aboriginal and Torres Strait Island electors.
- ▼ Notification of eligibility to vote and be enrolled as electors for a ward or area.

Because these services cannot currently be provided by a private provider, we have classified them as non-contestable. We note that the contestability of services can change over time, with factors such as changes in technology, legislation and regulatory requirements. This means that services currently considered non-contestable, could potentially become contestable in the future.

The table below sets out the NSWEC's major cost items and our view on whether the services these cost items support are contestable.<sup>17</sup>

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<sup>14</sup> Sunk costs are those costs incurred previously – such as the construction of major assets or investment in research and development – that cannot now be changed or recovered.

<sup>15</sup> Vertical integration is the combination in one firm of two or more stages of production normally operated by separate firms.

<sup>16</sup> In practice, the Australian Electoral Commission (AEC) keeps and maintains an electoral roll for each state and territory. The NSWEC pays the AEC for access to the roll for all State and Local Government elections, in accordance with the Joint Roll Agreement. The NSWEC obtains a copy of the electoral roll from the AEC for the purpose of enabling it to exercise its statutory function of keeping the residential roll. It is then statutorily obliged to provide a copy of the residential roll to councils (client and non-client) and may charge the relevant council a fee for the cost of provision.

<sup>17</sup> We note that, at this point in time, we do not have costs by service type, so instead have based our analysis on the NSWEC's major cost items.

**Table 2.1 Allocation of local government election costs items**

Local Government Election (LGE)-specific cost item	Service category
<b>Incremental costs of LGEs</b>	
Enrolment – supply of electoral roll products	Non-contestable
Council liaison	Contestable
Data management	Contestable
Election staffing	Contestable
Financial services	Contestable
Venue procurement	Contestable
Counting and results <sup>a</sup>	Contestable
Election procedures documentation	Contestable
Logistics	Contestable
Media and advertising – state-wide election awareness campaign	Non-contestable
Media and advertising – local statutory advertising	Contestable
IT and support	Contestable
Call centres	Contestable
Ballot papers	Contestable
Nominations	Contestable
Event operations management	Contestable
IT Business systems	Contestable
HO and RW infrastructure	Contestable
Sydney Town Hall	Contestable
Overtime	Contestable
Funding disclosure	Non-contestable
Postal voting	Contestable
Project management office	Contestable
<b>LGE share of common costs</b>	
Head office costs	Contestable
Executive costs	Contestable
Maintenance of the electoral roll	Non-contestable

<sup>a</sup> We consider the service of counting votes by the weighted inclusive Gregory method (WIGM) is a contestable service.

**Source:** NSW Electoral Commission, submission to Issues Paper, 10 May 2019 (NSWEC), p 17 and IPART analysis. (See Chapter 3 for further detail on the major cost items.)

While one council that responded to our Issues Paper considered that, based on its past experience, the Australian Election Company is capable of providing the full range of election services,<sup>18</sup> other stakeholders think that private providers might be unable to deliver some services that we have identified as contestable. In particular, several raised concerns over the ability of a private provider to count votes using the weighted inclusive Gregory method (WIGM). We discuss these issues, as well as the potential for private provision of election services to vary by council location and size, in the remainder of this section.

<sup>18</sup> Penrith City Council, submission to Issues Paper, 17 May 2019 (Penrith City Council), p 3.

### 2.3.1 Concerns over the ability of a private provider to count votes using the WIGM

The Joint Standing Committee on Election Matters' (JSCEM) 2017 inquiry into preference counting in local government elections in NSW highlighted issues with the current system of random preference allocation,<sup>19</sup> specifically the lack of reproducibility and its adverse impact on public confidence in the electoral system. The Committee recommended changing to a system of fractional transfers known as WIGM<sup>20</sup> for future local government elections. One key advantage of WIGM is that it is reproducible on a recount, which is necessary for the introduction of the countback system.<sup>21</sup>

This change will take effect on 11 September 2020, immediately before the 2020 local government elections.<sup>22</sup> The NSWEC intends to develop new WIGM-compliant counting software this year. Its view is that it will be difficult for councils and private providers to run elections in 2020 without this technology.<sup>23</sup> The NSWEC considered that the development of a licensing system to enable councils or private providers to use the NSWEC's software platform is not possible at this stage. The NSWEC indicated that "The level of state government funding which has been sought for the new count system will only support the development of a system for the use of the NSW Electoral Commission" and that it would need to redesign the system to make it compatible for use by councils and private providers.<sup>24</sup>

City of Sydney and Penrith City Council both identified the introduction of WIGM as a barrier to entry given its complexity and significant IT requirements.<sup>25</sup> However, it may not be considered cost-prohibitive by private providers. The Australian Election Company informed the JSCEM during the 2017 inquiry that, although the new counting system would require a significant amendment to the company's counting software, the change would be manageable.<sup>26</sup> We further understand that there are parties who consider that the new voting requirements could be met by providers other than the NSWEC.

At this stage we consider the counting of votes using the WIGM to be a contestable service. If we receive evidence that demonstrates this is not the case, then we will consider options for allocating the NSWEC's costs of implementing WIGM to councils. For example, we could treat WIGM software as a monopoly asset, and set an access price for its use by all councils.

<sup>19</sup> Under the *Local Government (General) Regulation 2005*, candidates must reach a quota to be elected. When a candidate reaches the quota based on first preferences, surplus votes for the candidate are distributed to the remaining candidates based on numbered preferences.

Under random preference allocation, preferences are determined based on a random sample of ballot papers. These preferences are then used to transfer surplus votes to other candidates.

<sup>20</sup> Under a fractional transfer system, preferences on all ballot papers are taken into account to determine the number of surplus votes received by other candidates. WIGM is a fractional transfer system that differentiates between votes which are transferred more than once.

<sup>21</sup> The countback system can be used to fill casual vacancies when casual vacancies arise within the first 18 months. This option will become available to councils following the 2020 elections.

<sup>22</sup> Office of Local Government, *Circular No 18-47 Amendments to the election provisions of the Local Government (General) Regulation 2005*.

<sup>23</sup> NSWEC, p 12.

<sup>24</sup> Ibid.

<sup>25</sup> City of Sydney, submission to Issues Paper, 10 May 2019, p 2 and Penrith City Council, p 4.

<sup>26</sup> Joint Standing Committee on Electoral Matters, *Inquiry into preference counting in local government elections in NSW*, Report 3/56 – November 2017, p 11.



### 2.3.2 Limited contestability for other specialised services

Local Government NSW (LGNSW) and Byron Shire Council provided more general comments on the ability of private providers to offer the full range of election services.

LGNSW considers that, given the administrative complexity of conducting elections and the difficulty in retaining expertise (since elections only take place once every four years), the NSWEC should be responsible for providing specialised components and private providers could provide less specialised components such as 'printing, advertising, arranging polling places, polling booths, ballot boxes and coordinating voting services'.<sup>27</sup> Byron Shire Council considers the expense of acquiring technology was a potential barrier to entry for private providers, but that private providers are suited to supplying election components such as staffing, venues, and ballot paper production.<sup>28</sup>

We note that we have proposed a model of service provision that addresses this issue. By unbundling the NSWEC's local government election services, and pricing them individually, private providers could compete with the NSWEC at the service level, based on their expertise (see Chapter 6).

### 2.3.3 Potential for private provision of election services to vary by council location and size

As set out in our Issues Paper, we have also considered the extent to which the range of services offered by private providers might vary by a council's geographic location (ie, metropolitan, regional or rural) or size (ie, small, medium or large).

The NSWEC delivers the same level of service to all councils, regardless of their size, geography and location.<sup>29</sup> However, the NSWEC considered that certain characteristics of regional and rural councils lead to higher expenses for some election components.

The NSWEC submitted that the average cost per elector was:

- ▼ \$6.52 in 2016 and \$7.06 in 2017 in metropolitan councils
- ▼ \$7.62 in 2016 and \$7.68 in 2017 in regional councils
- ▼ \$8.98 in 2016 and \$10.20 in 2017 in rural councils.<sup>30</sup>

It explained that the differences are the result of factors including:

- ▼ **Support costs.** The NSWEC provides information technology, information security and subject matter expert support across election weekends. There are minimum support requirements which must be provided, and these will be at the same rate whether the council is rural, regional or metropolitan based.
- ▼ **Staff costs.** Rates for pay for staff is the same regardless of where the election is being held. Because of the size of electorates, regional and rural councils can have a greater number polling places, each requiring paid staff.

<sup>27</sup> Local Government NSW, submission to Issues Paper, 24 May 2019, p 6.

<sup>28</sup> Byron Shire Council, submission to Issues Paper, 29 May 2019, p 1.

<sup>29</sup> NSWEC, p 20.

<sup>30</sup> NSWEC, p 37.

- ▼ **Election night drop-off centres.** Because the size of regional and rural electorates can be large, it is difficult to deliver election materials back to the returning office at a reasonable time on election night. The NSWEC occasionally books separate venues within the electorate for election materials to be dropped off and stored on election night, incurring additional rental and staffing costs.
- ▼ **Logistics.** Making multiple shipments to and from distant returning offices and polling places can be costly.
- ▼ **Travel.** The Returning Officer (and key staff) may live considerable distances from the returning office. The NSWEC pays for travel expenses to and from locations across the duration of the election, or accommodation costs, or both.
- ▼ **Statutory advertising.** These have to cover the entire area relevant to the election. Because rural electorates are often very large, statutory advertisements often have to be placed in more than one publication.
- ▼ **Security.** The NSWEC often pays for additional security measures to be installed in rural locations (returning offices), or have security guards for longer periods, or a combination of both.
- ▼ **Post-election support.** The NSWEC occasionally has to provide on-site support to Returning Officers. This naturally incurs travel, accommodation and meal expenses.<sup>31</sup>

Other stakeholders also identified differences in the cost of conducting elections in metropolitan and regional areas

Lake Macquarie City Council identified geography and population density as two factors that have a direct impact on the cost of elections. Councils that cover a large geographical area and/or have a high population density will need more polling places, resulting in higher venue procurement costs, and associated staffing, training and logistics.<sup>32</sup> Penrith City Council noted that regional and rural councils incur higher advertising and transportation costs due to their size; but that the introduction of universal postal voting should help to alleviate some of these cost pressures in the future.<sup>33</sup>

Bogan Shire Council considered that the range of services offered by a private provider would not vary by councils' geographic location or size.<sup>34</sup> However, a further stakeholder contended that:

Councils in rural areas would find it difficult to source a local private provider for election services. ... There may be more opportunities for private providers if neighbouring regional/rural councils could use the same provider, with cost saving measures.<sup>35</sup>

We recognise that the Australian Election Company has serviced larger metropolitan and regional councils but not rural councils. While we understand costs might vary based on council location and size, we consider there is no evidence to suggest that the degree of contestability should be different (eg, multiple providers could compete to serve a higher cost

<sup>31</sup> NSWEC, pp 37-38.


<sup>32</sup> Lake Macquarie City Council, submission to Issues Paper, 9 May 2019, p 4.

<sup>33</sup> Penrith City Council, p 6.

<sup>34</sup> Bogan Shire Council, submission to Issues Paper, 7 May 2019, p 1.

<sup>35</sup> Anonymous, submission to Issues Paper, 9 May 2019, p 1.





council). If competitive pressures were increased, and barriers to participation removed, differences in the level of contestability across the state would begin to be revealed.

We note that the structure of the NSWEC's prices for election services will have a strong effect on where private providers choose to compete to offer services. To the extent that prices are set by averaging costs across councils with different underlying cost structures, then private providers will have an incentive to supply those councils that are least costly to serve (either by undercutting the NSWEC's prices or offering a higher level of service). If the NSWEC is left with higher-cost councils to serve then it needs to be able to recover its efficient costs. This issue needs to be addressed when we considering cost allocation and price structures.

### 3 Identifying the efficient costs of local government elections

In this chapter, we seek to identify the efficient costs of the NSWEC administering the 2020 local government elections.<sup>36</sup> These costs comprise:

- ▼ **Incremental costs** – the operating and capital expenditure the NSWEC incurs solely because of the local government elections.
- ▼ **Common costs** – a proportion of the NSWEC’s head office costs (eg, salaries, rent) and any shared capital expenditure it incurs across several of its functions (including administering local government elections).

Our focus on efficiency recognises the market for local government election services is currently highly concentrated (see Chapter 2), so competitive pressures are unlikely to ensure the NSWEC’s costs remain in line with efficient levels. In addition, it is consistent with our Terms of Reference, since it facilitates the NSWEC conducting elections in an efficient and cost-effective way. Finally, it minimises the financial burden on councils and their rate payers (as well as NSW taxpayers who also pay a share of the NSWEC’s costs of providing election services to councils), through reducing their risk of paying inefficiently high prices for election services.<sup>37</sup>

With the assistance of our consultant, Ernst & Young (EY), we examined the efficiency of the NSWEC’s **proposed costs** for the 2020 local government elections.<sup>38</sup> We also considered whether it would incur **additional efficient costs** (ie, other incremental or common costs) outside of its proposal. We used the ‘building block’ approach to combine these costs and calculate the NSWEC’s notional revenue requirement (NRR). This represents our view of the **total efficient costs** of the NSWEC administering the 2020 local government elections.

#### 3.1 Notional revenue requirement

##### Draft recommendation

- 1 The NSWEC’s notional revenue requirement for the 2020 local government elections should be set at \$53.91 million, as outlined in Table 3.1.

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<sup>36</sup> While the NSWEC provides a range of electoral services, it is the electoral services it offers to councils that are the subject of our review.

<sup>37</sup> As noted in our Terms of Reference (see Appendix A), the purpose of our review is to ensure a robust methodology is applied to determine local government election costs: “in order to minimise the financial burden on councils and ratepayers and ensure local government elections are conducted efficiently and cost effectively.”

<sup>38</sup> Due to time limitations EY did not comprehensively review every cost item. It focused on the items that drive most of the NSWEC’s proposed increase in operating expenditure and/or are material cost items. It also considered an efficiency saving for the cost items it did not specifically review. EY, *Review of efficiency costs of the NSW Electoral Commission’s conduct of local government elections*, June 2019, p 6 (EY Report).

**Table 3.1 IPART's draft recommendation on the NSWEC's NRR for the 2020 local government elections (\$'000, \$2020-21)**

Building block component	NSWEC proposal	IPART draft recommendation	Difference	Difference (%)	% of total NRR
Operating expenditure	56,537	49,907	-6,629	-11.7%	92.6%
Return of assets (depreciation)	–	2,762	2,762	–	5.1%
Return on assets	–	426	426	–	0.8%
Working capital allowance	–	632	632	–	1.2%
Tax allowance	–	179	179	–	0.3%
<b>Notional Revenue Requirement</b>	<b>56,537</b>	<b>53,906</b>	<b>-2,631</b>	<b>-4.7%</b>	<b>100.0%</b>

Source: NSWEC, submission to IPART Issues Paper, April 2019, p 17 and IPART analysis.

Our draft recommendation on the NSWEC's total NRR for the 2020 local government elections includes the cost of items that the NSWEC did not include in its proposed costs. The additional items are:

- ▼ Operating expenditure in the form of NSWEC executive salaries and Joint Roll Agreement costs
- ▼ An allowance for capital costs, including allowances for depreciation and returns on assets and working capital
- ▼ A regulatory tax allowance.

As a result of these additions, the NRR we recommend is only \$2.6 million (or 4.7%) lower than the cost for the 2020 local government elections proposed by the NSWEC.

The impact of our draft recommendation for only those items included in the NSWEC's proposal would be a reduction of \$8.8 million (or 15.6%). That is, we consider the efficient costs of the items in the NSWEC's proposal to be \$47.7 million, compared to \$56.5 million proposed by NSWEC.<sup>39</sup>

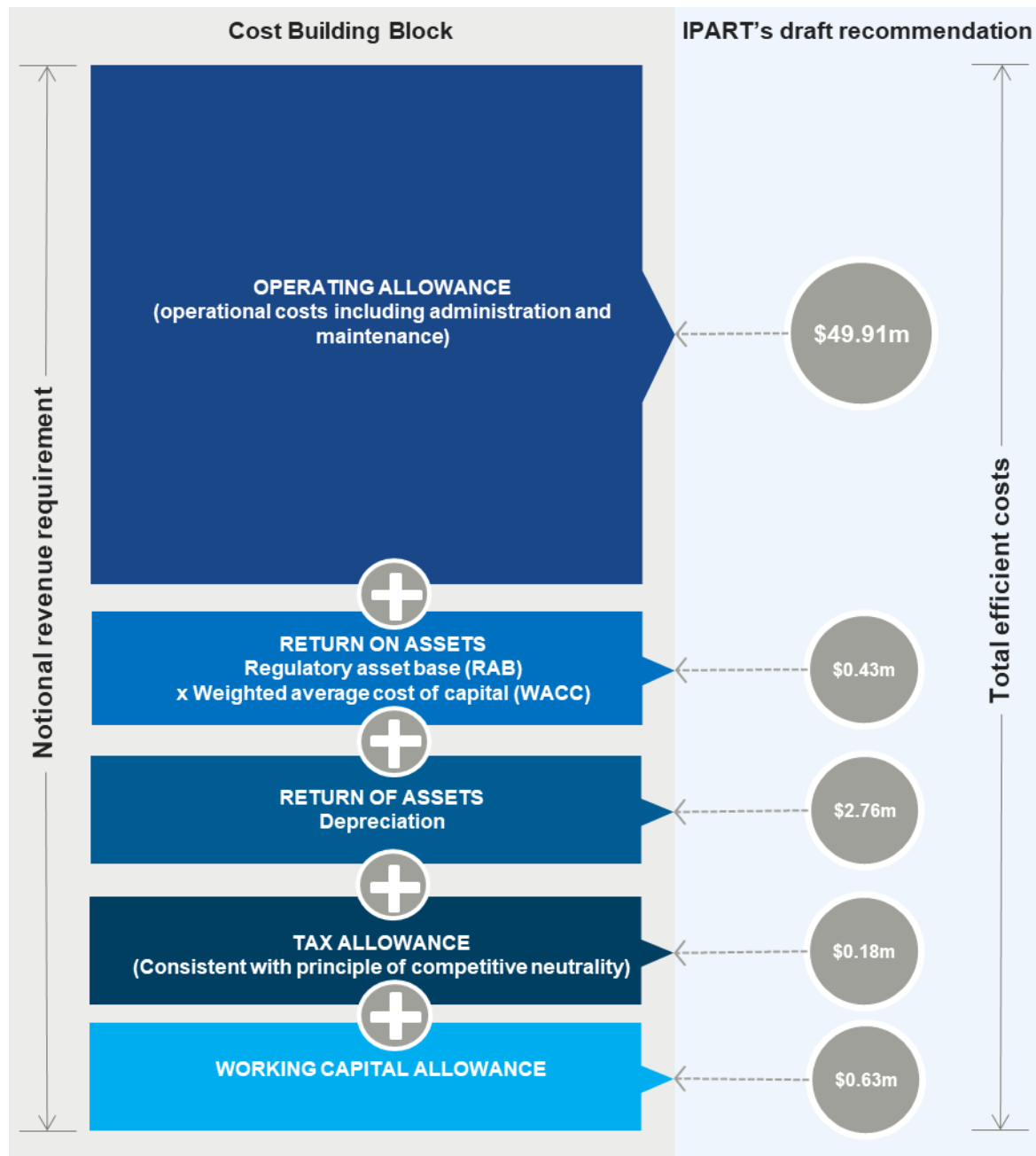
The sections that follow outline our draft recommendations on each of the building block components of the NRR. As outlined in Figure 3.1, the building block components are allowances for:

- ▼ **Operating expenditure**, which represents our view of the NSWEC's forecast efficient operating, maintenance and administration costs.
- ▼ A **return on the assets** the NSWEC uses to provide local government election services. This represents our assessment of the opportunity cost of the capital invested in the NSWEC's operations, and ensures the NSWEC continues to make efficient investments in capital in the future.

<sup>39</sup> The NSWEC's proposed costs for the 2020 local government elections include all incremental costs of conducting local government elections and a share of some corporate overheads. The existing funding source of the corporate overheads is the Election Management Fee (EMF). The existing EMF does not recoup any of the NSWEC's executive salaries.

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- ▼ A **return of those assets** (regulatory depreciation). This allowance recognises that through the provision of election services, the NSWEC's capital infrastructure will become technologically redundant over time, and therefore, revenue is required to recover the cost of maintaining the Regulatory Asset Base (RAB).
  - ▼ **Tax obligations**, which is our estimate of the tax liability for a comparable commercial business to the NSWEC, to reflect the full efficient costs the NSWEC should incur operating in a competitive market.
  - ▼ **Working capital**. This allowance is included to ensure the NSWEC can recover the holding costs incurred due to delays between delivering services and receiving payment from councils for their local government elections.

**Figure 3.1 IPART's draft recommendation on the NSWEC's allowance on the key building block components**




Source: IPART analysis.

Several submissions to our Issues Paper<sup>40</sup> questioned the use of the building block approach, given that election services are not capital intensive.

Although it is often used for services that are capital intensive, the building block approach can still be used to calculate the NRR for non-capital intensive businesses.<sup>41</sup> In any case, the NSWEC is proposing capital expenditure of at least \$5.7 million (see section 3.3), so we

<sup>40</sup> NSWEC, submission to IPART Issues Paper, April 2019, p 35, LG NSW, submission to IPART Issues Paper, p 10, and Penrith City Council, submission to IPART Issues Paper, p 5.

<sup>41</sup> It merely results in the return on asset and return of assets (depreciation) components being small.



consider it is appropriate to include the capital building blocks in our assessment of its total efficient costs. This helps ensure that all efficient costs associated with delivering services are included in our consideration of pricing arrangements.

Cost-reflective prices promote efficient investment and consumption decisions, the optimal use and allocation of resources, and ensure that potential private sector competitors to the NSWEC are not unduly disadvantaged and hence the potential for competition is maximised – which are all outcomes that ultimately benefit the broader community.

In the following sections of this chapter, we outline our draft decisions on each of the building block components and explain the rationale underpinning these decisions.

## **3.2 Operating expenditure**

### **Draft recommendation:**

- 2 The NSWEC's efficient level of operating expenditure for the 2020 local government elections should be set at \$49.9 million, as outlined in Table 3.2.

**Table 3.2 IPART's draft recommendation on the NSWEC's efficient operating costs (\$'000, \$2020-21)**

Cost item	NSWEC proposed (\$'000)	IPART draft recommendation (\$'000)	Difference (\$'000)	Difference (%)
<b><i>Incremental costs of conducting local government elections</i></b>				
Enrolment	942	917	-25	-2.6%
Council liaison	1,115	1,076	-39	-3.5%
Data management	306	271	-36	-11.6%
Election staffing	23,397	18,749	-4,648	-19.9%
Financial services	1,008	982	-25	-2.5%
Venue procurement	4,307	3,794	-513	-11.9%
Voting	0	0	-	-
Counting and results	1,747	1,700	-47	-2.7%
Election procedures documentation	894	873	-21	-2.4%
Logistics	3,977	2,317	-1,660	-41.7%
Media and advertising	2,341	2,285	-55	-2.4%
IT and support	797	779	-19	-2.4%
Call centres	1,870	672	-1,197	-64.0%
Ballot papers	1,574	1,530	-44	-2.8%
Nominations	428	418	-10	-2.4%
Event operations management	315	308	-7	-2.4%
IT business systems	2,061	1,913	-148	-7.2%
HO and RW infrastructure	733	488	-245	-33.4%
Sydney Town Hall	486	474	-11	-2.4%
Overtime	1,021	929	-92	-9.0%
Funding disclosure	119	111	-8	-6.3%
Postal voting	1,223	1,080	-143	-11.7%
Project management office	2,315	2,261	-55	-2.4%
<b>SUBTOTAL – Incremental costs</b>	<b>52,976</b>	<b>43,928</b>	<b>-9,047</b>	<b>-17.1%</b>
<b><i>LGE share of common costs</i></b>				
Corporate overheads – EMF <sup>a</sup>	3,561	3,808	247	6.9%
Corporate overheads – executive salaries	0	1,548	1,548	
Joint Roll Agreement <sup>b</sup>	0	623	623	
<b>SUBTOTAL – LGE share of common costs</b>	<b>3,561</b>	<b>5,979</b>	<b>2,418</b>	<b>67.9%</b>
<b>TOTAL operating expenditure</b>	<b>56,537</b>	<b>49,907</b>	<b>-6,629</b>	<b>-11.7%</b>

<sup>a</sup> Election Management Fee

<sup>b</sup> A charge payable from the NSW Electoral Commission to the Australian Electoral Commission. At 30 June 2018, the amount payable per elector is \$0.839 (2017: \$0.823). See the NSWEC's 2017-18 Annual Report, p 91

[https://www.elections.nsw.gov.au/NSWEC/media/NSWEC/Reports/Annual%20reports/NSW-Electoral-Commission-Annual-Report-2017-18-\(PDF-3-1MB\).pdf](https://www.elections.nsw.gov.au/NSWEC/media/NSWEC/Reports/Annual%20reports/NSW-Electoral-Commission-Annual-Report-2017-18-(PDF-3-1MB).pdf), accessed 19 June 2019).

**Source:** NSWEC, p 17 and IPART analysis.

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Our draft recommendation on the NSWEC's efficient operating expenditure for incremental cost items is \$9.0 million (17.1%) lower than proposed by the NSWEC.

Our draft recommendation on the NSWEC's total operating costs includes a share of executive salaries and Joint Roll Agreement costs, neither of which were recognised in the NSWEC's proposed costs of the 2020 local government elections. Including these additional items means that our recommended operating costs are only \$6.6 million (11.7%) lower than what the NSWEC proposed.

### **3.2.1 NSWEC has proposed a 36% increase in its operating expenditure**

NSWEC's proposed operating expenditure of \$56.5 million for the 2020 local government elections represents an increase in nominal terms of 36.5% (or \$15.1 million) compared to the previous elections in 2016-17.<sup>42</sup>

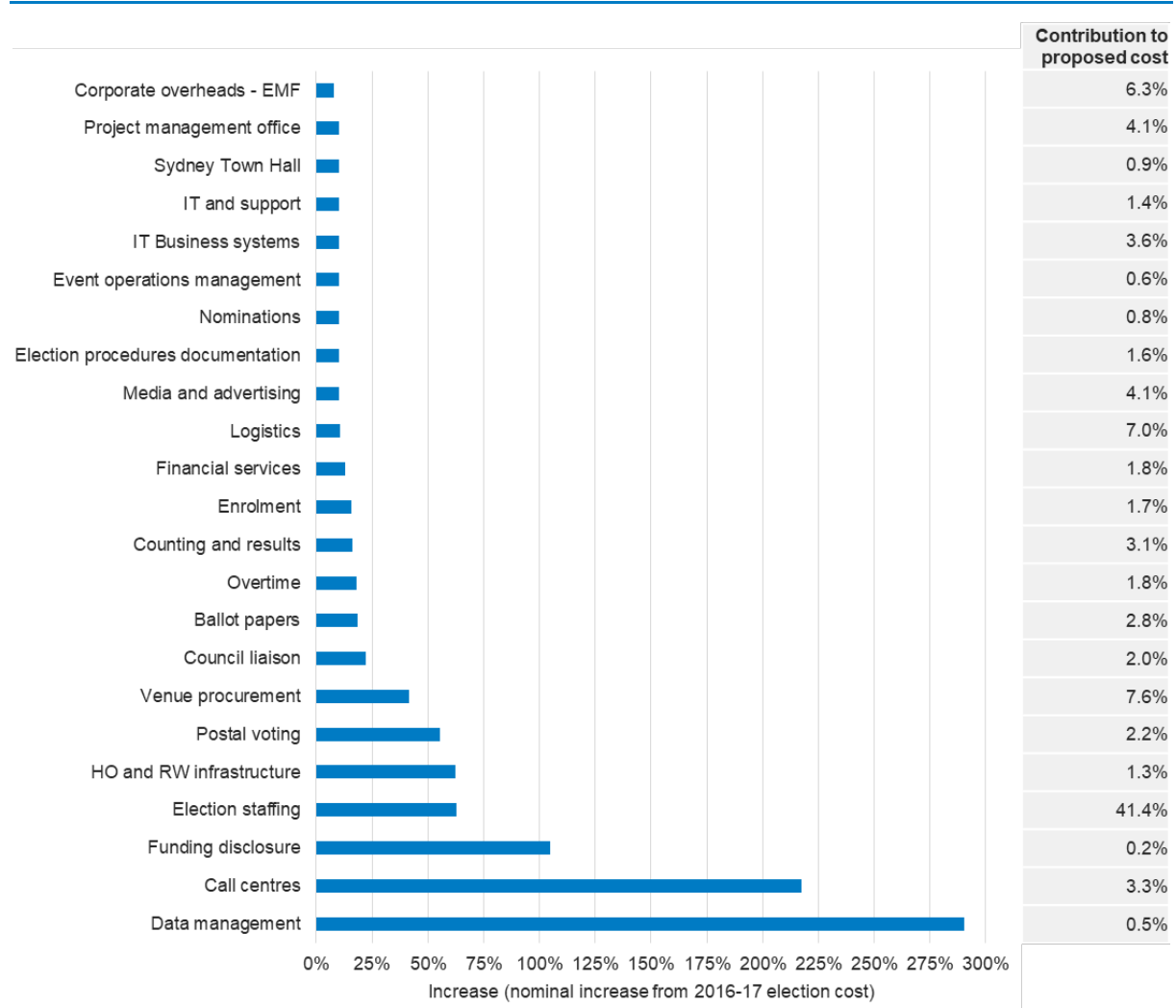
Election staffing is the key driver of this cost increase (see Figure 3.2). It is NSWEC's main cost item, comprising 41.4% of its operating expenditure, followed by venue procurement (7.6%) and logistics (7.0%). NSWEC is proposing nominal increases in these cost items of 62.6%, 41.7% and 10.8%, respectively.

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<sup>42</sup> The NSWEC's operating expenditure on the 2016-17 local government elections was \$41.4 million. This figure excludes \$6.5 million in costs the NSWEC identified as 'duplicate costs'. These were costs the NSWEC only incurred due to running the elections in two tranches. The total operating expenditure for the 2016 and 2017 local government elections was \$47.8 million (EY Report, p 1).



**Figure 3.2 NSWEC's proposed cost for 2020 local government elections**



**Data source:** IPART analysis.

The NSWEC's proposal is based on 'top-down' estimates of its operating expenditure.<sup>43</sup> To prepare these estimates, it has:

- ▼ Started with the actual costs for the 2016-17 local government elections (after adjusting these costs for non-recurrent costs)
- ▼ Added 'step change'<sup>44</sup> increases to relevant cost items
- ▼ Escalated specific cost items for trends (ie, CPI and roll growth<sup>45</sup>).

While this approach is useful to develop a broad understanding of possible changes in election costs, EY noted that there are limitations with it. Specifically, it does not allow for the NSWEC to identify savings (eg, from productivity improvements or efficiency initiatives) that would

<sup>43</sup> The NSWEC's proposed operating expenditure for the 2020 local government elections comprises estimates for all councils it serviced in 2016-17 (ie, it does not include the six councils that conducted their own elections in 2016-17).

<sup>44</sup> A 'step change' is a result of a specific initiative. In this context, it is a cost change for reasons other than inflation or electoral roll growth.

<sup>45</sup> 'Roll growth' is the growth in costs associated with the increase in electors on the electoral roll.

reduce its costs.<sup>46</sup> For example, the increased use of pre-poll voting may decrease the NSWEC Election Day staffing costs.<sup>47</sup>

The NSWEC provided us with 'bottom-up' estimates of its operating expenditure.<sup>48</sup> However, we only received them shortly before finalising the Draft Report.<sup>49</sup> This did not allow us an adequate opportunity to review the estimates and assess the efficiency of the cost items included in them. In aggregate, these 'bottom-up' estimates, which are not reflected in the costs listed in this Draft Report, were higher than the 'top down' estimates assessed by EY and featured in this Draft Report. If the NSWEC wishes to provide us with revised bottom-up estimates in response to our Draft Report, we would encourage it to take into account our findings on efficiency savings outlined below.

### **3.2.2 We have reviewed the efficiency of key cost items included in the NSWEC's proposal**

We prioritised our efficiency review to examine the following five cost items:

- ▼ Election staffing
- ▼ Venue procurement
- ▼ Logistics
- ▼ Call centres (staffing and IT infrastructure)
- ▼ Project management costs.

These items account for about 63.4% of the NSWEC's proposed operating expenditure. As shown in Figure 3.2, these items drive most of the NSWEC's proposed increase in operating expenditure and/or are material cost items. We also considered an efficiency savings factor for the cost items we did not specifically review.

Based on this approach, EY recommended a 15.6% reduction in the NSWEC's proposed operating expenditure. We have accepted EY's recommendation in our Draft Report, and discuss its efficiency findings in further detail below.<sup>50</sup>

#### **Election staffing**

The NSWEC indicated its election staffing costs were increasing by 62.6% in nominal terms primarily due to:

- ▼ **Raising pay rates**, so they aligned with those used for the 2019 State Government elections and to assist with staff recruitment and retention.

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<sup>46</sup> EY Report, p 18.

<sup>47</sup> EY Report, p 35.

<sup>48</sup> 'Bottom up' estimates are derived by defining the tasks required to administer each council's election, estimating the costs for each of these tasks and then aggregating them. The NSWEC has indicated these estimates are its existing methodology for determining the amount to charge councils which use it to conduct their elections.

<sup>49</sup> Our Terms of Reference require us to provide our Final Report to the Minister for Local Government by 30 August 2019. Therefore, we need to finalise and release our Draft Report in late June 2019. This allows sufficient time to consult with stakeholders on our draft findings and recommendations, before preparing the Final Report.

<sup>50</sup> We also adjusted the Election Management Fee for CPI, which was not included in the NSWEC's proposal.

- ▼ **Changing staff ratios**, which increase the number of staff for each polling place. The aim was to address workplace health and safety (WHS) concerns, increase the efficiency of counting ballots at polling places and improve service delivery.

EY found the increase in pay rates was not adequately justified. The NSWEC did not clearly demonstrate why local government election pay rates should align with those for State Elections. Further, it did not show there were difficulties in hiring or retaining staff at the existing pay rates.<sup>51</sup>

In relation to changing staff ratios, EY found there was insufficient evidence to support the NSWEC's WHS concerns.<sup>52</sup> It also noted that electors were generally satisfied with their wait times for voting using the existing staff ratios, so there was no clear service delivery problem to be addressed by changing the ratios. Finally, there did not appear to be an increase in counting efficiency when the proposed staff ratios were used at the State Government election in March 2019.<sup>53</sup>

EY recommended election staffing costs of \$18.7 million for the 2020 local government elections.<sup>54</sup> While this represents a nominal increase of \$4.4 million (30.3%) for election staffing, compared to the previous elections in 2016-17,<sup>55</sup> it is 19.9% lower than the NSWEC's proposal.

Some of EY's increase results from it recommending pay rates rise in line with CPI. Further, under EY's recommendation, staffing numbers would only increase in line with roll growth, not as a result of changing staff ratios. That said, EY has recommended above-CPI growth in pay rates for polling place staff.<sup>56</sup> We note that these pay rates are still 6.2% lower than the pay rates used at the recent State Government election (after adjusting for CPI). Further, they also remain below the pay rates used by electoral commissions in other jurisdictions.<sup>57</sup>

## Venue procurement

The main driver for the 41.7% rise in nominal terms for the NSWEC's venue procurement costs is an increase in the rates the Department of Education and Training charges it to use NSW Government schools as polling places. Another factor is the greater use of counting hubs in regional areas. The NSWEC indicated it introduced counting hubs in response to the increasing complexity of the batching and counting process.<sup>58</sup>

EY noted the polling place hire costs did not appear to be unreasonable. Previously, the NSWEC had a Memorandum of Understanding with the Department of Education and

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<sup>51</sup> EY Report, p 22.

<sup>52</sup> The NSWEC indicated that increases in polling place staff in the 2019 State Government election reduced the number of recorded workplace incidents, compared to the 2015 State Government election. However, EY found the total number of incidents from the 2015 State Government election represented 0.37% of the total number of staff employed to work on the election. Given this relatively low incidence rate, it determined that the NSWEC's WHS concerns did not justify the proposed change in staff ratios. EY Report, pp 23-24.

<sup>53</sup> EY Report, pp 24-25.

<sup>54</sup> EY Report, p 3.

<sup>55</sup> EY Report, p 3.

<sup>56</sup> This accommodates some alignment with State Government election pay rates.

<sup>57</sup> EY Report, pp 42-43.

<sup>58</sup> By having counting hubs, the NSWEC can concentrate skilled Head Office staff in these locations to support the batching and counting process. Email from the NSWEC to IPART, 29 May 2019.

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Training, setting out the hiring rates for school venues. While this agreement has expired, and the NSWEC has not entered into a new one, it has based its estimate on the Department of Education and Training's revised non-for-profit hourly rates for hiring school venues available on its website.<sup>59</sup>

Alternative venues for polling places – such as non-government schools and commercial providers – would appear to charge higher fees than the Department of Education and Training. Also, it might reduce voter participation in elections if the NSWEC changes to venues that voters are unfamiliar with for polling.<sup>60</sup>

However, EY did not consider the counting hub cost increases were efficient. For example, it noted the NSWEC had not explained why the process of batching and counting ballots had become more complex, and therefore EY considered that the NSWEC had not justified the need to hire additional venues for counting hubs.

EY recommended venue procurement costs of \$3.8 million for the 2020 local government elections, representing a nominal increase of \$0.8 million (24.9%), compared to the previous elections in 2016-17.<sup>61</sup> This is 11.9% less than the NSWEC's proposal, reflecting EY's recommendation to exclude the NSWEC's forecast increase in counting hub costs.

Some stakeholders indicated the NSWEC's minimum space requirements for pre-polling venues and RO offices limited the venues available to be used for these purposes, which impacted on its venue procurement costs.<sup>62</sup> We were unable to investigate this issue using the limited data available in the NSWEC's top down estimates. We will aim to consider it further in preparing our Final Report if more information becomes available to us (eg, through information provided by the NSWEC or other stakeholders in their submissions to our Draft Report).

## Logistics

The NSWEC only proposed a relatively small, trend-only (ie, CPI and roll growth) increase in logistics costs for the 2020 local government elections. However, these costs increased substantially in nominal terms between the 2012 and 2016-17 elections.<sup>63</sup> This was a result of the NSWEC transforming its logistics operations to create cost savings and improve service levels.

EY found that the rationale for increasing logistics costs in 2016-17 was not justified. Since the changes in 2016-17 were designed to improve efficiency and reduce costs, EY noted they should have been self-funded (at least in part). However, it was unclear if the changes had led to savings in other cost items. EY also considered the other main benefit – better service levels – had not been established.<sup>64</sup>

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<sup>59</sup> EY Report, pp 26-27.

<sup>60</sup> EY Report, pp 27-28.

<sup>61</sup> EY Report, p 3.

<sup>62</sup> For example, Inner West Council, submission to IPART Issues Paper, April 2019, p 2.

<sup>63</sup> EY Report, p 28. The costs and percentage changes for the logistics cost item have been redacted from the public version of the EY Report for commercial-in-confidence reasons.

<sup>64</sup> EY Report, pp 29-30.

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EY recommended logistics costs of \$2.3 million for the 2020 local government elections.<sup>65</sup> This is largely based on it using the NSWEC's logistics costs for the 2012 local government elections, and adjusting them for CPI and roll growth.

EY's assessment of efficient costs leads to a substantial nominal decrease in logistics costs compared to the previous elections in 2016-17, and a 41.7% decrease compared to the NSWEC's proposal.

### **Call centres (staffing and IT infrastructure)**

The NSWEC is proposing to operate its own Elector Enquiry Centre. While it also did this for the previous elections, it is forecasting large increases in its staffing and IT costs.<sup>66</sup> This results from the NSWEC basing its estimate of call centre costs on its actual costs for the State Government election in March 2019.<sup>67</sup>

EY found there was insufficient information to conclude the increased call centre costs were efficient. The NSWEC was unable to identify the rationale or cost drivers for the change (eg, increase in staff numbers, higher pay rates). In addition, it is not clear whether the NSWEC has undertaken any market testing of these costs. For example, to determine whether an outsourced call centre may be better value for money than operating its own one.<sup>68</sup>

EY recommended call centre staffing and IT costs of \$0.8 million for the 2020 local government elections. It largely used the NSWEC's call centre costs for the 2016-17 local government elections, and adjusted them for CPI and roll growth.

While EY's assessment of efficient call centre costs leads to small nominal increase compared to the previous elections in 2016-17, it represents a 63.2% decrease compared to the NSWEC's proposal.

### **Project management costs**

The increase in project management costs are similar to those for logistics. The NSWEC is only proposing a 10% nominal increase for the 2020 elections, which is in line with CPI. However, these costs increased substantially between the 2012 and 2016-17 elections, when the NSWEC first established its Project Management Office (PMO).

The PMO aims to improve the NSWEC's capabilities in managing large-scale events, such as State and local government elections. EY found the PMO operates in a manner consistent with the NSW Government's Project Management Guidelines. Further, there was no evidence that the PMO's costs were unreasonable.<sup>69</sup>

EY recommended project management costs of \$2.3 million for the 2020 local government elections, representing a nominal increase of \$0.2 million (7.4%) for project management costs,

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<sup>65</sup> EY Report, p 3.

<sup>66</sup> These call centre staffing and IT costs are part of the following cost items: 'call centre' and 'IT infrastructure', referred to in the EY Report (p 3). The costs and percentage changes for the call centre cost item have been redacted from the public version of the EY Report for commercial-in-confidence reasons.

<sup>67</sup> EY Report, p 30.

<sup>68</sup> EY Report, p 32.

<sup>69</sup> EY Report, pp 33-34.

compared to the previous elections in 2016-17.<sup>70</sup> This is 2.4% less than the NSWEC's proposal, reflecting EY's recommendation to apply an efficiency saving to the NSWEC's operating costs (see discussion below).

### **Additional efficiency savings**

While it did not specifically review the efficiency of the NSWEC's other cost items, EY considered it would be reasonable to expect some efficiency improvements in these costs over time. EY noted that the NSW Government introduced an annual efficiency dividend for all government agencies in the 2018-19 Budget. On this basis, it recommended a reduction of 0.5% per annum from 2016-17 for the NSWEC's other cost items.<sup>71</sup> This results in a 2.4% reduction in these other cost items when compared to the NSWEC's proposal.

We consider EY has raised systemic concerns with the NSWEC's efficiency, and there may be scope for further cost savings. Prior to our Final Report, we will consider whether a higher efficiency savings factor should be applied to the balance of the NSWEC's operating costs.

### **3.2.3 We consider additional cost items should be included in the allowance for total operating expenditure**

We have identified the NSWEC incurs two operating cost items which are common to several of its functions – including managing the local government elections – but which it currently does not recover from councils. They comprise:

- ▼ Executive costs
- ▼ Joint Roll Agreement costs.

We consider that a portion of these costs should be included in the NSWEC's total revenue requirement.

#### **Executive costs**

The NSWEC charges councils an Election Management Fee (EMF) to recover some of its head office costs. These include the salaries of the Elections branch staff who manage the local government elections. They also include the overheads that relate to the Election branch for the administrative services performed by other NSWEC branches (eg, IT services provided by the IT branch).<sup>72</sup>

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<sup>70</sup> EY Report, p 4.

<sup>71</sup> EY Report, p 36.

<sup>72</sup> See, PWC, *Calculation of NSW Electoral Commission service charge to local government*, October 2016, pp 3-4 ([https://www.elections.nsw.gov.au/NSWEC/media/NSWEC/Reports/Commissioned%20reports/Calculation-of-NSW-Electoral-Commission-service-charge-to-local-government-report-2016-\(PDF-322kB\).pdf](https://www.elections.nsw.gov.au/NSWEC/media/NSWEC/Reports/Commissioned%20reports/Calculation-of-NSW-Electoral-Commission-service-charge-to-local-government-report-2016-(PDF-322kB).pdf), accessed 19 June 2019) (PWC Report). Other items include rent, utilities, postage and printing (email from the NSWEC to IPART, 28 May 2019).



The EMF currently excludes the NSWEC's executive costs.<sup>73</sup> The reason stated is that these costs are incurred for other services the NSWEC performs, and so should be entirely funded by the NSW Government.<sup>74</sup>

We note that providing election services to councils is one of the NSWEC's core functions. Therefore, we consider its executives are likely to spend a portion of their time involved with the 2020 local government elections. As such, we have included a portion of its executive costs in the EMF, adopting the same allocation method used by the NSWEC to include other head office costs in this fee.<sup>75</sup> We have also applied the efficiency saving discussed above to these executive costs.

### Joint Roll Agreement

The NSWEC has entered into an agreement with the Australian Electoral Commission. Under this agreement, the Australian Electoral Commission centrally manages the electoral roll. It then makes it available to the NSWEC to use in State and local government elections.<sup>76</sup> As such, we have allocated 28% of the Joint Roll Agreement costs to the 2020 local government elections.<sup>77</sup>

We have not applied an efficiency saving to these costs, since they are fixed by the terms of the agreement. We understand that the NSWEC is unable to vary them in the lead up to the 2020 local government elections.

## 3.3 Capital expenditure

The NSWEC did not include any capital costs in its proposed expenditure for the 2020 local government elections. However, it does draw on existing assets, primarily IT and intangibles, in delivering its services. It is also planning to spend approximately \$5.7 million to upgrade its election systems in response to recent regulatory changes (eg, introduction of the new Weighted Inclusive Gregory Method and a countback option to fill casual vacancies).<sup>78</sup>

As outlined above, we consider that it is important that, as much as possible, the prices for local government election services reflect the efficient costs of service provision, and hence that any capital costs incurred in providing election services to councils should be included in our assessment of efficient costs.

Our efficiency review focused on the NSWEC's operating expenditure (which comprises around 92% of its total efficient costs in Table 3.1). Due to data and time limitations, we were

<sup>73</sup> It also excludes depreciation expense, but we propose to include a portion of this expense in the NSWEC's NRR (see section 3.3).

<sup>74</sup> PWC Report, p 7.

<sup>75</sup> The NSWEC currently allocates 27.7% of its head office costs to councils through the EMF (see PWC Report, p 8). Therefore, we have also allocated 27.7% of its executive salaries to councils.

<sup>76</sup> Email from the NSWEC to IPART, 16 April 2019.

<sup>77</sup> The electoral roll is used for the NSWEC's general functions, including State Government elections, local government elections and enforcement. Therefore we have allocated 27.7% of the costs of the Joint Roll Agreement to councils. This is in line with the allocation of head office costs.

<sup>78</sup> NSWEC, p 14 and NSW Government Budget Paper 2, p 5-34 ([https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget\\_Paper\\_2-Infrastructure%20Statement-Budget\\_201920.pdf](https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget_Paper_2-Infrastructure%20Statement-Budget_201920.pdf), accessed 19 June 2019).

unable to extensively consider the efficiency of the NSWEC's historical or proposed capital expenditure.

At this stage, for the purposes of the Draft Report, we have accepted the NSWEC's historical capital expenditure. We plan to seek additional information on this expenditure, so we can more fully assess its efficiency for the Final Report.

Table 3.3 shows the book value of the NSWEC's non-zero assets as at 30 June 2018. We did not include the roll management system in the RAB as this asset is not currently used.<sup>79</sup> The iVote and iRoll assets are specific to the administration of ns elections, and hence these assets have also been excluded from the RAB. The 'other assets' category includes all relevant assets that are required to deliver services to councils. We have included 28% of the book value of these 'other assets' in the RAB, which is in line with the percentage of the NSWEC's corporate operating costs allocated to councils through the EMF.<sup>80</sup>

**Table 3.3 IPART's draft recommendation on existing assets to be included in the RAB calculations (\$'000, \$nominal)**

	Book value	% allocation to LGE	RAB value at June 2018
Roll management system	5,540	0.0	-
iVote and iRoll assets	204	0.0	-
Other assets	8,473	27.7	2,347
<b>Total</b>	<b>14,217</b>		<b>2,347</b>

Source: IPART analysis.

EY was unable to form a view on whether the NSWEC's proposed capital expenditure was efficient, because of data and time limitations. Therefore, for the Draft Report we have only made a preliminary finding on its efficiency.

At this stage, we have included the NSWEC's proposed \$5.7 million of capital expenditure on an election systems upgrade in the RAB, reduced by 10% to reflect EY's findings that had not yet demonstrated the efficiency of this project.<sup>81</sup> This is shown in Table 3.4 below. In addition, EY noted the NSWEC may be proposing additional capital expenditure of around \$7 million, some of which may be relevant for to the 2020 local government elections.<sup>82</sup>

In view of the potentially significant level of capital expenditure proposed, we plan to investigate the efficiency of these items for the Final Report. In particular, we will consider whether the systemic concerns with the NSWEC's efficiency in relation to its operating expenditure also apply to its capital program. Unless the NSWEC provides sufficient information to support the efficiency of this expenditure, this may result in a reduction in proposed capital expenditure greater than the 10% we are currently recommending.

<sup>79</sup> Phone call between the NSWEC and IPART, 11 June 2019.

<sup>80</sup> PWC reviewed the NSWEC's EMF in 2016. It determined the appropriate allocation of head office costs to councils was 27.7%, based on the time the NSWEC's staff spend on local government election activities relative to their other functions (PWC Report, p 8). We have reviewed the logic of this allocation and note it appears appropriate.

<sup>81</sup> EY Report, p 35.

<sup>82</sup> EY Report, p 34.



**Table 3.4 IPART's draft recommendation on proposed capital expenditure (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
NSWEC proposed (election systems upgrade)	–	5,661	–
<b>Draft recommendation</b>	–	<b>5,095</b>	–
Difference	–	566	–
Difference (%)	–	-10	–

Source: IPART analysis.

### 3.4 Return on assets

#### Draft recommendation

- Set an allowance for a return on assets for the 2020 local government elections at \$0.43 million, as shown in Table 3.1.

We calculated the allowance for a return on assets by multiplying the value of the RAB by the rate of return (ie, the Weighted Average Cost of Capital or WACC). Both are discussed below.

#### 3.4.1 RAB

To determine allowances for a return on assets and regulatory depreciation, we must first calculate the value of the NSWEC's RAB.

The RAB refers to the value of a business's assets used to provide the relevant services. For the NSWEC, the assets that are used for local government election services are:

- ▼ Office equipment
- ▼ Furniture, fittings and leasehold improvement
- ▼ Computer hardware
- ▼ Intangibles (eg, software systems).

We calculated the opening RAB by including \$2.3 million of the NSWEC's existing asset values, as outlined above. We then rolled forward the RAB to 2020-21 by:

- ▼ Adding \$5.1 million of forecast capital expenditure on an election systems upgrade
- ▼ Adding \$0.2 for CPI
- ▼ Deducting \$2.7 million for regulatory depreciation.

This gives the forecast RAB we have used to generate the return on assets and allowance for regulatory depreciation. The RAB roll-forward is shown in Table 3.5.

**Table 3.5 IPART's draft decision on the value of the RAB (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
Opening RAB	2,347	1,828	6,245
Plus capex net of capital contributions	-	5,222	-
Less disposals	-	-	-
Less depreciation	571	916	1,253
Plus indexation	52	111	33
Plus holding costs	-	-	-
<b>Closing RAB</b>	<b>1,828</b>	<b>6,245</b>	<b>5,025</b>

Source: IPART analysis.

### 3.4.2 WACC

#### Draft recommendation

- 4 Adopt a real post-tax WACC of 3.2% for the purposes of calculating the allowance for a return on assets, which included:
  - A gearing ratio of 45% and an equity beta of 0.45
  - Market observations (cost of debt and market risk premium), based on the February 2019 bi-annual market update.

We consider it is appropriate to apply our standard WACC methodology<sup>83</sup> to determine the rate of return. This resulted in a real post-tax WACC of 3.2%.

Appendix D provides a broad outline of how we reached our draft recommendation on the WACC, including the inputs we used in applying our WACC method. It also outlines the process we used to estimate the equity beta parameter and gearing ratio.

### 3.5 Return of assets (regulatory depreciation)

#### Draft recommendations

- 5 Calculate regulatory depreciation (or return of assets) using a straight line depreciation method for each group of assets, applying the asset lives in Table 3.6.
- 6 Set an allowance for regulatory depreciation for the 2020 local government elections at \$2.76 million as shown in Table 3.1.

We include an allowance for regulatory depreciation in the NSWEC's NRR (and use it in calculating the value of the RAB, as discussed above). This is intended to ensure that the capital invested in the NSWEC's assets is returned over the useful life of each asset.

To calculate this allowance, we determine the appropriate economic lives for the assets in the RAB, and the appropriate depreciation method to use. Table 1.6 sets out our recommended asset lives. They are based on the NSWEC's forecast asset lives in its Annual Report.

<sup>83</sup> It is based on our *Review of our WACC method – Final Report* published in February 2018.

**Table 3.6 IPART's draft decision on the NSWEC's asset lives (years)**

Asset type	Existing assets <sup>a</sup>	New assets
Election systems upgrade (WIGM, countback and UPV)	–	8
Other assets	4	8

<sup>a</sup> As at 1 July 2018.

Source: IPART analysis.

We adopted a straight line depreciation method. This ensures the NSWEC recovers the value of its capital invested in these assets evenly over their economic lives, and therefore maintains its RAB.

### 3.6 Tax allowance

#### Draft recommendation

- 7 Set a tax allowance for the 2020 local government elections at \$0.18 million as shown in Table 3.1.

We have calculated the tax allowance by applying the relevant tax rate (30%), adjusted for gamma,<sup>84</sup> to the NSWEC's (nominal) taxable income. Taxable income is the NSWEC's NRR (excluding the tax allowance) less its operating cost allowance, tax depreciation and interest expenses.

Two stakeholders<sup>85</sup> questioned the need for a tax allowance when the NSWEC has no tax liability.

Allowances for tax (and return on working capital discussed below) are consistent with our other pricing determinations. Given there is competition with third party providers to provide election services for local government elections, there is a compelling case to include a tax allowance in the NSWEC's efficient costs on competitive neutrality grounds. This is consistent with IPART's principle that a regulated entity's revenue requirement should be as close as possible to that of a well-managed privately owned business, operating in a competitive market.

#### 3.6.1 Tax Asset Base

The NSWEC does not currently pay tax or tax equivalents and therefore does not have an established Tax Asset Base (TAB). In order to calculate the NSWEC's regulatory tax allowance for the 2020 local government elections, we created a regulatory TAB and calculated a tax depreciation forecast. This is set out in Table 3.7.

<sup>84</sup> Under a post-tax framework, the value of imputation (franking) credits (gamma) enters the regulatory decision only through the estimate of the tax liability.

<sup>85</sup> LGNSW, p 10 and Anonymous, p 1.

**Table 3.7 IPART's draft decision on tax depreciation (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
Tax depreciation	559	885	1,212

Source: IPART analysis.

### 3.6.2 Working capital

#### Draft recommendation

- 8 Set an allowance for a return on working capital for the 2020 local government elections at \$0.63 million as shown in Table 3.1.

Councils are charged every four years following the local government elections. This means the NSWEC needs to fund the holding cost of its expenditure in the lead up to each round of elections over the four year period, prior to receiving payment from councils.

Our allowance for a return on working capital compensates the NSWEC for this delay between incurring the expenditure and receiving payment. We calculate it by determining the net amount of working capital the NSWEC requires and then multiplying it by the WACC.

**Table 3.8 IPART's draft recommendation on working capital (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
Working capital <sup>a</sup>	-4	-1,172	12,538

<sup>a</sup> Working capital is a measure of net current assets (current assets minus current liabilities). As the NSWEC does not bill councils in years where there are no elections, the accounts receivable (a current asset) is zero in these years. As such, the working capital balance may be negative in years where no revenue is raised.

Source: IPART analysis.

## 4 Allocating efficient costs between the NSW Government and councils

Our Terms of Reference require us to recommend a robust methodology for allocating the NSWEC's costs of managing local government elections. The methodology should minimise the financial burden on councils and ratepayers, while also encouraging the NSWEC to provide its election services in an efficient and cost-effective way.

Our approach is to first identify the efficient cost of the NSWEC providing local government election services (see Chapter 3) and then use our funding hierarchy to allocate these costs between the NSW Government and councils, and amongst councils (as presented in this chapter). This ensures that, as much as practical, councils pay for the efficient cost of the election services they receive from the NSWEC.

### 4.1 Most of NSWEC's efficient costs should be allocated to councils

#### Draft recommendations

- 9 NSWEC's efficient costs of managing local government elections should be allocated using the impactor-pays funding hierarchy. That is, where possible, costs should be allocated to the parties that create the need for those costs. Where it is impractical to allocate costs in this way, they should be funded by the NSW Government (ie, taxpayers).
- 10 Applying the impactor-pays funding hierarchy means the NSWEC should allocate to:
  - Client councils (ie, those councils which have engaged the NSWEC to manage their elections), the efficient cost of services it provides exclusively to those councils.
  - Client and non-client councils, the efficient cost of enrolment services it provides to both types of council.
  - NSW Government, the efficient cost of services it provides to both client and non-client councils, but it is unable to recover from non-client councils (ie, maintaining the electoral roll, state-wide advertising, community education materials and funding disclosure).
- 11 The indirect costs the NSWEC allocates to client councils (and, in relation to enrolment services, client and non-client councils) should be shared amongst these councils on a per-electoral basis (ie, the amount a council pays depends on the number of electors in its area), with the following exceptions:
  - Shared Returning Officer costs should be allocated by the number of electors for each client council in the Shared Returning Officer grouping.
  - Sydney Town Hall costs should be allocated by the number of ballots for each of the client councils using the Sydney Town Hall for as a polling place (both pre-polling and on election day).

- Counting and results costs that are venue-specific (eg, venue procurement costs and labour costs for a counting hub) should be allocated by the number of ballots for each client council in the venue.
- Other counting and results costs (eg, project management costs) should be allocated by the number of ballots for each client council.
- Local government boundaries costs (part of enrolment services) should be allocated evenly amongst all councils (ie, allocated by the number of client and non-client councils, rather than the number of electors within each of those councils).
- Postal voting costs should be allocated by the number of ballots issued by each client council.

As noted in Chapter 3, the NSWEC's total costs of managing local government elections comprise:

- ▼ **Incremental costs** – the operating and capital expenditure the NSWEC incurs solely because of the elections.
- ▼ **Common costs** – a proportion of the NSWEC's head office costs (eg, salaries, rent), which are operating costs, and any shared capital expenditure it incurs across several of its functions (including, but not limited to, managing local government elections).

Our hierarchy for allocating costs, which we have used across a number of industries, is outlined in Box 4.1 below. Under this approach, preferably the 'impactor' of a cost should pay for that cost – ie, the party that creates the need to incur a cost should pay for that cost. This aims to ensure that all parties face the true costs of their production and consumption decisions, which promotes the efficient use and allocation of resources.

In terms of the NSWEC's costs of providing services for local government elections, councils would be viewed as the 'impactors'. Through holding elections, they create the need for the NSWEC to incur expenditure. We also note that for many cost items, they could also be viewed as the 'beneficiaries' as they themselves are also using the services of the NSWEC. That is, for many cost items, they are creating the need to incur the cost of providing a service and using that service.<sup>86</sup> Regardless, where councils are both impactors and beneficiaries the outcome is the same as when they are simply impactors: they should pay the efficient costs of the NSWEC providing local government election services (where practical).

Our funding hierarchy promotes **cost-reflective** pricing. We consider it is important that the NSWEC's prices to councils are cost reflective, as this will help to:

- ▼ Ensure its costs are transparent and subject to appropriate scrutiny
- ▼ Promote efficient consumption decisions over time by the councils in relation to the provision of election services, and

<sup>86</sup> Differences between the impactor and beneficiary pays approach emerge when the party creating the need to incur a cost is different to the party (or parties) benefitting from or using the service delivered as a result of the cost. For example, consider a situation where a factory is emitting pollutants into a nearby river, damaging the ecology and quality of water in the river. In terms of expenditure to remediate this environmental damage, the 'impactor' would be the factory, whereas the 'beneficiaries' may include local recreational users of the river (swimmers and fishers) and the broader community. Therefore, different parties would pay for the environmental remediation depending on whether the impactor or beneficiary pays approach was adopted.

- ▼ Ensure that the NSWEC is not unduly advantaged or disadvantaged in competing with private providers of election services (and thus help to facilitate competition in the provision of election services, and the efficiency gains over time associated with such competition).

Our funding hierarchy is also **practical**. It recognises that in some cases it may not be possible to set purely cost-reflective prices, and that some costs may need to be allocated to the NSW Government (or NSW taxpayers) on behalf of the broader community, on the grounds that it may not be administratively efficient or practical (ie, it is too difficult or costly) to allocate costs to impactors or beneficiaries.

#### Box 4.1 Impactor-pays funding hierarchy

Across a range of industries, we typically apply the following funding hierarchy when allocating costs between different entities:

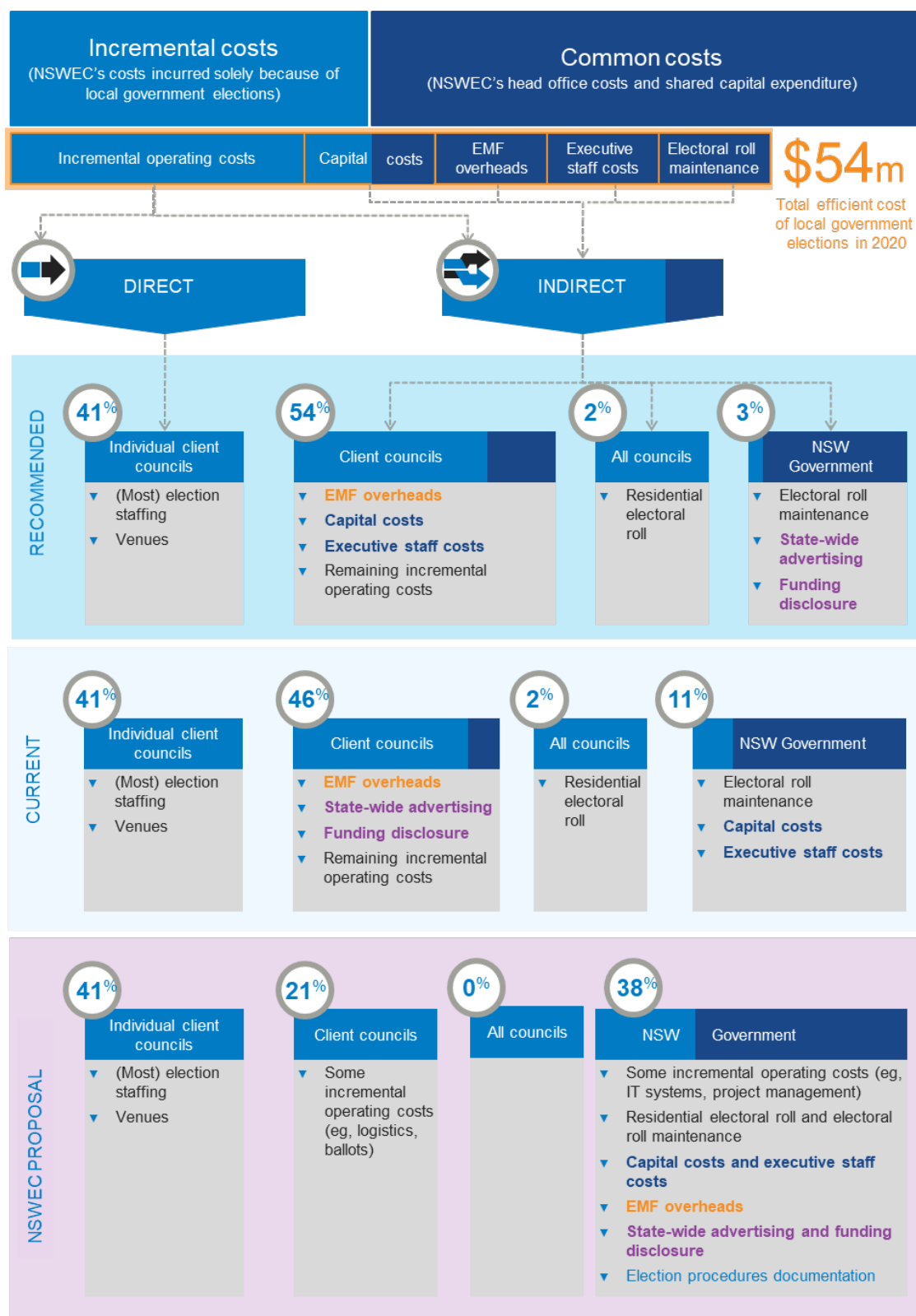
1. **Preferably, the impactor should pay** – the entity that creates the costs, or the need to incur the costs, should pay the costs.
2. **If that is not possible, the beneficiary should pay** – the entity that benefits from the service should pay the costs of the service. In some cases, the impactor and the beneficiary are the same entity.
3. **As a last resort, taxpayers should pay** – taxpayers may be considered as a funder of last resort where impactors or beneficiaries have not been clearly identified, or where it is not administratively efficient or practical to charge them (ie, it is too difficult or costly).

We have applied the impactor-pays funding hierarchy to the total costs of managing local government elections in the following way:

- ▼ The incremental costs directly traceable to an individual client council – ‘direct costs’ – are allocated to those client councils.
- ▼ The common costs and remaining incremental costs – ‘indirect costs’ – are mostly allocated between client councils. The only exceptions are:
  - The cost of enrolment services, which are allocated between client and non-client councils, since the NSWEC provides these services to both types of council and it can charge both for it.
  - Other costs relating to services which NSWEC also provides to non-client councils, but which we consider should be allocated to the NSW Government for practical reasons as no mechanism exists to charge non-client councils for these services. These costs comprise: maintaining the electoral roll; state-wide advertising and community education materials; and funding disclosure.

Our overall approach is summarised in Figure 4.1. Table 4.1 summarises our recommended allocations for NSWEC’s specific cost items, and compares it to NSWEC’s existing and proposed allocations.

**Figure 4.1 IPART recommended allocation of local government election costs**



Source: IPART



**Table 4.1 Allocation of local government election costs items**

Cost item	Allocation	NSWEC's existing allocation <sup>a</sup>	NSWEC's proposed allocation	IPART's allocation
<b>Operating expenditure (incremental costs of LGEs)</b>				
Enrolment	Indirect	Across client and non-client councils	NSW Govt	Across client and non-client councils
Council liaison	Indirect	Across client councils	Across client councils	Across client councils
Data management	Indirect	Across client councils	NSW Govt	Across client councils
Election staffing	Direct	Individual client councils	Individual client councils	Individual client councils
<i>Activity exceptions:</i>				
RO Office security <sup>b</sup>	Direct	Across client councils	Across client councils	Individual client councils
Office assistants	Direct	Across client councils	Across client councils	Individual client councils
HR Support desk	Indirect	Across client councils	Across client councils	Across client councils
Postage and utilities	Direct	Across client councils	Across client councils	Individual client councils
Financial services	Indirect	Across client councils	NSW Govt	Across client councils
Venue procurement	Direct	Individual client councils	Individual client councils	Individual client councils
<i>Activity exceptions:</i>				
Counting hubs	Indirect	Across client councils	Across client councils	Across client councils
Counting and results	Indirect	Across client councils	Across client councils	Across client councils
Election procedures document	Indirect	Across client councils	NSW Govt	Across client councils
Logistics <sup>b</sup>	Indirect	Across client councils	Across client councils	Across client councils
Media and advertising	Indirect	Across client councils	Across client councils	Across client councils
<i>Activity exceptions:</i>				
State-wide advertising & community education materials <sup>c</sup>	Indirect	Across client councils	Across client councils	NSW Govt
IT and support <sup>b</sup>	Indirect	Across client councils	Across client councils	Across client councils
Call centres	Indirect	Across client councils	Across client councils	Across client councils
Ballot papers	Indirect	Across client councils	Across client councils	Across client councils
Nominations	Indirect	Across client councils	NSW Govt	Across client councils
Event operations mgt	Indirect	Across client councils	NSW Govt	Across client councils
IT Business systems	Indirect	Across client councils	NSW Govt	Across client councils
HO and RW infrastructure	Indirect	Across client councils	NSW Govt	Across client councils
Sydney Town Hall	Indirect	Across client councils	Across client councils	Across client councils
Overtime	Indirect	Across client councils	Across client councils	Across client councils
Funding disclosure	Indirect	Across client councils	NSW Govt	NSW Govt
Postal voting	Indirect	Across client councils	Across client councils	Across client councils
Project mgt office	Indirect	Across client councils	NSW Govt	Across client councils
<b>Operating expenditure (LGE share of common costs)</b>				
Head office costs	Indirect	Across client councils	NSW Govt	Across client councils
Executive costs	Indirect	NSW Govt	NSW Govt	Across client councils
Maintenance of the electoral roll	Indirect	NSW Govt	NSW Govt	NSW Govt
<b>Other building block items</b>				
Return on capital	Indirect	NSW Govt	NSW Govt	Across client councils
Return of capital	Indirect	NSW Govt	NSW Govt	Across client councils
Return on working capital	Indirect	NSW Govt	NSW Govt	Across client councils
Tax allowance	Indirect	NSW Govt	NSW Govt	Across client councils

<sup>a</sup> The NSW Government provided additional funding for the 2016-17 local government elections. This one-off funding covered some of the costs allocated to client councils.

<sup>b</sup> We consider Returning Officer office security, Returning Officer equipment and Returning Officer logistics should be classified as direct costs but NSWEC did not provide us with the data to model the impact of allocating these costs directly.

<sup>c</sup> In our model we assume a 50/50 split in advertising (media and campaign) to represent the split between state-wide and local advertising. We will seek additional data from the NSWEC prior to our Final Report to estimate the split more accurately.

**Note:** Some of the other building block items are incremental costs (eg, the cost of investment in WIGM vote counting software) and some are common (shared capital expenditure).

**Source:** IPART analysis.

## 4.2 We have addressed limitations with NSWEC's existing methodology

Our Terms of Reference requires us to review the NSWEC's existing methodology for determining the amount to be charged to councils which use the NSWEC to conduct their elections.<sup>87</sup>

Our proposed cost allocation methodology addresses several limitations with the NSWEC's existing methodology.

- ▼ The NSWEC **does not allocate to councils any capital costs, executive staff costs, or the cost of electoral roll maintenance**. Consistent with the impactor-pays principle, we consider an appropriate share of these costs should be allocated to councils where practical.
- ▼ Some **direct cost are being allocated indirectly** across all client councils. We consider the costs related to the Returning Officers performing their duties – Returning Officer security, logistics and equipment – should be allocated to the individual councils receiving services by those Returning Officers.
- ▼ Some **indirect costs are unable to be recovered from non-client councils**. The NSWEC provides electoral roll maintenance, election awareness (eg, state-wide advertising, community education materials) and funding disclosure services to all councils. As it can only recover these costs from client councils, this puts it at a competitive disadvantage when compared to a private provider, which does not need to charge its clients for these services. These costs should be allocated to the NSW Government in the absence of any mechanism to charge non-client councils for them.
- ▼ Some **indirect costs are not allocated by the most appropriate cost drivers**. For example, the costs of counting ballots is allocated on a per-electoral basis. However, some councils have multiple elections (eg, direct mayoral elections), meaning councils with a similar number of electors may have a different number of ballots to count. Therefore, a better cost allocation would be a per-ballot basis.

The sections below outline how our proposed cost allocation methodology addresses the limitations with this existing methodology.

### 4.2.1 We include all costs associated with local government elections

When the NSWEC is estimating its total local government election costs, it calculates the incremental costs (operating expenditure only) of running the local government elections. That is, those costs it incurs solely because of these elections. It then adds a proportion of its common costs (overheads) to this amount. However, it does not include any of the following cost items in its estimate:

- ▼ NSWEC's Executive staff costs
- ▼ Electoral roll maintenance
- ▼ Capital costs (eg, the depreciation of, and return on, its existing and forecast capital expenditure).

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<sup>87</sup> A copy of our Terms of Reference is in Appendix A.

Our estimate of the NSWEC's cost of running the 2020 local government elections, explained in Chapter 4, includes a share of these items. This is because application of the impactor-pays principle requires they be recovered from the councils that create the need for them to be incurred.

However, our proposed costing methodology only allocates 'recovery of the NSWEC Executive staff costs' and 'capital costs' to client-councils. We allocate the cost of 'electoral roll maintenance' to the NSW Government because the NSWEC must also provide this service to non-client councils (see further discussion in section 4.2.3) and there is no practical way to recover the cost of the service from non-client councils.

#### **4.2.2 We have allocated direct costs to individual client councils**

The NSWEC currently allocates items it classifies as direct costs to the individual councils responsible for it incurring those costs. We agree that direct costs should be allocated in this way, since it is consistent with the impactor-pays principle. Several stakeholders that responded to our Issues Paper also agreed that this was appropriate.<sup>88</sup>

The NSWEC recognises 'elections staffing' and most 'venue procurement' as direct costs (see Table 2.1). In addition, we consider the following three cost items should also be classified as direct costs:

- ▼ Returning Officer office security
- ▼ Returning Officer equipment
- ▼ Returning Officer logistics.

These are the costs a Returning Officer incurs in performing its duties for an individual council, and so should be allocated directly to the relevant client council.<sup>89</sup>

At this stage, NSWEC has indicated it does not have data available to breakdown these Returning Officer costs so they can be allocated to individual councils. Therefore, while we support in principle their classification as direct costs, we have been unable to treat them as such when modelling the impact of our approach. We will investigate whether the required data can be provided by NSWEC before the release of our Final Report.

#### **4.2.3 We have allocated costs for most non-contestable services to the NSW Government**

In Chapter 2, we recognised that the NSWEC must provide a number of 'state-wide' election services to all councils – ie, both client and non-client councils. Because these services cannot be provided by a private provider, we have classified them as non-contestable.

<sup>88</sup> Penrith City Council, submission to IPART Issues Paper, April 2019, p 5 (Penrith City Council); Bogan Shire Council, submission to IPART Issues Paper, April 2019, p 2 (Bogan Shire Council); Blacktown City Council, submission to IPART Issues Paper, April 2019, p 2; Central Coast Council, submission to IPART Issues Paper, p 2 (Central Coast Council); City of Sydney Council, submission to IPART Issues Paper, p 3 (City of Sydney Council); LG NSW, submission to IPART Issues Paper, p 11 (LG NSW); NSWEC, submission to IPART Issues Paper, p 35 (NSWEC).

<sup>89</sup> Some councils share a Returning Officer. In these cases, the office security, logistics and equipment costs for each shared Returning Officer should be allocated to the councils it services.

Applying the impactor-pays principle would result in these costs being allocated to all councils.

The NSWEC's existing allocation method allocates these non-contestable services as follows:

- ▼ 'Funding disclosure' and 'state-wide advertising' to client councils only
- ▼ 'Enrolment' to client and non-client councils<sup>90</sup>
- ▼ 'Electoral roll maintenance' to the NSW Government.

This means that the NSWEC is charging client councils for 'Funding disclosure' and 'state-wide advertising', while providing these services at no cost to councils that are either using a private provider or managing their own election.

We need to ensure these costs are allocated in a way that puts NSWEC on an even footing with private providers of election services. Our draft recommendation is that these costs be allocated to the NSW Government because there is currently no mechanism for the NSWEC to recover these costs from non-client councils. This is consistent with our funding hierarchy in which taxpayers may be considered as a funder of last resort where it is not practical to charge the impactors or beneficiaries.

We recommend the NSWEC maintain the existing allocation for 'enrolment' and 'electoral roll maintenance'.

#### **4.2.4 We have allocated remaining indirect costs to client councils**

The NSWEC allocates most of its indirect costs of council election services to client councils. We agree that, with the exceptions noted in section 4.2.3 above, indirect costs should be allocated in this way.

Several stakeholders that responded to our Issues Paper also thought that the NSWEC should allocate its indirect costs to client councils, if this is what an efficient competitor would do.<sup>91</sup> Penrith City Council considered this would ensure a transparent and competitive process, likely to result in better outcomes for the community.<sup>92</sup>

However, some stakeholders thought that several indirect costs should be paid for by the NSW Government, even where an efficient competitor would likely incur them:

- ▼ Inner West Council wanted indirect costs – such as logistics, event management and data management – to be paid for by the NSW Government.<sup>93</sup> Similarly, the Central Coast Council and LGNSW noted that the NSW Government should pay a portion of NSWEC's indirect costs.<sup>94</sup>

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<sup>90</sup> Under 298(8) of the *Local Government Act 1978*, the Electoral Commissioner can charge a council for the cost of providing the council with the residential roll. The section 298(8) charge may be levied on all councils provided with a residential roll, irrespective of whether the council has entered into an 'election arrangement' with the Electoral Commissioner.

<sup>91</sup> Penrith City Council, p 5, Bogan Shire Council, p 2, Central Coast Council, p 3.

<sup>92</sup> Penrith City Council, p 5.

<sup>93</sup> Inner West Council, submission to IPART Issues Paper, April 2019, p 2.

<sup>94</sup> Central Coast Council, p 3, LG NSW, p 12.

- ▼ The NSWEC thought it was not efficient, effective or equitable to allocate all of its indirect costs to councils. In its view, many councils would not have the capacity to pay for its services on a full cost recovery basis, particularly in rural and regional areas. In addition, since providing election services results in a social good, they should be at least partly funded by the NSW Government.<sup>95</sup>

We discuss the NSWEC's proposed methodology for allocating costs – including a much larger share of indirect costs to the NSW Government – in section 4.3.2 below.

#### **4.2.5 We have revised some of the cost drivers used to allocate indirect costs**

Indirect costs should be allocated using an appropriate measure of what drives or determines the cost. That is, cost drivers should be used as cost allocators.

NSWEC allocates most of its indirect costs attributable to council elections across its client councils on a per-electoral basis (ie, the amount a council pays depends on the number of electors in its area). The exceptions are:

- ▼ Shared Returning Officers – number of electors for each client council in the Shared RO grouping<sup>96</sup>
- ▼ Counting hubs – number of ballots for each client council in the counting hub grouping<sup>97</sup>
- ▼ Sydney Town Hall – number of ballots for each client council using the Sydney Town Hall as a polling place (both pre-polling and on Election Day).

While we consider these are appropriate allocators for most indirect costs, we have recommended different allocators for the following cost items:

- ▼ Local government boundaries costs<sup>98</sup> should be allocated by the number of councils. The NSWEC has indicated the costs of managing local government boundaries are independent of the size of the councils involved.<sup>99</sup> Therefore, we do not think a per-electoral allocation is appropriate. Rather, we consider costs should be allocated evenly between all client councils.

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<sup>95</sup> NSWEC, p 36.

<sup>96</sup> The NSWEC offers to share Returning Officers across groupings of smaller rural or regional councils, in order to minimise the costs of servicing these councils.

<sup>97</sup> In 2017, the NSWEC established counting hubs in regional areas. Nearby councils were grouped to each counting hub, and their votes were processed at these facilities.

<sup>98</sup> This is a sub-component of the 'enrolment' cost item shown in Table 4.1.

<sup>99</sup> Email from the NSWEC to IPART, 29 May 2019.

- ▼ Counting and results costs that are venue-specific (eg, venue procurement and labour costs for counting venues)<sup>100</sup> should be allocated by the number of ballots for each client council in the venue. Other counting and results costs (eg, project management costs) should be allocated by the number of ballots for each client council. The venue costs of hiring regional counting hubs are allocated according to the number of ballots for each client council counted at those venues. Similarly, we consider the costs (largely labour) involved in counting the ballots would be driven by the number of ballots for each client council.
- ▼ Postal voting costs (sending out applications and processing them) should be allocated by the number of postal ballots for each client council, since this is the key driver for these costs.

Several stakeholders thought it was appropriate to continue to use NSWEC's per-electoral cost allocation.<sup>101</sup> However, some suggested alternative allocations methods for specific cost items. For example, Penrith City Council noted the indirect counting costs might be allocated according to the number of ballot papers sent to a council. This would accommodate councils that have multiple elections (eg, a separate mayoral election, in addition to the councillor elections).<sup>102</sup>

City of Sydney Council noted that the per-electoral allocation may need to be adjusted for specific cost items. For example, some cost items may also vary depending on whether councils have ward elections (rather than council-wide elections) or an additional election for mayors.<sup>103</sup>

We considered these comments when reviewing the NSWEC's cost allocators, and revised some of them to more appropriate allocators. For example, we agree the number of ballot papers cast is a better allocator of NSWEC's counting costs than the number of electors on the electoral roll.

### **4.3 We do not support the NSWEC's proposed methodology as it reduces the incentive to efficiently conduct elections**

The NSWEC has several concerns with its existing methodology. It is proposing a new methodology for allocating costs, which appears to only address one of these concerns. Specifically, that its costs are higher compared to other jurisdictions, which raises affordability issues for councils.

<sup>100</sup> In 2016, the NSWEC managed the counting of ballots for several Sydney metropolitan councils at a counting centre at Riverwood.

<sup>101</sup> Byron Shire Council, submission to IPART Issues Paper, April 2019, p 2, Bogan Shire Council, p 2, Central Coast Council, p 3.

<sup>102</sup> Penrith City Council, p 6.

<sup>103</sup> City of Sydney, p 3.



#### 4.3.1 The NSWEC has several concerns with its existing methodology

The NSWEC notes its existing methodology does not recover its capital costs, may create cross-subsidies and leads to councils incurring higher costs for electoral services compared to other jurisdictions.<sup>104</sup>

- ▼ **Recovery of capital:** The election costs currently allocated to councils is limited to the NSWEC's operating expenditure only. Any capital costs incurred by the NSWEC to develop new IT systems or purchase capital equipment have been funded by the NSW Government and not passed onto councils.
- ▼ **Cross subsidies:** The NSWEC notes that larger councils with more electors cross-subsidise smaller councils with fewer electors, since its existing methodology allocates some costs on a per-electoral basis, rather than directly to individual councils.<sup>105</sup> However, the NSWEC was unable to provide more detailed information on the specific cost items causing the cross-subsidies.<sup>106</sup>
- ▼ **Higher costs:** When compared to other electoral commissions, the NSWEC notes its election charges to councils are, on average, higher than the fees in most other jurisdictions. It considers this is because more government funding is provided in other jurisdictions to fund a greater range of costs.

Our approach deals with each of these issues. We recommend including a portion of NSWEC's capital costs in its total efficient costs for the local government elections. Further, we consider that direct costs should be allocated to the individual councils that cause the NSWEC to incur them (and we have identified several specific cost items we consider should now be treated in this way).

In relation to the NSWEC's higher costs to councils, it is difficult to assess to what extent this is due to greater government funding of other electoral commissions, different levels of service and/or them providing services in a less costly, more efficient way. Using the impactor-pays principle under our approach, councils would be allocated the full efficient costs of providing election services. As outlined above, this ensures costs are transparent and subject to an appropriate level of scrutiny, provides price signals that encourages the efficient use of election services over time, and promotes contestability in the provision of election services (which, in turn, can enhance innovation and efficiency in the provision of these services).

#### 4.3.2 The NSWEC is proposing a new methodology for allocating costs

While the NSWEC currently allocates most of its indirect costs to councils, it is now proposing the NSW Government mainly fund them. They include training, election security, IT development and project management costs. The NSWEC considers these are the costs it

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<sup>104</sup> NSWEC, p 34.

<sup>105</sup> We have referred to this allocation as potentially leading to a 'cross-subsidy', since it reflects the way the NSWEC has used this term in its submission to our Issues Paper. However, we consider that a cross-subsidy would only arise where some individual councils pay less than the incremental costs of providing election services to them, and others pay more than the standalone costs of providing those services to them. The NSWEC was unable to provide us with additional information to allow us to examine this issue in more detail.

<sup>106</sup> Email from IPART to the NSWEC, 6 June 2019.

incurs in maintaining its capacity to conduct local government elections, and so they should be allocated to the NSW Government.<sup>107</sup>

Our Terms of Reference asks us to assess whether we consider it is appropriate for the amount the NSWEC charges councils “to be limited to the direct and unavailable costs” of managing the local government elections.<sup>108</sup> We understand this to refer to the NSWEC’s proposed cost allocation. In our view, allocating costs in this way would create an additional barrier to private providers offering election services to councils. Further, moving away from impactor-pays as the reference point for cost allocation could lead to inefficient outcomes. This is because it would reduce the level of transparency (and hence scrutiny) around these costs, and not signal to councils the full costs of providing election services to them.

#### 4.4 Allocation of the NSWEC’s total efficient costs

Our Issues paper explained that we would review the overall cost allocation, and consider where the total costs allocated to councils should lie on the range between a lower bound (incremental costs) and upper bound (standalone costs).

In this section, we have indicated how the NRR would be allocated between councils and the NSW Government using our recommended methodology. We compare this with the NSWEC’s proposed costs and allocations (see Table 4.2).

**Table 4.2 IPART’s draft recommendation on allocating the NSWEC’s total efficient costs of providing local government election services (\$’000)**

Building blocks	NSWEC’s proposed costs and allocation	IPART’s recommended costs and allocation
<b>Councils’ share</b>		
Operating expenditure	41,629	48,039
Return of assets (depreciation)	0	2,762
Return on assets	0	426
Return on working capital	0	632
Regulatory tax allowance	0	179
<b>Total councils’ share (\$)</b>	<b>41,629</b>	<b>52,037</b>
<i>Total council share (%)</i>	<b>73.6%</b>	<b>96.5%</b>
<b>NSW Govt share (\$)</b>	<b>14,907</b>	<b>1,869</b>
<i>NSW Govt share (%)</i>	<b>26.4%</b>	<b>3.5%</b>
<b>Total</b>	<b>56,537</b>	<b>53,906</b>

Source: IPART analysis.

Table 4.3 isolates the differences between our cost allocation methodology and the NSWEC’s existing and proposed methodologies. Using the same level of expenditure (our recommended NRR), it highlights how the councils’ and NSW Government share of costs vary under the different allocation methods.

<sup>107</sup> NSWEC, p 13.

<sup>108</sup> Terms of Reference (Appendix A).



While costs are lower overall under our draft approach, we have allocated more costs to councils than the NSWEC, and less to the NSW Government.

- ▼ The NSWEC's approach is closest to an incremental cost approach because it excludes overheads and corporate services that would be incurred even if the NSWEC did not administer local government elections.
- ▼ Our approach is closer to a standalone cost approach because we have allocated a share of the costs of the NSWEC's overheads and corporate services to councils.

We have chosen this cost allocation approach because it puts private providers and the NSWEC on a level playing field (as much as practical), and thus promotes competition in the provision of election services to local councils. That said, the NSWEC may still retain some degree of competitive advantage relative to private providers due to its economies of scale and scope in providing these services.

In the next chapter (Chapter 5), we consider the impact on councils and ratepayers of our draft approach.

**Table 4.3 Comparison of cost shares under different allocation methods (\$'000)**

Building blocks	NSWEC Existing allocation	NSWEC Proposed allocation	IPART draft recommendation allocation
<b>Council share</b>			
Operating expenditure	47,736	33,509	48,039
Return of assets (depreciation)	0	0	2,762
Return on assets	0	0	426
Return on working capital	0	0	632
Regulatory tax allowance	0	0	179
<b>Total councils' share (\$)</b>	<b>47,736</b>	<b>33,509</b>	<b>52,037</b>
<i>Total councils' share (%)</i>	<b>88.6%</b>	<b>62.2%</b>	<b>96.5%</b>
<b>NSW Govt share (\$)</b>	<b>6,170</b>	<b>20,397</b>	<b>1,869</b>
<i>NSW Govt share (%)</i>	<b>11.4%</b>	<b>37.8%</b>	<b>3.5%</b>
<b>Total</b>	<b>53,906</b>	<b>53,906</b>	<b>53,906</b>

Source: IPART analysis.

## 5 Impact on councils' election bills

In this chapter we examine the impact of our draft recommendations on councils' estimated bills for the 2020 local government elections. We look at how prices under IPART's costing methodology compare to prices:

- ▼ Paid by councils that used the NSWEC to administer their elections in 2016-17
- ▼ Proposed by the NSWEC's using its costing methodology for the 2020 local government elections.

Appendix B sets out the estimated bills for each council under the different scenarios.

### 5.1 Impact on councils' bills from our draft recommendations

The average council bill would be around 62%<sup>109</sup> higher than for the 2016-17 elections if our draft recommendations are adopted.<sup>110</sup> Part of this increase is due to the growth in the number of electors. On a per elector basis, the increase would be around 50% for most councils.

Although the NSWEC indicated that the State Government does not provide direct funding for local government elections,<sup>111</sup> this was not the case for NSWEC-administered elections in 2016-17. The State Government provided \$13.9 million in funding to cover some of the NSWEC's operating costs for these elections.<sup>112</sup> This had the effect of reducing council bills.

Despite starting from a higher operating cost base (\$56.5 million) than what we have recommended (\$47.7 million), the NSWEC's proposal for 2020 allocates most indirect costs (\$14.9 million) to the State Government.

As explained in Chapter 4, consistent with the impactor pays principle, we recommend councils, in aggregate, pay a larger share of the efficient costs of providing local government elections compared to what they have in the past and what the NSWEC proposed for 2020.

We also recommended some changes to the allocation of indirect costs across councils. The NSWEC allocates most of its indirect costs across councils on a per-elector basis. We have identified some cases where the per-elector basis should be changed to reflect the true cost driver. These changes are expected to have varying impacts on councils' bills depending on the characteristics of each council. For example, the change from allocation on a per-elector basis to a per-council basis will benefit larger councils.

<sup>109</sup> For councils that undertook full elections in 2016 and 2017. This excludes Carrathool and Coolamon Shire Councils which had uncontested elections in 2016.

<sup>110</sup> They are 52% higher after adjusting for inflation (ie, in real terms). Council bills would also be around 24% higher under our draft recommendations than under the NSWEC's proposal.

<sup>111</sup> NSWEC submission to IPART Issues Paper, p 8.

<sup>112</sup> Information provided by the NSWEC, 25 March 2019. This funding covered around \$6.5 million of 'duplicate costs' the NSWEC identified it incurred because the elections were split over two years (ie, 2016 and 2017) rather than in a single year. The remaining \$7.4 million was non-specific funding of incremental operating expenditure.

While our draft recommendations would result in higher bills for councils in the short term, we consider that the increased opportunities for competition could lead to cost decreases over the medium term. This would occur as service providers enter or expand their presence in the market.

## **5.2 Our allocation of indirect costs means the increase for some councils would be greater than for others**

To assess the impact of our draft recommendations on councils of different sizes and geographic areas, we have classified the 128 councils in NSW into six groups based on their Office of Local Government classification, and the number of electors.<sup>113</sup>

Table 5.1 shows the average bill and per elector cost by council type from the 2016-17 elections, and under our recommended costing methodology for the 2020 local government elections. It shows that under our recommended costing methodology:

- ▼ Metropolitan – Large councils incur the lowest cost on a per-electors basis, and Rural – Small councils the highest. This reflects stakeholders' submissions that geography and population density have a direct impact on the cost of elections.<sup>114</sup>
- ▼ Metropolitan – Large and Regional – Large councils would experience slightly higher bill increases than Metropolitan – Small and Regional – Small councils. This is because the remaining indirect costs we have allocated to councils are allocated between councils on a per-electors basis.
- ▼ Rural – Small councils, on average, would experience a greater increase than Rural – Large councils under our recommended costing methodology. This reflects our decision to use more cost-reflective allocators of some indirect costs, as discussed in section 4.2.5.<sup>115</sup>

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<sup>113</sup> The Office of Local Government (OLG) classifies councils as Metropolitan, Metropolitan Fringe, Regional Town/City, Large Rural and Rural. In our analysis, we have considered Metropolitan Fringe as Metropolitan. We have also used the number of electors to classify councils as Large and Small. Councils are considered to be Large if the number of electors in the council exceeds the median for their classification, and Small otherwise.

<sup>114</sup> Lake Macquarie City Council, submission to Issues Paper, 9 May 2019, p 4 and Penrith City Council, submission to Issues Paper, 17 May 2019, p 6.

<sup>115</sup> It may also result from the way State Government funding was applied to council bills in the 2016-17 elections. We plan to seek further information from the NSWEC on this issue in preparing our Final Report.

**Table 5.1 Indicative average bills by council type compared to 2016-17 (nominal)**

Council type	2016-17 bills		IPART draft recommendation		Difference			
	Bill (\$'000)	\$ per elector	Bill (\$'000)	\$ per elector	Bill (\$'000)	Bill %	\$ per elector	Per elector %
Metropolitan – Large	944	6.42	1,516	9.54	572	61%	3.12	49%
Metropolitan – Small	325	7.15	513	10.44	188	58%	3.29	46%
Regional – Large	425	7.06	684	10.53	260	61%	3.47	49%
Regional – Small	177	8.02	281	11.80	104	59%	3.79	47%
Rural – Large	76	8.65	123	12.88	46	61%	4.23	49%
Rural – Small	29	9.03	50	14.37	21	72%	5.34	59%

**Note:** This table does not include data for the six councils that conducted their own elections in 2016 and 2017, and Central Darling Shire Council which did not hold an election in 2016 or 2017. 2016-17 bills have not been adjusted for inflation.

**Source:** IPART analysis.

### 5.3 Recovery of costs under rate pegging

Several stakeholders noted in their submissions to our Issues Paper that the rate pegging system may constrain councils in their ability to recover new costs imposed for conducting local government elections.<sup>116</sup>

A council's costs of conducting its local government elections are likely to be funded through its general fund and recovered through ordinary rates.

As shown in Table 5.1, our draft recommended costs per elector would be, on average, around \$3.90 higher than those paid by councils at the 2016-17 elections. Given elections are held once every four years, these election costs are in reality recovered over a four-year period.

We estimate that for the typical council, our draft recommendation represents an increase in costs per residential assessment of around \$1.65 per year. As such, we consider the impact on ratepayers to be relatively modest.

IPART determines the rate peg each year by reference to the Local Government Cost Index (LGCI). The LGCI is a measure of movements in the unit costs incurred by NSW councils for ordinary council activity funded from general rate revenue. It is based on the price movements of a fixed basket of inputs. While local government election costs are not an explicit component of the LGCI, non-specific costs such as these are increased by the movement in the CPI when calculating the LGCI. We periodically review the LGCI methodology we use in setting the rate peg. We will consider this issue when we next review the LGCI.

<sup>116</sup> Anonymous submission to Issues Paper, 9 May 2019; p 2; Nambucca Shire Council submission to Issues Paper, 23 April 2019, p 1; and Penrith City Council submission to Issues Paper, 17 May 2019, p 6.

## 6 Steps to facilitate competition in the future

Given our finding that the NSWEC is the dominant provider in a near-monopoly market, we consider that the prices the NSWEC charges councils for conducting local government elections in 2020 should be set by the NSW Government, in accordance with the costing methodology we have set out in this Draft Report. In the longer term, if competitive pressures are increased, then the degree of regulatory oversight could be reduced.

In this chapter we set out:

- ▼ Why we consider that increasing competitive pressure in the market could provide benefits to councils and electors.
- ▼ The barriers to participating in the market that have been identified by stakeholders.
- ▼ A proposed model of service provision and supporting measures, which we consider should be implemented by the NSW Government to better facilitate competition.

These issues are discussed, in turn, below.

### 6.1 Increased competitive pressure in the market for election services would provide benefits to councils and electors

Competitive markets tend to deliver goods and services at a standard customers want at prices that reflect the efficient costs of production. When businesses compete with each other, consumers get the best possible prices, quantity, and quality of goods and services.

Competitive markets are also responsive to changes in consumer preferences and drive innovations that lead to more choice and better value for customers. One of the most important benefits of competition is the boost to innovation, which is crucial to achieving dynamic efficiency. Competition among businesses can spur the invention of new or better products, or more efficient processes. Businesses may race to be the first to market a new or different technology or service. Innovation benefits consumers with new and better products.

Box 6.1 below outlines how competition can drive the different types of economic efficiency, for the benefit of customers and society as a whole.

### Box 6.1 How competition encourages economic efficiency

In economics there are three types of efficiency – productive efficiency, allocative efficiency and dynamic efficiency.

**Productive efficiency** is said to be achieved when a given output is produced at minimum possible cost, given the available production technology and input prices. Competition, where feasible, is one means by which firms can be forced to produce and price goods and services at the least possible cost to consumers.

**Allocative efficiency** is achieved when production represents consumer preferences, because resources have been allocated to their highest value. Competition, where feasible, is one means of encouraging allocative efficiency, as competing firms seek to produce the goods and services that consumers want.

**Dynamic efficiency** relates to processes of technological and managerial innovation – the ability of producers to improve the quality and cost of their goods and services and to respond to emerging market developments. Removing barriers to entry may be important in promoting dynamic efficiency.

We note that competition is not an end in itself – it is merely a means to the end of increasing consumer welfare. We also recognise that competition may not be possible or even desirable for all election services.<sup>117</sup> Reform measures should not and cannot prescribe a level of competition. Rather, they should focus on identifying election services that are potentially contestable; removing any undue impediments to new entry and competition in the market for the provision of these services; and ensuring that, as much as possible, incumbent suppliers and new entrants are competing on a ‘level playing field’ (with one party not having any undue advantage or disadvantage relative to the other) – so that new entry and competition occurs where it is efficient.

Measures have already been introduced to provide councils with some choice in their provider of election services – hence, competition, or the threat of competition, has already been introduced to some extent to the election services market (see Box 6.2 below). However, to date, the level of competition appears to be at the margin, and we have identified impediments to competition.

Given this, the potential benefits of competition and our finding that most local government election services are likely to be contestable in nature,<sup>118</sup> we consider there is scope to increase the potential for contestability in the provision of election services by removing impediments to competition.

The potential benefits of competition, current impediments to competition, and our recommendations to address these impediments are discussed in the following sections.

<sup>117</sup> Although this can change over time with, for example, advances in technology.

<sup>118</sup> See Chapter 2, Table 2.1.

### **Box 6.2 Contestability was initially introduced in response to concerns over cost increases from the NSWEC**

Local government elections are conducted every four years, on the second Saturday in September. Prior to 1987, Town and Shire Clerks were responsible for conducting local government elections. This responsibility was transferred to the NSWEC in 1987 with the passage of the *Local Government (Elections) Amendment Act 1987*. The NSWEC became the sole provider of local government election services.

In 2005, the Council on the Cost and Quality of Government conducted a pricing review of local government elections and recommended a change to full cost recovery from councils. This was first introduced for ordinary elections in 2008. The change to full cost recovery led to an increase in councils' election bills and resulted in a number of complaints from councils.

In response to councils' concerns, the NSW Government approved an amendment to the Local Government Act in 2011, which allowed the transfer of responsibility for conducting local government elections to the General Manager of the council concerned. This gave councils the option to run their own election and enter into a contract with an election services provider (eg, the NSWEC or a private provider).

**Source:** IPART, Review of local government election costs – Issues Paper, April 2019, pp 6-7.

#### **6.1.1 Benefits from encouraging productive efficiency**

We consider that, consistent with past experience, increasing competitive pressure in the market for local government election services would help reduce costs and increase productive efficiency. Several council submissions to our Issues Paper indicated that the main reason a council would choose to conduct an election themselves and use a private provider was to reduce costs. For example, Central Coast Council stated that:

Council would prefer to use a private provider where it represented both a value for money proposition with adequate confidence in the provider. This includes confidence from Council, candidates and voters.<sup>119</sup>

Similarly Byron Shire Council considered that:

Council would utilise the services of a private provider for reasons of cost efficiency, being mindful that the provider needs to hold sufficient knowledge and expertise to guarantee a smooth and efficient election process, with timely results.<sup>120</sup>

Bogan Shire Council also confirmed that it would consider conducting its own election and using a private provider if “the Private Provider had a good record for conducting Council elections and of course was cheaper”.<sup>121</sup>

This is consistent with the finding of the Department of Premier and Cabinet that, for the 2012 elections, councils that chose to conduct their own elections identified the cost of using the

<sup>119</sup> Central Coast Council, submission to IPART Issues Paper, 10 May 2019 (Central Coast Council), p 1.

<sup>120</sup> Byron Shire Council, submission to IPART Issues Paper, 9 May 2019, p 1.

<sup>121</sup> Bogan Shire Council, submission to IPART Issues Paper, 10 May 2019 (Bogan Shire Council), p 1.



NSWEC as the main reason for this decision.<sup>122</sup> Increasing competitive pressure would encourage all service providers to produce goods and services at the least possible cost.

### 6.1.2 Benefits from encouraging allocative efficiency

We also consider that increasing competitive pressure would add value to councils and their electors by increasing the flexibility of service delivery and, subsequently, allocative efficiency. At present, service levels are largely determined by the NSWEC, with little input from councils. There are broad commitments to service provision in the NSWEC's Service Commitment Charter and the NSWEC describes the services it will provide in its contract with councils. However, there are no explicit and measurable service standards or performance indicators in relation to the conduct of local government elections,<sup>123</sup> and councils have limited opportunity to influence the level of service they receive.

The City of Sydney submitted that:

IPART should also identify how, and to what degree, councils are able to influence the level of service delivered by the NSWEC in comparison to private providers (for example number of voting centres and staffing levels).<sup>124</sup>

In its submission, the NSWEC confirmed that:

There are a few services (such as advertising and pre-polling venues) where the council can vary the standard service model to account for their individual communities but in the main we provide the same electoral services to councils across the State.<sup>125</sup>

Councils that have used the Australian Election Company found the company to be more flexible about service levels than the NSWEC, and willing to share the responsibility for local government elections with councils. For example, Penrith City Council, in its experiences with the Australian Election Company, found the company to be responsive to the council's requests for additional polling booths and staff numbers.<sup>126</sup> The Australian Election Company also allowed the council to carry out some services on its own, and agreed to use the council's resources and property, where appropriate, to reduce costs.<sup>127</sup>

LGNSW was of the view that:

Councils that use a private provider may have more influence over the number of polling places and where and when the required advertising for the election will happen. ... Councils using private providers may also have more flexibility to make use of existing council resources, premises and infrastructure.

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<sup>122</sup> Department of Premier and Cabinet (DPC), *Review of 2012 Council Run Elections*, June 2013, p 9. DPC found that "The main argument by councils for returning the conduct of elections to them was their concern about the rising costs of elections conducted by the NSWEC and a belief that they could do it cheaper."

<sup>123</sup> Our expenditure consultant, EY, found that "While ... there is some focus on service quality, there does not appear to be any explicit ... measurable service standards or key performance indicators applied to the conduct of LGEs that are binding (e.g. contained in any legislative, regulatory or policy instrument). The NSWEC's Strategic Plan 2017-20 contains nine KPIs, however historical performance does not appear to be reported against the KPIs in a document such as an Annual Report." (EY, *Review of efficient costs of the NSW Electoral Commission's conduct of local government elections*, June 2019 (EY Report), pp 7-9.)

<sup>124</sup> City of Sydney, submission to Issues Paper, 10 May 2019 (City of Sydney), p 3.

<sup>125</sup> NSW Electoral Commission, submission to Issues Paper, 10 May 2019 (NSWEC), p 25.

<sup>126</sup> Penrith City Council, submission to Issues Paper, 17 May 2019, pp 4-5.

<sup>127</sup> Op cit. p 3.



When engaging a private provider, councils appreciated the ability to specify inclusions and exclusions in the contract.<sup>128</sup>

This contrasts with the NSWEC's one size fits all approach to conducting elections, which has not generally taken into account council characteristics.<sup>129</sup> Increasing competitive pressure would increase the service level offerings available to councils and/or incentivise the NSWEC to be more responsive to councils' preferences.

### 6.1.3 Benefits from encouraging dynamic efficiency

Finally, we consider that increasing competitive pressure would add value to councils and their electors by increasing service and product innovation and diversity over time through dynamic efficiency gains.

Competing service providers will respond to changes in consumer preferences and drive innovations that lead to more choice and better value for councils and their customers. In particular, developments in (or changes to) the field of elections technology can be leveraged to improve the elector experience. For example, in the future councils may opt to conduct elections via a Universal Postal Vote (UPV), employ electronic voting (as opposed to using a paper ballot) or may wish to pursue online voting.

Increasing competitive pressure increases the likelihood that these services would be developed and offered by service providers, as they compete for councils' business, compared to the current near-monopoly state of the market. With more choice councils may be able to conduct their own services more efficiently and design services to meet their specific needs.

### 6.1.4 Remedying the effects of market power (or a lack of competition)

In a competitive market prices are known. However, this is not the case with the NSWEC's provision of local government election services at present. The NSWEC provides councils with an estimate of the costs of conducting elections, rather than a binding quote, and subsequently recovers its actual costs.<sup>130</sup> These arrangements have the following impacts:

- ▼ Councils cannot directly compare the costs of engaging the NSWEC compared to an alternative provider (ie, self-provision and/or engaging a private provider).<sup>131</sup>
- ▼ There is no cost certainty for councils that engage the NSWEC, with subsequent risk to council budgets.<sup>132</sup>

<sup>128</sup> Local Government NSW, submission to Issues Paper, 24 May 2019 (LGNSW), p 3.

<sup>129</sup> Eg, the Inner West Council noted that the NSWEC was not willing to use council equipment or premises for elections. (See Inner West Council, submission to Issues Paper, 10 May 2019 (Inner West Council) p 2.)

<sup>130</sup> As set out by LGNSW, "While the NSWEC provides councils with pre-election estimates of costs for an election, these estimates are liable to change based on population shifts in the local government area, voter numbers and also the number of councils that ultimately do not engage the NSWEC for their election services." LGNSW, p 4.

<sup>131</sup> Lake Macquarie City council saw this as a barrier to competition, see Lake Macquarie City Council, submission to Issues Paper, 9 May 2019 (Lake Macquarie City Council), p 1.

<sup>132</sup> For example, see Lake Macquarie City Council, p 2.

- ▼ There are no incentives for the NSWEC to control costs or seek operating efficiencies, as there are no consequences for the NSWEC if its costs either exceed or fall short of the estimate.<sup>133</sup>

Increasing competitive pressure in the market would reduce the scope for this to occur, as the NSWEC would be incentivised to provide more certainty (as it faced an increased risk that client councils would move to another service provider).

## **6.2 Stakeholders consider that there are barriers to participating in the market**

The development of competition in the market for local government election services depends on the barriers that constrain new private providers from entering the market, and from increasing their market share. If these barriers are low, effective competition is likely to develop over time. But if they are high, competition or the threat of competition may remain insufficient to put pressure on the incumbent to charge efficient prices and offer innovative services.

In our Issues Paper we sought feedback on the barriers to competition in the provision of election services to councils. Submissions to the Issues Paper raised the following issues:

- ▼ Councils are required to pass a resolution as to whether or not they will engage the NSWEC to conduct a local government election 18 months out from that election.
- ▼ Engaging the NSWEC transfers the risk of producing a valid election result from the council's General Manager to the Electoral Commissioner.
- ▼ If a council decides to conduct its own election and use a commercial electoral services provider (ie, a private provider) it may be required to go to tender (but not if it chooses to engage the NSWEC).
- ▼ The NSWEC adopts an "all or nothing" approach to service provision and will only provide the full suite of election services.

These issues are discussed, in turn, below.<sup>134</sup>

### **6.2.1 Council resolution to engage the NSWEC is required 18 months before an election**

The statutory requirement to pass a resolution to engage the NSWEC 18 months before the election may discourage councils from running their own election or engaging the services of a private provider. If councils do not choose the NSWEC, there is a risk that they will not be able to deliver the election (eg, the arrangement with a private provider might fall through,<sup>135</sup>

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<sup>133</sup> See Central Coast Council, p 1.

<sup>134</sup> We would also generally consider if there are any barriers to exiting a market. Barriers to exit are usually circumstances that increase costs above the cost of staying in business (eg, disposing of expensive and specialized assets, high redundancy costs and/or the costs of cancelling existing contracts with suppliers). No barriers to exit in the market for local government election services have been identified in this review to date.

<sup>135</sup> This issue was raised by LGNSW, who considered that "This long lead time poses risks for councils that engage private providers, as during the 18-month period a private provider may potentially terminate a contract or face insolvency." LGNSW, p 8.

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or council staff critical to election success might not subsequently be available). This may lead councils to choose the NSWEC even though it might not provide the most efficient or effective service.

In addition, as set out by City of Sydney:

This means private providers need to respond to requests for tenders at least 18 months before the work is required, with accompanying unknowns. There is a risk that the provider selected may fail in the lead up to the election, a risk not associated with selecting NSWEC. If the private provider does fail, NSWEC will only agree to administer the upcoming election if the NSW Electoral Commissioner is satisfied that there are exceptional circumstances, again, making the selection of a private provider a riskier option.<sup>136</sup>

### **6.2.2 Engaging the NSWEC transfers the risk in delivering a valid election result from the council's General Manager to the Electoral Commissioner**

If a council resolves to engage the NSWEC this means that the Electoral Commissioner is then responsible for delivering a valid election result. Where a council chooses to conduct its own election (either with or without the support of a private provider), this risk is borne by the council's General Manager.

Given the frequency of elections (ie, every four years), councils may be concerned that they do not have the in-house experience required to conduct elections and thus a decision to engage the NSWEC removes the risk associated with delivering a valid election result.

### **6.2.3 Councils that engage the NSWEC are exempt from tendering requirements**

Section 55 of the *Local Government Act 1993* exempts councils from tendering when entering into a contract or arrangement for the NSWEC to administer the council's elections, referendums and polls. This exemption does not apply to contracts or arrangements with any other service provider.

Unless the cost of administering the elections is under \$150,000, or any of the other exemptions provided for in section 55 apply, councils are required to go to tender or to conduct a selective tender when engaging a commercial electoral services provider (ie, a private provider). This imposes additional costs and administrative burden on councils compared to engaging the NSWEC.

In addition, as set out by City of Sydney, comparisons between the NSWEC and private providers are difficult because the NSWEC does not bid against private providers.<sup>137</sup>

### **6.2.4 The NSWEC may only provide the full suite of election services**

As set out in its submission, the NSWEC is responsible for providing some election services to all councils, including those who choose to conduct their own elections.<sup>138</sup> However, for

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<sup>136</sup> City of Sydney, p 2.

<sup>137</sup> City of Sydney, p 2.

<sup>138</sup> This includes services around advertising, rolls and funding disclosures. See NSWEC, p 29.

councils that choose to engage the NSWEC, the statutory framework provides for the NSWEC to provide the full range of election services. That is, there is no option for councils to provide some of these services themselves, as had been the case previously.<sup>139</sup>

The NSWEC does not support reform to allow for the unbundling of services for local government elections due to concern that “electoral service segmentation may lead to higher prices, cross-subsidisation, complexity and a lack of transparency and accountability in the conduct, and costing, of local government elections”. The NSWEC considers this may adversely impact regional and rural councils. It also stressed the importance of introducing an independent regulator to ensure appropriate standards of service and integrity measures are met by all election providers.<sup>140</sup> We agree with the NSWEC and consider that, as part of implementing a new market model for local government election services, the NSW Government should establish independent regulatory oversight of the service performance of private providers (see section 6.3 below).

### 6.3 A new market model would better facilitate competition

#### Draft recommendation

12 That the NSW Government implement a new market model for local government election services by undertaking the following regulatory reforms:

- Legislative reform to require the mandatory unbundling, component pricing and offering of the NSWEC’s individual local government election services. In advance of the council elections in 2024, the NSWEC should have unbundled its costs and services, and provide councils with binding quotes for each individual election service, so that councils can decide which election services the NSWEC will provide them with.
- The establishment of independent regulatory oversight of:
  - a. The NSWEC’s prices for unbundled local government election services, until genuine choice and competition emerges.
  - b. The performance of all service providers, to ensure that all providers provide the mandatory, minimum levels of service (ie, that they comply with the non-discretionary standards of conducting an election).
- Legislative change to reduce the period before an election by which a council has to resolve to engage the NSWEC from 18 months to 9 months.
- Provision of assistance to councils to further develop their election management capabilities through a training program delivered by the Office of Local Government.
- Legislative change, if required, to ensure that a council’s General Manager becomes responsible for producing a valid election result if and when the council ceases to engage the NSWEC for all election services.

We note that regulation should ensure that all service providers provide the mandatory, minimum levels of service (ie, that they comply with non-discretionary standards of

<sup>139</sup> Inner West Council submitted that it “... would like to see a move back towards a hybrid model where ... and Council provides IT and telecommunications infrastructure and accommodation facilities to reduce the financial burden of election costs for councils.” See Inner West Council, p 1.

<sup>140</sup> NSWEC, p 5.

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conducting an election). Above and beyond these minimum standards, competition can be the most effective means of ‘regulating’ service standards – as, over time, a firm’s market share will be determined by how well it satisfies its customers’ demands.

In theory, by opening up an industry to competition, different services will be contested over time. As firms develop and find opportunities, competition will occur where feasible. To this end, we consider that the NSW Government should engage in regulatory reform to implement a market model through which industry participants can identify which services are contestable (and where competition is viable) and which services cannot be provided by a private provider.

In developing the market model for the provision of local government election services we have considered:

- ▼ The trade-off between the productive efficiency that may result from the economies of scale and scope associated with a single service provider, and the dynamic, allocative and productive efficiency gains that may be achieved through increased competition.
- ▼ The need for cultural change within both councils and the NSWEC if options promoting greater contestability in election services are pursued, eg if councils are to take greater responsibility for election outcomes and the NSWEC offers individual election services.

Our proposed model is discussed below and can be described as follows:

- ▼ The mandatory unbundling, component pricing and offering of the NSWEC’s individual local government election services.
- ▼ Regulatory oversight where necessary.

While our proposed model goes some way to addressing the barriers to participation identified above, we are also recommending the following supporting measures:

- ▼ Reducing the period before an election by which a council has to resolve to engage the NSWEC (eg from 18 to 9 months).
- ▼ Increasing the capacity and capability of those councils that choose to conduct their own elections.

We have also proposed potential next steps, should the NSW Government accept and choose to implement our proposed model for the provision of local government election services.

### **6.3.1 Unbundling and component pricing of the NSWEC’s local government election services**

We recommend the regulatory reform to facilitate unbundling and component pricing of all of the NSWEC’s local government election services. That is, the NSWEC should be required to clearly and transparently price each of its local government election services at an explicit and measurable level of service provision.

Unbundling the NSWEC’s services would create a pricing structure that facilitates competition, by improving the available information on the NSWEC’s costs and service levels and allowing comparison of the NSWEC with other service providers. Over time, increased

information regarding the costs of election services would allow benchmarking between service providers and better support market participation than current practices.

Stakeholders generally supported the unbundling of the NSWEC's services, and saw value in this as a way to promote competition in the market for election services. For example:

- ▼ LGNSW considered that component pricing and unbundling of services would promote competition in the market by lowering barriers to entry. Private providers could choose to tender for a subset of components, without needing to have the expertise to deliver an election in its entirety. This also gives councils the option to undertake some components in-house, or with neighbouring councils, to reduce costs.<sup>141</sup>
- ▼ Lake Macquarie City Council noted that 'legislation does not currently impede the NSWEC from unbundling services'<sup>142</sup>, and identified market opportunities for service areas such as printing, electronic voting and project management.

Lake Macquarie City Council also went on to suggest that:

It is possible the creation of smaller markets could encourage the development of consortiums that could bid for the provision of election services, in the same way that a consortium might bid for a complex infrastructure project.<sup>143</sup>

Unbundling and component pricing would allow flexibility in service provision, and encourage innovation by allowing for changes in technology and elector behaviour. With more flexibility in service provision, councils would be able to take account of their own particular characteristics and circumstances and could be more responsive to local needs than they are able to be at present (an increase in allocative efficiency). The options available to councils would range from contracting with the NSWEC for a sub-set of specific election services, to the simplest option of contracting with the NSWEC for the full suite of election services at the prices and service levels they offer.

There is evidence that councils have different preferences in the provision of election services and would value increased flexibility in service provision. For example, in submissions to the Issues Paper:

- ▼ Central Coast Council contended that it would like to supplement the services provided (eg, extended voting places, voting hours and supplementary people for the count)<sup>144</sup>
- ▼ Bogan Shire Council considered that only a base level of service is required for rural councils.<sup>145</sup>

We also note the finding of the Department of Premier and Cabinet regarding the 2012 local government elections that the 14 councils that conducted their own elections did so under a range of different arrangements.<sup>146</sup> One council, Gunnedah, conducted its election entirely in-house. Botany Bay and Sutherland purchased resources such as manuals from the

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<sup>141</sup> LGNSW, pp 7-8.

<sup>142</sup> Lake Macquarie City Council, p 2. This is consistent with the finding of the Department of Premier and Cabinet (DPC) that "Under the provisions that will apply to the conduct of the 2016 and future elections, there may be some scope for councils and the NSWEC to negotiate variable service levels as part of contract negotiations." Department of Premier and Cabinet (DPC), *Review of 2012 council run elections*, June 2013.p 12.

<sup>143</sup> Lake Macquarie City Council, p 2.

<sup>144</sup> Central Coast Council, p 1.

<sup>145</sup> Bogan Shire Council, p 1.

<sup>146</sup> Department of Premier and Cabinet (DPC), *Review of 2012 council run elections*, June 2013.p 8.



Australian Election Company but otherwise conducted their elections entirely in-house, including the count. Lane Cove Council conducted its own count but also used some of the services of the Australian Election Company. The remaining ten Councils outsourced the conduct of their elections, including the count, to the Australian Election Company. One of these, Port Stephens, retained responsibility for all electoral advertising.

Under our proposed model, the prices and service levels offered by the NSWEC for individual local government election services would be binding. Such price certainty would address the issues associated with the NSWEC's current practice of providing an estimate rather than a binding quote for the costs of conducting an election (see section 6.1 above).

Once the NSWEC's local government election services were unbundled (ie, each service and its corresponding price is separately identified), councils would then procure the election services they require. A potential approach to the offering and procuring of election services is set out in the box below.

### **Box 6.3 Approach to offering and procuring election services with unbundling**

The NSWEC would offer a "menu" of its election services, at a specific price and a defined level of service, within a set time before the election was due to be held (eg, 12 months beforehand). Councils would then choose (again within a set time before the election was due to be held eg, 9 months beforehand) which election services they required from which providers ie, the NSWEC, self-provision and/or a private provider. This would give councils a number of options for procuring election services, including:

1. Entering into a contract with the NSWEC to provide all election services on the basis of the prices and service levels offered by the NSWEC.
2. Seeking to negotiate adjustments to the prices and/or service levels offered by the NSWEC before entering into a contract with the NSWEC.
3. Choosing to have the NSWEC provide some election services and conducting a tender for the remaining services (and/or providing them in-house or in conjunction with nearby councils/Joint Organisation<sup>a</sup> members where this leads to cost efficiencies).
  - Council could subsequently choose service provision by the NSWEC for additional services if a suitable alternative was not available.
4. Conducting a tender process for all election services (and/or providing them in-house or in conjunction with nearby councils or joint organisation members, where this leads to cost efficiencies).
  - Council could subsequently choose service provision by the NSWEC for additional services if a suitable alternative was not available.

Private providers could choose to tender for all or a subset of the election services required by a council, reflecting their expertise in service delivery. Councils would be required to have contracts for service provision in place with an appropriate lead time before the election is due to be held eg, six months beforehand.

<sup>a</sup> In 2017 Parliament passed legislation to establish a network of joint organisations to help drive better planning, economic development and service delivery in regional NSW. Eighty-five councils in regional NSW are now members of the 13 joint organisations: Canberra Region, Central NSW, Far North West, Far South West, Hunter, Illawarra Shoalhaven, Mid North Coast, Namoi, New England, Northern Rivers, Orana, Riverina and Murray, and Riverina. See <https://www.olg.nsw.gov.au/joint-organisations-strengthen-regional-nsw>.

### 6.3.2 Independent regulatory oversight where necessary

Based on our assessment of the state of the market (see Chapter 2), we consider that the NSW Government should set prices for the NSWEC's local government election services in the short-term. However, the degree of regulatory oversight required could change over time as the market evolves. In particular, the process of unbundling the NSWEC's service offering (discussed above) could allow customers to have more choice, and mean that the NSWEC has less market power in the provision of at least some election services. The more competitive pressure and choice that exists, the less need there is for regulatory oversight, as it increases the incentive to keep costs down and provide consumers with the services they want.<sup>147</sup> Regulatory oversight would apply to both the NSWEC's costs and prices, and its service levels.

Pricing oversight would consider whether direct price regulation remained appropriate for the NSWEC's services or whether 'shadow pricing'<sup>148</sup> could be adopted.

If price regulation was appropriate, this could take the form, for example, of an independent body (such as IPART) determining or approving the NSWEC's prices for its services where it continues to have significant market power (ie, where councils have little choice in terms of their service provider).

Under shadow pricing, the NSWEC would propose its own prices for election services and the regulator would publish its view of the efficient prices for those services. This would give councils and private providers a comparison point for assessing the NSWEC's proposed prices and service levels and deciding whether to participate in the market.

Ideally, shadow pricing would involve component pricing, however it would be challenging for a regulator to do this upfront ie, before markets for different services develop. Instead, shadow pricing may initially take the form of a weighted average price cap<sup>149</sup> – ie, the regulator would publish a recommended average change in price for a group of, or all, services.

Pricing oversight would also consider:

- ▼ The need to avoid anti-competitive bundling by the NSWEC – ie, the bundling of the state-wide services the NSWEC currently provides to all councils with services that are contestable.
- ▼ The allocation of the NSWEC's common and indirect costs to councils and services.

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<sup>147</sup> While regulation can, up to a certain point, mimic a workably competitive market, introducing competition will almost certainly achieve more efficient outcomes. Economic regulation is required to address problems that arise in uncompetitive markets. While regulation represents an improvement over an uncompetitive market, a better solution is to remove barriers to entry and restructure the market in order to promote more competition and reduce the need for economic regulation.

<sup>148</sup> A shadow price is assigned to goods and services that are not generally bought and sold separately or freely in a marketplace.

<sup>149</sup> A weighted average price cap sets the amount by which prices are allowed to vary, on average, over a particular regulatory period.



- ▼ The degree of averaging in the component prices and whether this creates an opportunity for private providers to ‘cherry-pick’ councils with a lower cost of service. There may be a need for differential pricing to reflect differences in the costs of serving different councils.

In particular, pricing oversight would be an important safeguard for councils with no option other than to procure all election services from the NSWEC.

In terms of service levels, we consider that there should be performance monitoring of the NSWEC, ie reporting against explicit and measurable service standards. In general, we set prices for monopoly services (and in particular allowances for operating and capital expenditure) for a business to meet defined service levels (eg as set out in an operating licence or other regulatory instrument) and we use performance reporting to assess whether the business is delivering on the expenditure plans or outcomes it outlined in its pricing submission.

For the NSWEC, the absence of defined service standards and performance reporting increases the complexity in both assessing the efficient costs of conducting local government elections<sup>150</sup> and comparing its service levels and performance against alternative providers. City of Sydney submitted that:

... if private providers and NSWEC reported, post-election, on their performance against the same measures which adequately demonstrated their ability to deliver fair, transparent, customer-centric and cost effective elections then councils would be able to make a more informed decision.<sup>151</sup>

We consider that, as with pricing oversight, performance reporting would assist councils and private providers in assessing the NSWEC’s proposed prices and service levels and deciding whether to participate in the market.

We note that regulation should ensure that all service providers provide the mandatory, minimum levels of service (ie, that they comply with non-discretionary standards of conducting an election). Above and beyond these minimum standards, competition can be the most effective means of ‘regulating’ service standards – as, over time, a firm’s market share will be determined by how well it satisfies its customers’ demands.

### **6.3.3 Reducing the period before an election by which council has to resolve to engage the NSWEC**

We consider that the period before an election by which a council has to resolve to engage the NSWEC should be reduced from 18 months to 9 months. We note that this has already occurred in practice. There is currently a bill amendment before NSW Parliament which

<sup>150</sup> As recognised by our consultant, EY, the absence of “... explicit and measurable levels of service standards or performance indicators in relation to the conduct of LGEs ... creates some challenges in assessing both the prudence and efficiency of expenditure. Future assessments of cost efficiency would be improved with better defined, measurable service standards or performance indicators for the conduct of LGEs. In other words, assessing efficiency is more complex in the absence of objective service standards and required service levels. (EY Report, p 4.)

<sup>151</sup> City of Sydney, p 2.

would allow councils to choose their election provider for 2020 up to October 2019.<sup>152</sup> We also note that for the 2012 elections all councils were granted until 30 November 2011 to resolve to engage the NSWEC ie, 9 months ahead of the election, as part of the legislative changes that were made through the *Local Government Amendment (Elections) Act 2011* in advance of the 2012 elections.<sup>153</sup>

Reducing this notification period would reduce the risk that quoted costs might change significantly before an election. It would also reduce the risk of a change in circumstances for councils that choose to use a provider other than the NSWEC (eg, private provider becomes insolvent, key council staff are no longer available).

#### **6.3.4 Increasing the capacity of councils that choose to conduct their own elections**

Under our proposed model, once an alternative provider is chosen for a single election service, responsibility for delivering a valid election result becomes the responsibility of the council General Manager. We recognise that election expertise is generally only required by a council every four years. Therefore, we consider it important that councils who wish to conduct their own elections are able to build capacity in this area. We agree with Lake Macquarie City Council's view that:

Consideration could be given to the Office of Local Government providing further education and training to councils on the management of local government elections.

It is possible that improved education and training will better enable council employees to manage local government elections, in particular their ability to procure election services and manage contractor performance.<sup>154</sup>

We note that an alternative option would be to require a council's General Manager to be responsible for producing a valid election result, regardless of who conducts the election. This would give sole accountability to all councils for all election results and encourage capacity building in this area. It may also alleviate the NSWEC's concerns about partial service provision. We are interested in stakeholder feedback on this option.

We understand that some parties consider there may be a perceived conflict of interest when a council's General Manager is responsible for delivering a valid election. However, it is not clear to us that any other party would be able to bear this responsibility when the NSWEC does not provide a council with all local government election services. At the extremes, we consider that there are two potential models for the industry, one with effective competition (and the General Manager bearing responsibility for a valid election result), the other where only the NSWEC provides local government election services (which are subject to independent price regulation).

<sup>152</sup> "The bill gives councils until October 2019 to nominate their election provider, giving them time to consider the IPART report before making an important decision. I am pleased to say that the bill delivers practical changes to procurement procedures that councils have long been asking for." See NSW Parliament Hansard, *Second Reading Speech – Local Government Amendment Bill 2019*, June 2019, p 36. Available at <https://api.parliament.nsw.gov.au/api/hansard/search/daily/pdf/HANSARD-1323879322-105755>

<sup>153</sup> Joint Standing Committee on Electoral Matters, *Inquiry into the 2012 local government elections*, Report 4/55 – March 2014, p 6.

<sup>154</sup> Lake Macquarie City Council, p 3.

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We have favoured a model that features price regulation while competition is developing, but seeks to remove impediments to competition and thus reduce the need for price oversight over time. While this approach creates some complexities, such as perceptions around conflict of interest, at this stage we consider that the potential benefits of contestability are likely to outweigh any potential downsides or risks.

However, there may also be a third option – third-party, independent oversight of an election. Under this approach an independent third-party (eg, a private provider of election services, LGNSW, a representative from a joint organisation) would be responsible for oversight of the election and delivering a valid election result. The independent third-party would need to hold the appropriate qualifications and provide the appropriate standard of oversight. We are interested in stakeholder views on this approach and whether or not it is a viable option for the future.

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## A Terms of reference



**Gladys Berejiklian MP**  
Premier of New South Wales

Ref: A2850418

7 FEB 2019

Dr Peter Boxall AO  
Chair  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
HAYMARKET POST SHOP NSW 1240

Dear Dr Boxall,

Please find enclosed terms of reference for the Tribunal to conduct a review of local government election costs pursuant to section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*.

Yours faithfully,

**Gladys Berejiklian MP**  
Premier

## Terms of Reference – Costs of Conducting Local Government Elections

I, Gladys Berejiklian, Premier of New South Wales, under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, approve the provision of services by the Independent Pricing and Regulatory Tribunal (IPART) to the Minister for Local Government with respect to the costs of conducting local government elections, in accordance with the following terms of reference.

### Background

In NSW, local government elections are generally conducted every four years, on the second Saturday in September. The next ordinary elections for councils are scheduled to be held in September 2020.

Under Part 6 of the *Local Government Act 1993* (the **Act**), councils may arrange for the NSW Electoral Commissioner (NSWEC) to administer their election, or the council's general manager may administer the election on the council's behalf. In practice, where the general manager of a council administers its election, the council will generally engage a commercial electoral services provider to assist the general manager with the conduct of the election.

In recent times, the vast majority of councils have engaged the NSWEC to conduct their elections. For example:

- in 2016, the NSWEC conducted 75 ordinary elections for councils, and 5 councils' elections were administered by their general managers
- in 2017, the NSWEC conducted 46 ordinary elections for councils; and 1 council election was administered by its general manager.<sup>1</sup>

Councils are required to meet the costs of conducting their elections. That is the case irrespective of whether an election is administered by the NSWEC or by the council's general manager. NSWEC services required for local government elections, such as enrolment and non-voting services, are, however, provided by the NSWEC at no cost.

In the case of NSWEC administered council elections, the NSWEC provides councils with an estimate of costs in advance of the council's election, so that the council may determine whether to use the NSWEC to conduct its election. Where an election is administered by the NSWEC, the council will be invoiced for the costs of its election by the NSWEC.

Councils using the NSWEC are generally required to enter an arrangement with the NSWEC for the election well in advance of the election.<sup>2</sup> An arrangement can, however, be entered into at any time before the election if the council has resolved to enter the arrangement and the Electoral Commissioner is satisfied there are exceptional circumstances that make it necessary or desirable for the Electoral Commissioner to administer the election.<sup>3</sup>

The NSWEC uses a comprehensive costing model to identify and allocate its costs to the relevant councils. The NSWEC's costing model for the most recent ordinary elections for councils in 2017 is summarised in its Report on the Local Government Elections 2017 and extracted at **Schedule A**.

<sup>1</sup> Local government elections were conducted in two tranches in 2016 and 2017.

<sup>2</sup> Section 296(3) of the Act provides that an election arrangement for the Electoral Commissioner to administer all elections of a council can be entered into if: (a) the council resolves at least 18 months before the next ordinary election that such an arrangement is to be entered into; and (b) the arrangement is entered into no later than 15 months before the next ordinary election.

<sup>3</sup> Section 296(5) of the Act.

## **Matters for consideration**

IPART is requested to provide a report to the Minister for Local Government recommending a costing methodology to be applied in determining the amount the NSWEC charges councils which use the NSWEC to administer their ordinary elections.

The purpose of the IPART's review is to ensure a robust methodology for determining costs is applied, in order to minimise the financial burden on councils and ratepayers and ensure local government elections are conducted efficiently and cost effectively.

In undertaking the review, IPART is to:

- review the NSWEC's existing methodology for determining the amount to be charged to councils which use the NSWEC to conduct their elections
- consider whether it is appropriate for the amount charged to be limited to the direct and unavoidable costs of conducting the council's election
- have regard to the market for electoral services in which the NSWEC operates
- have regard to any differences in the costs involved in conducting elections in metropolitan and regional areas
- have regard to any other matters it considers relevant.

## **Consultation**

IPART should consult with relevant stakeholders and NSW Government agencies as part of its review. It may also hold public hearings and publicly release a draft report.

## **Reporting**

IPART is to submit its final report to the Minister for Local Government by Friday 30 August 2019.



## Schedule A – Extract from NSWEC Report on the Local Government Elections 2017<sup>4</sup>

### Financial and Funding Arrangements

#### Funding of Local Government Elections

Councils are required to meet the costs of conducting their elections. While the NSW Government does not provide direct funding for local government elections, some NSWEC services required for local government elections, such as enrolment and nonvoting services, are provided by the NSWEC at no cost.

For the second tranche of 46 councils, whose elections were conducted on 9 September 2017, the NSWEC issued budget estimates totalling \$20.87 million. The actual expenditure came in under budget, at \$19.17 million.

The election management fee, which had been estimated at \$7.62 per elector, was delivered at \$7.01 an elector. We charged a total of \$1.914 million in fees, down from the \$1.919 million estimate issued to councils. Independent accounting firm PriceWaterhouseCoopers was engaged to conduct a review of the level of NSWEC overhead, as applicable to the delivery of the LGE event.

The NSW Government has provided the NSWEC with additional funding of \$17.0 million to assist in conducting the 2016 and 2017 local government elections. This funding reflected the additional costs incurred in conducting the elections in more than one tranche.

#### Council Costing Model for the 2017 Local Government Elections

The NSWEC undertook a comprehensive budget estimation process, identifying and calculating estimated costs for individual council expenses. The broad process for developing the budget for the 2017 Local Government Elections and individual council budgets involved five major stages.

All 2017 Local Government Elections projects and associated activities were identified and quantified.

The budget estimates were then developed, using a 'zero based' or 'bottom-up' budget methodology that involved itemising volume and unit costs for each project, the tasks for each month and identifying the financial years 2016/17 and 2017/18 which were impacted.

Those costs which could be attributed to the council amalgamations activity and effort associated were quantified and charged to the state government appropriation.

We then undertook substantive testing of these budget items and their estimated costs, using the most reliable cost schedule available that is the 2016 Local Government Elections.

Finally, we allocated the costs for each project to individual councils using the applicable methodology for the activity involved in each project. The methodologies applied were either:

- cost per elector
- actual costs incurred in specific council areas and/or
- allocation for Regional Returning Officer based on elector numbers.

This enabled equitable sharing of overheads applicable to all councils separately from costs specific to each council.

<sup>4</sup> NSW Electoral Commission's *Report on the Local Government Elections 2017*, page 21. A copy of the report is available on the NSW Electoral Commission's website at [www.elections.nsw.gov.au/About-us/Reports/Election-reports](http://www.elections.nsw.gov.au/About-us/Reports/Election-reports)

## B Council bill impacts

Table B.1 below sets out the indicative bills for councils under our draft recommendations. It also compares these to the actual bills councils received for the 2016-17 elections and the indicative bills councils would receive under the NSWEC's proposal for the 2020 elections.

**Table B.1 Comparison of indicative bills with 2016-17 actual bills (\$'000)**

Council	2016-17 bill	NSWEC proposed	IPART recommended	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
				(\$'000)	%	(\$'000)	%
Albury City Council	236	298	388	152	64%	90	30%
Armidale Regional Council	169	230	269	100	59%	39	17%
Ballina Shire Council	227	289	371	144	63%	82	28%
Balranald Shire Council	19	27	33	13	67%	6	22%
Bathurst Regional Council	236	310	376	140	59%	66	21%
Bayside Council	636	782	1,019	383	60%	238	30%
Bega Valley Shire Council	212	272	332	120	57%	59	22%
Bellingen Shire Council	80	104	131	51	64%	27	26%
Berrigan Shire Council	55	77	88	33	60%	11	15%
Blacktown City Council	1,306	1,573	2,125	819	63%	551	35%
Bland Shire Council	44	62	72	29	66%	10	16%
Blayney Shire Council	45	61	76	31	68%	15	25%
Blue Mountains City Council	384	469	617	233	61%	148	32%
Bogan Shire Council	25	37	41	16	64%	5	12%
Bourke Shire Council	26	40	43	17	65%	3	8%
Brewarrina Shire Council	17	27	30	13	72%	3	10%
Broken Hill City Council	131	180	202	70	54%	22	12%

Council	2016-17 bill	NSWEC proposed	IPART recommended	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
				(\$'000)	%	(\$'000)	%
Burwood Council	157	201	249	92	59%	49	24%
Byron Shire Council	178	225	288	110	62%	63	28%
Cabonne Shire Council	93	129	151	58	62%	21	17%
Camden Council	329	403	539	209	64%	136	34%
Campbelltown City Council	605	724	1,003	398	66%	279	39%
Canada Bay City Council	435	540	671	237	54%	131	24%
Canterbury-Bankstown Council	1,447	1,777	2,316	868	60%	539	30%
Carrathool Shire Council <sup>a</sup>	4	3	18	13	318%	15	507%
Central Coast Council	1,599	2,149	2,617	1,018	64%	468	22%
Central Darling Shire Council							
Cessnock City Council	288	359	465	176	61%	106	29%
Clarence Valley Council	272	341	438	166	61%	97	28%
Cobar Shire Council	30	35	45	15	51%	10	30%
Coffs Harbour City Council	421	538	668	247	59%	130	24%
Coolamon Shire Council <sup>a</sup>	9	8	29	20	220%	20	254%
Coonamble Shire Council	27	38	46	18	67%	8	20%
Cootamundra-Gundagai Council	73	98	119	46	63%	21	21%
Cowra Shire Council	87	118	139	51	59%	20	17%
Cumberland Council	799	998	1,312	513	64%	313	31%
Dubbo City Council	291	379	462	170	59%	83	22%
Dungog Shire Council	59	86	98	39	65%	12	14%
Edward River Council	61	84	98	37	61%	15	18%

Council	2016-17 bill	NSWEC proposed	IPART recommended	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
				(\$'000)	%	(\$'000)	%
Eurobodalla Shire Council	245	309	387	142	58%	78	25%
Fairfield Council							
Federation Council	78	103	126	48	61%	22	22%
Forbes Shire Council	58	76	94	36	63%	17	23%
Georges River Council	620	784	998	378	61%	214	27%
Gilgandra Shire Council	32	45	52	21	65%	8	17%
Glen Innes Severn Council	55	73	90	35	64%	17	23%
Goulburn Mulwaree Council	161	206	256	95	59%	50	24%
Greater Hume Shire Council	58	77	97	39	66%	19	25%
Griffith City Council	146	193	229	82	56%	36	19%
Gunnedah Shire Council							
Gwydir Shire Council	38	52	62	25	66%	10	20%
Hawkesbury City Council	348	440	558	210	60%	118	27%
Hay Shire Council	24	34	39	15	64%	5	16%
Hilltops Council	143	199	219	76	53%	20	10%
Hornsby Shire Council	685	855	1,095	410	60%	240	28%
Hunters Hill Council	74	95	122	48	65%	27	28%
Inner West Council	899	1,123	1,411	512	57%	288	26%
Inverell Shire Council	96	127	153	57	59%	26	21%
Junee Shire Council	33	44	55	22	69%	11	26%
Kempsey Shire Council							
Kiama Municipal Council	171	228	255	84	49%	28	12%
Ku-ring-gai Council	558	694	880	322	58%	186	27%
Kyogle Council	54	71	89	35	66%	18	26%

Council	2016-17 bill	NSWEC proposed	IPART recommended	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
				(\$'000)	%	(\$'000)	%
Lachlan Shire Council	35	45	59	24	69%	14	31%
Lake Macquarie City Council							
Lane Cove Council	192	256	297	106	55%	42	16%
Leeton Shire Council	54	69	93	38	70%	23	34%
Lismore City Council	229	291	375	146	64%	85	29%
Lithgow City Council	106	143	182	76	72%	39	27%
Liverpool City Council	866	1,069	1,416	550	64%	347	32%
Liverpool Plains Shire Council	49	65	81	32	64%	16	24%
Lockhart Shire Council	18	24	34	16	86%	10	41%
Maitland City Council							
Mid-Coast Council	528	732	846	318	60%	114	16%
Mid-Western Regional Council	146	190	227	82	56%	37	19%
Moree Plains Shire Council	91	126	142	51	55%	16	13%
Mosman Municipal Council	171	219	268	96	56%	48	22%
Murray River Council	87	126	135	48	55%	9	7%
Murrumbidgee Shire Council	20	28	42	22	115%	14	49%
Muswellbrook Shire Council	86	108	137	51	59%	28	26%
Nambucca Shire Council	119	153	192	73	61%	39	25%
Narrabri Shire Council	82	109	129	48	58%	20	19%
Narrandera Shire Council	42	56	68	27	64%	12	22%
Narromine Shire Council	38	49	64	26	68%	15	30%
Newcastle City Council	755	1,032	1,261	506	67%	229	22%
North Sydney Council	371	472	578	207	56%	106	22%

Council	2016-17 bill	NSWEC proposed	IPART recommended	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
				(\$'000)	%	(\$'000)	%
Northern Beaches Council	1,122	1,361	1,808	686	61%	446	33%
Oberon Council	37	51	62	25	67%	11	21%
Orange City Council	238	318	381	143	60%	64	20%
Parkes Shire Council	95	127	150	55	57%	23	18%
Parramatta City Council	873	1,065	1,378	506	58%	313	29%
Penrith City Council							
Port Macquarie- Hastings Council	447	559	713	266	60%	153	27%
Port Stephens Council	402	562	649	247	61%	87	16%
Queanbeyan City Council	324	420	512	188	58%	92	22%
Randwick City Council	644	792	994	350	54%	202	25%
Richmond Valley Council	131	169	211	81	62%	43	25%
Ryde City Council	449	559	729	280	62%	170	30%
Shellharbour Council	362	455	578	216	60%	123	27%
Shoalhaven Council	516	639	843	328	64%	204	32%
Singleton Council	121	154	196	75	62%	42	27%
Snowy Monaro Regional Council	158	222	241	83	52%	19	8%
Snowy Valleys Council	75	95	126	51	67%	31	33%
Strathfield Municipal Council	175	221	271	95	54%	50	23%
Sutherland Shire Council	984	1,147	1,591	607	62%	444	39%
Sydney City Council	986	1,177	1,462	476	48%	285	24%
Tamworth Regional Council	317	404	502	185	58%	98	24%
Temora Shire Council	39	52	65	26	66%	13	24%

Council	2016-17 bill	NSWEC proposed	IPART recommended	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
				(\$'000)	%	(\$'000)	%
Tenterfield Shire Council	52	75	86	34	66%	11	14%
The Hills Shire Council	732	908	1,182	450	61%	274	30%
Tweed Shire Council	514	653	806	292	57%	153	23%
Upper Hunter Shire Council	86	115	139	53	61%	24	21%
Upper Lachlan Shire Council	53	72	87	34	65%	15	21%
Uralla Shire Council	38	51	65	27	71%	14	28%
Wagga Wagga City Council	319	399	502	183	57%	103	26%
Walcha Council	18	23	33	15	85%	10	43%
Walgett Shire Council	36	50	60	24	66%	11	21%
Warren Shire Council	14	19	28	14	96%	9	49%
Warrumbungle Shire Council	72	101	113	41	58%	12	12%
Waverley Council	309	390	487	179	58%	98	25%
Weddin Shire Council	27	38	47	20	72%	9	23%
Wentworth Shire Council	43	60	69	26	61%	10	16%
Willoughby City Council	349	448	550	201	58%	102	23%
Wingecarribee Shire Council	263	334	417	154	59%	83	25%
Wollondilly Shire Council	249	324	406	157	63%	82	25%
Wollongong City Council	966	1,198	1,584	617	64%	385	32%
Woollahra Municipal Council	337	433	508	171	51%	75	17%
Yass Valley Council	95	125	151	56	59%	26	20%

<sup>a</sup> Coolamon and Carrathool council elections in 2016-17 were uncontested. As such, the 2016-17 bills do not reflect the costs of undertaking full elections.

**Note:** Excludes councils that did not engage NSWEC as the election service provider in 2016-17, namely: Fairfield, Gunnedah, Kempsey, Lake Macquarie, Maitland and Penrith councils, and Central Darling Shire Council which did not hold an election in 2016-17.

**Source:** 2016 NSWEC Local Government Elections Supplementary Report; 2016 NSWEC Local Government Elections Supplementary Report; IPART calculations.





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## C EY review of efficient expenditure

**Review of efficient costs of  
the NSW Electoral  
Commission's conduct of  
local government elections**

**June 2019**

Sarah Blackwell  
Director - Local Government  
Independent Pricing and Regulatory Tribunal  
Level 15, 2-24 Rawson Place, Sydney NSW 2000

21 June 2019

## **Review of efficient costs of the NSW Electoral Commission's conduct of local government elections**

Dear Ms Blackwell

We are pleased to submit this Report on an expenditure review to assess the total efficient costs of the NSW Electoral Commission (NSWEC) in providing local government election services. This Report is provided pursuant to our proposal dated 5 April 2019 and Agreement dated 2 May 2019.

### **Restrictions on Report Use**

The Report may only be relied upon by the Independent Pricing and Regulatory Tribunal (IPART) pursuant to the terms and conditions referred to in the Agreement. Any commercial decisions taken by IPART are not within the scope of our duty of care and in making such decisions IPART should take into account the limitations of the scope of our work and other factors, commercial or otherwise, of which you should be aware of from sources other than our work.

EY disclaims all liability to any party other than IPART for all costs, loss, damage and liability that the third party may suffer or incur arising from or relating to or in any way connected with the provision of the deliverables to the third party without our prior written consent. If others choose to rely in any way on the Report they do so entirely at their own risk.

Liability is limited by a scheme approved under professional standards legislation.

### **Basis of Our Work**

We have not independently verified, or accept any responsibility or liability for independently verifying, any information provided to us by IPART, the NSWEC, or information obtained in the public domain for the purpose of this project, nor do we make any representation as to the accuracy or completeness of the information.

If you would like to discuss any aspects of this letter or the Report in further detail, please do not hesitate to contact me on 0411 510 199.

Yours sincerely



Craig Mickle  
Partner, Economics, Regulation and Policy

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# 1. Summary of findings

EY was asked to review the efficiency of the NSWEC's proposed operating and capital expenditure for the 2020 local government elections (LGEs). EY's review:

- ▶ Considered the NSWEC's top-down estimates of the LGE 2020 operating costs, as its bottom-up budget costs were not complete at the time
- ▶ Focused on the operating cost components of NSWEC's top-down estimates for LGE 2020 that drove the majority of the projected increase in costs or are material items of the operating cost base. These were election staffing, venue costs, logistics, call centre costs, IT infrastructure and business-related costs and project management costs
- ▶ Inferred potential implications for the efficiency of the NSWEC's other operating cost components that were not considered as part of this review
- ▶ Is a partial analysis of efficiency and the limited nature and timeframes over which it was conducted should be considered when viewing our analysis and findings.

## *Operating expenditure*

The NSWEC proposed operating costs of \$56.5m for LGE 2020, represents an increase in nominal terms of 37% or \$15.2m compared to LGE 2016-17 (i.e. operating costs of \$41.4m, after removing duplicate costs). The NSWEC's proposed operating costs are driven primarily by the following increases relative to LGE 2016-17:

- ▶ Additional step change costs of \$8.2m
- ▶ CPI escalation of \$4.6m
- ▶ Escalation for electoral roll growth of \$2.3m.

Based on the evidence provided and information reviewed:

- ▶ In relation to the majority of the cost items (e.g. election staffing, logistics, call centre costs, counting hubs, IT business systems):
  - ▶ The rationale for the proposed cost increases has not been adequately justified by the NSWEC
  - ▶ The efficiency of proposed cost increases was not demonstrated by the NSWEC
  - ▶ The efficiency of the proposed cost increases could be confirmed by EY
  - ▶ In the absence of further information, it was not unreasonable to conclude that the efficient level of operating costs was lower than the NSWEC's proposed levels
- ▶ There was no evidence to suggest that the NSWEC's operating costs for polling venues and project management were unreasonable
- ▶ It would be reasonable to expect some efficiency improvements in those costs over time (e.g. similar to the NSW Government's annual efficiency dividend for all government agencies in the 2018-19 budget).<sup>1</sup> On this basis, we have assumed the efficient operating costs for LGE 2020 incorporate a reduction in operating expenditure by 0.5% per annum between LGE 2016-17 and LGE 2020 for all cost items that have not been considered as part of this review (i.e. where we have not formed a view on the cost base)
- ▶ We also recommend some minor adjustments to the escalation applied to the NSWEC's costs.

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<sup>1</sup> NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

Our proposed efficient costs are shown in Table 1, which results in total operating costs in LGE 2020 of \$47.8m, which:

- ▶ Is a reduction of 16% compared to the NSWEC's top-down estimates (\$56.5m)
- ▶ Represents 15% growth compared to the NSWEC's actual costs for LGE 2016-17 (i.e. after removal of duplicate costs, \$41.4m).

### ***Capital expenditure***

We have not been able to review the efficiency of the NSWEC's proposed capital expenditure:

- ▶ The NSW Budget for 2019-20 approved \$5.6m in funding for Local Government regulation changes in accordance with standard practice for capital investments, consistent with the NSW Treasury's Business Case process and the Business Case Guidelines<sup>2</sup>
- ▶ The purpose of the Treasury Guidelines is to ensure that NSW Treasury has sufficient information to make an assessment and determine whether the business case proposal represents a worthwhile use of government funds (i.e. that the economic benefits outweighs the economic costs). It also allows NSW Treasury to consider how the expenditure should be procured and funded, which relate to questions of efficiency. However, the level of detail in a business case can vary considerably as often they are undertaken relatively early in the investment decision making process
- ▶ As a result, the NSW Government providing funding in the 2019-20 Budget does not necessarily always ensure that the proposed expenditure is efficient as this is not the primary purpose of the business case
- ▶ If the NSWEC is unable to demonstrate that the proposed capital expenditure was determined with regard to the concepts of prudence and efficiency, it would not be unreasonable to expect a commercial approach to reduce capital expenditure in the order of 5-10%.

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<sup>2</sup> NSW Treasury, NSW Government Business Case Guidelines, p i.



**Table 1: Proposed efficient operating costs for NSWEC's administering of LGE 2020 (based on partial review of top-down operating costs)**

	LGE 2016-17			Estimated efficient costs LGE 2020					Change from LGE 2016-17 to LGE 2020	
Cost components	TOTAL costs	Duplicate costs	Base costs	Additional costs	CPI & wages	Roll growth	Efficiency adjustment	Estimated cost	\$ change	% change
1 - Enrolment	1,054,018	-240,000	814,018	0	77,985	43,789	-18,576	917,216	103,198	12.7%
2 - Council Liaison	1,168,825	-255,252	913,573	92,500	87,523	0	-17,362	1,076,233	162,661	17.8%
3 - Data Management	78,531	0	78,531	185,000	7,524	0	-333	270,722	192,191	244.7%
4 - Election Staffing*	14,438,806	-53,000	14,385,806	**	**	**	**	18,749,481	4,363,676	30.3%
5 - Financial Services	992,638	-100,000	892,638	0	85,517	24,178	-19,897	982,436	89,799	10.1%
6 - Venue Procurement	3,038,288	0	3,038,288	500,000	210,493	89,555	-44,467	3,793,869	755,581	24.9%
7 - Voting	2,596	-2,596	0	0	0	0	0	0	0	0%
8 - Counting and Results	1,503,664	0	1,503,664	0	144,055	86,779	-34,431	1,700,068	196,404	13.1%
9 - Election Procedures Documentation	813,108	0	813,108	0	77,898	0	-17,687	873,319	60,211	7.4%
10 - Logistics	████	████	████	████	████	████	████	2,317,242	████	████
11 - Media, Communication & Advertising	3,327,841	-1,200,000	2,127,841	0	203,853	0	-46,285	2,285,409	157,568	7.4%
12 - IT Infrastructure	1,134,882	-410,000	724,882	0	69,446	0	-15,768	778,560	53,678	7.4%
13 - Call Centres	████	████	████	████	████	████	████	672,414	████	████
14 - Ballot Paper Production, Allocation & Distribution	1,326,504	0	1,326,504	0	127,083	107,463	-30,988	1,530,062	203,559	15.3%
15 - Nominations & How-to-Vote	574,306	-185,000	389,306	0	37,297	0	-8,468	418,134	28,828	7.4%
16 - Events Operations Management	586,614	-300,000	286,614	0	27,458	0	-6,235	307,838	21,224	7.4%

17 - IT Business Systems	3,273,720	-1,400,000	1,873,720	-140,529	179,508	0	0	1,912,698	38,979	2.1%
18 - HO & RW Infrastructure	741,016	-290,000	451,016	0	43,209	0	-6,591	487,633	36,617	8.1%
19 - Town Hall	345,498	-100,000	245,498	0	23,519	0	-5,340	263,677	18,179	7.4%
20 - Overtime	1,165,009	-300,000	865,009	0	82,870	0	-18,816	929,064	64,054	7.4%
23 - Registration of candidates - Local Government Elections	58,127	0	58,127	50,000	5,569	0	-2,257	111,439	53,312	91.7%
26 - Postal Voting	786,558	0	786,558	250,000	147	64,711	-21,864	1,079,552	292,994	37.3%
99 -Local Government Election Programme	2,916,797	-812,110	2,104,687	0	201,635	0	-45,782	2,260,541	155,853	7.4%
Sydney Town Hall (District 254)	196,239	0	196,239	0	18,800	0	-4,269	210,771	14,532	7.4%
Election Management Fee - \$0.70 per elector	3,297,158	0	3,297,158	0	315,877	271,792	-77,116	3,807,711	510,553	15.5%
<b>Total</b>	<b>47,828,567</b>	<b>-6,477,958</b>	<b>41,350,609</b>	<b>-452,063</b>	<b>2,480,736</b>	<b>1,072,529</b>	<b>-470,390</b>	<b>47,736,090</b>	<b>6,385,481</b>	<b>15.4%</b>

Source: EY analysis based on data provided by the NSWEC. \*\* Note that costs for some categories of election staffing costs (PP staffing, OA staffing and RO staffing) have been estimated directly and have not been determined using the same approach of aggregating additional costs, CPI escalation and roll growth escalation.

## 2. Introduction

### 2.1 Background

The Premier has instructed the Independent Pricing and Regulatory Tribunal (IPART), under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, to recommend a costing methodology to be applied in determining the amount that the NSW Electoral Commission (NSWEC) charges local councils which use it to administer their ordinary elections.

IPART has been asked to:

- ▶ Review the NSWEC's existing methodology for determining the amount to be charged to councils which use the NSWEC to conduct their local government elections (LGEs)
- ▶ Consider whether it is appropriate for the amount charged to be limited to the direct and unavoidable costs of conducting a council's election
- ▶ Have regard to the market for electoral services in which the NSWEC operates
- ▶ Have regard to any differences in the costs involved in conducting elections in metropolitan and regional areas
- ▶ Have regard to any other matters it considers relevant.

A key aspect of IPART's review will be understanding the extent to which the NSWEC's current and proposed expenditure in providing electoral services for LGEs are efficient. As a result, in April 2019, EY was engaged to assist IPART with its review and undertake an expenditure review to assess the total efficient costs of the NSWEC providing electoral services for LGEs.

### 2.2 NSWEC costing methodology for LGEs

Since 2008, the NSWEC has adopted a bottom-up budget methodology to forecasting the operating costs of conducting LGEs. This methodology estimates cost budgets for each project within the election programme based on the timelines (i.e. start and finish dates), resourcing schedules and unit costs and prices.

The NSWEC intends to use the bottom-up budget methodology to estimate costs for the 2020 local government elections (LGE 2020). However, these were not complete at the time of EY's review. The NSWEC did however provide a 'top down' estimate of its forecast costs for undertaking the LGE 2020.

EY has therefore undertaken its assessment based on the NSWEC's top-down cost estimates of LGE 2020.

EY understands that the NSWEC determined its top down estimate by:

- ▶ Using the actual costs of LGE 2016-17 as a starting point
- ▶ Removing duplicated costs which were incurred due to LGE 2016-17 being held in two tranches<sup>3</sup>
- ▶ Including the increased cost of additional factors over and above growth in CPI and wages and the electoral roll (i.e. equivalent to a 'step change') such as the costs associated with the introduction of a new staffing model and increased venue hire costs
- ▶ Escalating costs for CPI and wage growth to 2020

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<sup>3</sup> The NSW Government decided to hold LGE 2016-17 in two tranches in September 2016 and September 2017 due to the ongoing NSW council amalgamations.

- ▶ Adjusting some items to reflect increased costs due to growth in the electoral roll (i.e. number of electors) to 2020.

The NSWEC developed the top-down estimates to support its funding request for NSW Treasury and intends to update these cost forecasts using its existing bottom-up budget methodology to develop the costs that will be quoted to local councils for LGE 2020.

## 2.3 EY's scope

EY was asked to review the efficiency of the NSWEC's proposed operating and capital expenditure for the 2020 local government elections (LGEs) and advise on what the efficient level of costs is likely to be based on:

- ▶ The NSWEC's top-down estimates of the LGE 2020 operating costs
- ▶ A review focusing on the following 6 operating cost components of NSWEC's top-down estimates for LGE 2020 that were identified as a priority because they drive the majority of the projected increase in costs for LGE 2020 and / or they are material items of the operating cost base:
  - ▶ Election staffing
  - ▶ Venue costs
  - ▶ Logistics
  - ▶ Call centres
  - ▶ IT infrastructure and business-related costs
  - ▶ Project management costs
- ▶ An assessment of the rationale for the step change increases in operating costs between LGE 2016-17 and LGE 2020 (i.e. costs over and above escalation for growth in CPI and wages and the electoral roll), having regard to:
  - ▶ What is causing the projected costs to increase?
  - ▶ Why have the projected costs increased by the estimated magnitude?
- ▶ An assessment of the adjustments applied to operating costs to escalate for growth in CPI and wages and the growth in the electoral roll between LGE 2016-17 and LGE 2020
- ▶ A review of the NSWEC's fixed asset register and future capital expenditure program.

EY's review did not directly cover the other operating cost components of NSWEC's top-down estimates for LGE 2020. However, where appropriate, based on the lessons learned and insights from the review of the operating cost components identified above, EY inferred potential implications for the efficiency of other projects.

All changes in costs have been presented in nominal terms (i.e. inclusive of changes in CPI).

## 2.4 EY's approach

To deliver this scope of work, EY:

- ▶ Reviewed the NSWEC's submission made to IPART's review
- ▶ Reviewed the NSWEC's actual detailed costing information for the 2008, 2012 and 2016-17 local elections
- ▶ Reviewed the NSWEC's top-down estimate for the 2020 local election

- ▶ Met with members from the NSWEC's finance and operational teams, sought information and made further enquiries to understand how the NSWEC plans and estimates the costs of conducting local elections
- ▶ Reviewed internal strategy and planning documents, other costing information and other additional information provided that the NSWEC provided to IPART and EY as part of this review
- ▶ Assessed the information provided to form a view on the efficiency of the NSWEC's estimated costs of administering the 2020 local government election
- ▶ Summarised our findings in this report
- ▶ Provided version of the draft report to the NSWEC for its review.

A full list of information reviewed and stakeholders from the NSWEC that EY met with is contained in Appendix A.

EY's analysis is partial in the sense that it:

- ▶ Only covers a proportion of the total costs of providing election services and has relied on limited information (i.e. the NSWEC's top-down estimates)
- ▶ Does not examine the allocation of costs between providing election services for state elections as opposed to LGEs
- ▶ Does not examine the overhead costs of providing election services more generally
- ▶ Does not examine how those costs are recovered either from the NSW Government or from local councils
- ▶ Relies on some benchmarks (e.g. equivalent bodies in other states) and information (e.g. labour rates consistent with government employment) that implicitly assume ongoing internal service provision, as opposed to the outsourcing of certain services. The use of the term 'efficient' should be viewed in this context.
- ▶ Does not consider the effectiveness of any constraints that the potential for third party provision of the services may be having on cost estimates
- ▶ Was undertaken over a short period of time at short notice compared to other reviews of efficiency. This significantly limited the extent of information that could be provided to EY, compared to what would be the case if the work was undertaken over a longer time period.

The limited nature of the analysis and the timeframes over which it could be conducted should be considered when viewing our analysis and findings.

## 2.5 Principles of efficiency

EY's assessment of the NSWEC's efficient level of costs is broadly based on the regulatory concepts of prudence and efficiency, taken from IPART's assessment of an agency's expenditure within the price determination process.

Prudence is about demonstrating that the activity or the proposed activity (and thus the associated expenditure) was or is necessary to deliver the required outputs and outcomes. Efficiency is about demonstrating that the activity (and thus the associated expenditure) was undertaken in the most cost-effective way. In other words, it ensures that the optimal quantity of resources is used to undertake the activity and to deliver the necessary outputs, and that those resources are procured at the optimal cost.

EY's assessment is based on the information and analysis provided and focuses on whether:

- ▶ The need for the underlying activity has been justified in the circumstances existing at the time and therefore whether resources need to be utilised or consumed
- ▶ It has been demonstrated that the proposed expenditure represents the best and most cost-effective way of undertaking the underlying activity based on the amount of resources utilised and the unit price paid.

While the NSWEC has a Service Commitment Charter, the NSWEC does not have explicit and measurable levels of service standards or performance indicators in relation to the conduct of LGEs (refer to Section 3.3). This creates some challenges in assessing both the prudence and efficiency of expenditure.

Future assessments of cost efficiency would be improved with better defined, measurable service standards or performance indicators for the conduct of LGEs. In other words, assessing efficiency is more complex in the absence of objective service standards and required service levels.

## **2.6 Structure of this report**

The remainder of this report is structured as follows:

- ▶ Section 3 provides an overview of the NSW Electoral Commission
- ▶ Section 4 summarises our review of the NSWEC's projected costs for LGE 2020.
- ▶ Supporting analysis and information provided by the NSWEC as part of this review are detailed in the Appendices to this report.

## **2.7 Acknowledgments**

We would like to acknowledge the support and assistance provided by the NSW Electoral Commission in meeting with EY, responding to queries and providing information and access to its staff members. We appreciate the cooperation of the NSWEC in allowing us to undertake our review.

### 3. NSW Electoral Commission

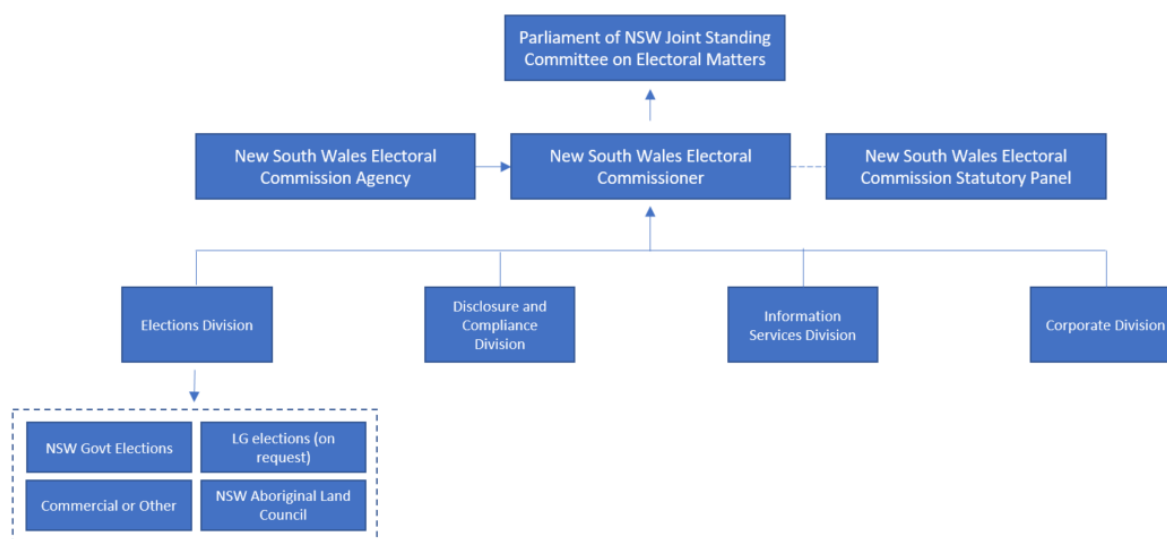
#### 3.1 Overview of the NSW Electoral Commission

The New South Wales Electoral Commission (NSWEC) is an independent statutory corporation established under the *Electoral Act 2017* (NSW) that is legislated to administer and report on ordinary elections and by-elections for the NSW State Government (SGEs). The NSWEC also conducts local government elections (LGEs) and provides electoral services for a range of government, public and commercial organisations on request.

The NSWEC does not have a role in Federal elections, which are the responsibility of the Australian Electoral Commission.

Figure 1 shows the structure of the NSWEC and how the Elections division or service delivery branch fits within the broader organisation.

**Figure 1: NSWEC organisational structure**



Source: NSWEC

The NSWEC is comprised of:

- ▶ The Electoral Commission:<sup>4</sup> a three-member statutory body consisting of a former judge, the Electoral Commissioner and a person appointed by the Government with financial and audit expertise as well as skills that are suited to the functions of the Commission.<sup>5</sup> The Electoral Commission assists the Electoral Commissioner in the conduct of elections, initiates enforcement proceedings, ensures compliance with legislation, conducts and promotes research, and promotes public awareness of electoral matters<sup>6</sup>
- ▶ The Electoral Commissioner:<sup>7</sup> a member of the Electoral Commission who has the separate function of the general administration and conduct of elections<sup>8</sup>

<sup>4</sup> *Electoral Act 2017* (NSW) s 8(2)

<sup>5</sup> *Ibid* s 9.

<sup>6</sup> *Ibid* s 10.

<sup>7</sup> *Ibid* s 11.

<sup>8</sup> *Ibid* s 12.



- ▶ NSW Electoral Commission staff: appointed by The Electoral Commissioner to form the agency that supports the Commissioner and Electoral Commission in the exercise of their functions.<sup>9</sup>

The NSWEC is an independent body, which means that:

- ▶ The Electoral Commission and the Electoral Commissioner are not subject to Ministerial control or direction with respect to their functions<sup>10</sup>
- ▶ However, the Electoral Commissioner is accountable to the NSW Parliament through the Joint Standing Committee on Electoral Matters,<sup>11</sup> which enquires into electoral matters on resolution of the NSW Parliament<sup>12</sup>
- ▶ The Electoral Commission can also be called upon to appear before the NSW Parliament's Budget Estimates Committee.<sup>13</sup>

## 3.2 Conduct of local government elections

### 3.2.1 LGE services provided by the NSWEC

The NSWEC is authorised, but not required, to conduct LGEs.<sup>14</sup> Under Section 296 of the *Local Government Act 1993*, the general manager of the council is responsible for conducting LGEs and may choose to administer the elections internally or to engage an electoral services provider such as the NSWEC or a commercial provider.

The NSWEC administers elections for the overwhelming majority of councils, with the NSWEC conducting elections for over 95% of councils in LGE 2016-17.

For those councils that choose to engage the NSWEC to run their elections, the NSWEC provides a range of election services including:

- ▶ Arranging polling places, ballot papers and equipment
- ▶ Recruiting and training election officials
- ▶ Managing the vote count and publishing election results.

There are also some activities that the NSWEC provides to councils regardless of whether it administers the election (e.g. enforcement of electoral offences under the *Local Government Act 1993* (NSW)).

### 3.2.2 Cost recovery for LGE services

The NSWEC conducts local government elections on a full cost recovery basis. Costs are recovered by the Commission from two sources:

- ▶ **Councils**, through charges that are either:
  - ▶ Directly allocated to an individual council, where it can attribute specific activities to that council

<sup>9</sup> Ibid s 15.

<sup>10</sup> Ibid ss 12(4); 10(4).

<sup>11</sup> NSWEC submission to IPART page 22.

<sup>12</sup> Parliament of New South Wales, Joint Standing Committee on Electoral Matters URL: <https://www.parliament.nsw.gov.au/committees/listofcommittees/Pages/committee-details.aspx?pk=181#tab-resolutionestablishingthecommittee>

<sup>13</sup> NSWEC submission to IPART page 22.

<sup>14</sup> Under Section 296 of the *Local Government Act 1993*, the general manager of the council is responsible for conducting LGEs and may choose to administer the elections personally or to engage with an electoral services provider such as the NSWEC or a commercial provider.

- ▶ Charged via an Election Management Fee which recovers the costs of corporate overheads that are incurred when administering an LGE. The Election Management Fee:
  - ▶ Recovers overheads incurred in the elections, electoral funding disclosure and roll management units,<sup>15</sup> including items such as 'salaries, training, telephone, printing, postage, rent, electricity, IT system costs such as licencing, hosting and software maintenance and insurance and audit costs'<sup>16</sup>
  - ▶ Is allocated to councils on a per elector basis (i.e. the amount a council pays depends on the number of electors in its area)
  - ▶ Amounted to \$0.70 per elector in LGE 2016-17, which recovers \$3.3m of the NSWEC's overheads that were attributable to LGEs
- ▶ **The NSW Government:** by direct appropriation.

### 3.3 Electoral services provided in local government elections

#### 3.3.1 Overview

Local Councils have the option of entering into an 'election arrangement' with the NSWEC.<sup>17</sup> An arrangement must be finalised no later than 15 months before the date of the upcoming LGE.<sup>18</sup> The NSWEC is to administer the LGE in accordance with the arrangement.<sup>19</sup>

Under section 296B of the *Local Government Act 1993* (NSW), the NSW Electoral Commissioner is required to provide several services for those LGEs that he or she administers. The Electoral Commissioner has the power of delegation for any of their functions with respect to LGEs.<sup>20</sup> Specifically:

- ▶ The Electoral Commissioner must appoint a returning officer and substitute returning officer for each area to conduct the election on the Commissioner's behalf
- ▶ The Electoral Commissioner must:
  - ▶ Appoint polling places
  - ▶ Determine the fees payable to election staff
  - ▶ Determine any matter that is not provided by the *Local Government Act 1993* (Cth) or the *Local Government (General) Regulations 2005*.

#### 3.3.2 Service levels

In relation to service levels:

- ▶ **Service Commitments Charter** - the Service Commitments Charter is the NSWEC's 'primary accountability instrument'<sup>21</sup> and outlines the standards that the NSWEC undertakes to provide in relation to the conduct of LGEs.<sup>22</sup> The NSWEC's objectives for the conduct of LGEs are to:
  - ▶ Protect the institution of Local Government by conducting fair and impartial elections
  - ▶ Conduct elections in accordance with the law
  - ▶ Ensure community confidence in the election of local representations to councils

<sup>15</sup> PwC, 'NSW Electoral Commission: Calculation of NSW Electoral Commission service charge to local government', p 7-8.

<sup>16</sup> Email correspondence from the NSWEC, 28 May 2019.

<sup>17</sup> *Local Government Act 1993* (NSW) s 296(2).

<sup>18</sup> *Ibid* s 296(3)(b).

<sup>19</sup> *Ibid* s 296(2).

<sup>20</sup> *Ibid* s 297.

<sup>21</sup> Electoral Commission NSW, *Local Government elections 2016-17 Service Commitments Charter*, page 3.

<sup>22</sup> *Ibid*.

- ▶ Work with councils to maximise the participation of the local community in the elections.

Specifically, the NSWEC undertakes via the Charter to provide:

- ▶ Consultation with councils on election services and timely provision of cost estimates
- ▶ Client Liaison Officers assigned to be the council's single point of contact in the NSWEC on election services the NSWEC will provide
- ▶ Returning Officer recruited on expertise and capacity to deliver successful elections
- ▶ Well publicised information on election services for electors, candidates, groups of candidates and registered political parties
- ▶ Accurate vote counting
- ▶ Timely publication of election night and final election results
- ▶ Public accountability by reporting to the NSW Parliament and councils on the conduct of elections
- ▶ **Strategic Plan** - The NSWEC's Strategic Plan 2017-20 defines its strategic agenda and roadmap for a 3-year period and contains the following key performance indicators it seeks to achieve:
  - ▶ Increased voter turnout
  - ▶ Increased stakeholder satisfaction
  - ▶ Increase in valid registrations, nominations and disclosures
  - ▶ Reduction in cost per elector
  - ▶ Improved timeliness of count
  - ▶ Operating within budget allocation
  - ▶ Improved employee engagement
  - ▶ Increased portfolio and project maturity
  - ▶ Improved risk maturity
- ▶ **Consistency of service** - the NSWEC commits to deliver the same service standard for each council that enters into an arrangement to conduct its LGE, and a consistent service standard for SGEs and LGEs
- ▶ **Self-assessment** - the NSWEC assesses its performance against its own service standards in several ways:
  - ▶ After an LGE has been held, the NSWEC contracts an external provider to conduct candidate and elector surveys to understand their experience with respect to the services provided
  - ▶ The Electoral Commissioner is required to provide the relevant Minister with a written report on the conduct of LGEs no later than 6 months after they are held.<sup>23</sup> The Report must include any recommendations regarding changes to the Act or Regulations relating to the conduct of elections.<sup>24</sup> The NSWEC's local government election reports for LGE 2016-17 did not appear to reference any emerging issues in relation to polling place staff nor recommend any changes
  - ▶ The Commission reflects on the conduct of LGEs in its Annual Report. For example, the 2017-18 Annual Report established a rationale to respond to emerging workplace health and safety issues. In June 2018, the NSWEC engaged Safety Australia Group to assess the

<sup>23</sup> *Local Government (General) Regulation 2005* clause 393AA.

<sup>24</sup> *Ibid* clause 393AA€

level of legislative compliance with workplace health and safety laws. In response, the NSWEC incorporated the review's recommendations to focus on mental health and wellbeing, workplace stress, managing fatigue, workplace culture and manual handling and ergonomics<sup>25</sup>

- ▶ The Commission is also required to report to the Joint Standing Committee on Electoral Matters, as required by the NSW Parliament.<sup>26</sup>

While this demonstrates there is some focus on service quality, there does not appear to be any explicit:

- ▶ Measurable service standards or key performance indicators applied to the conduct of LGEs that are binding (e.g. contained in any legislative, regulatory or policy instrument). The NSWEC's Strategic Plan 2017-20 contains nine KPIs, however historical performance does not appear to be reported against the KPIs in a document such as an Annual Report
- ▶ Requirement for the NSWEC to conduct LGEs in an efficient manner.<sup>27</sup>

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<sup>25</sup> New South Wales Electoral Commission Annual Report 2016-17, p 36.

<sup>26</sup> Parliament of New South Wales, 'Joint Standing Committee on Electoral Matters' <https://www.parliament.nsw.gov.au/committees/listofcommittees/Pages/committee-details.aspx?pk=181#tab-resolutionestablishingthecommittee>.

<sup>27</sup> There is some focus on efficiency in some aspects of the NSWEC, however these relate to specific projects and are not overarching, they are established internally and do not appear to be binding. For example, the Programme Management Office (PMO) Operating Model seeks to establish 'clear and pragmatic portfolio and project delivery processes that balances risk with effective and efficient achievement of business outcomes.'

### 3.4 NSWEC's projected operating costs for LGE 2020

The NSWEC's top-down estimates were developed to support its funding request to NSW Treasury in February 2019. The NSWEC intends to update these top-down estimates using its preferred bottom-up costing methodology prior to issuing cost estimates to councils for LGE 2020. Based on the NSWEC's top-down estimates, the change in operating costs between LGE 2016-17 and LGE 2020 are summarised below (key line items highlighted).

**Table 2: NSWEC's top-down estimate of operating costs for LGE 2020**

Cost components	LGE 2016-17			LGE 2020 top-down estimate				Change from LGE 2016-17 to LGE 2020	
	TOTAL costs	Duplicate costs	Base costs	Additional costs	CPI & wages	Roll growth	Estimated cost	\$ change	% change
1 - Enrolment	1,054,018	-240,000	814,018	0	81,402	46,747	942,166	+128,149	+15.7%
2 - Council Liaison	1,168,825	-255,252	913,573	100,000	101,357	0	1,114,930	+201,357	+22.0%
3 - Data Management	78,531	0	78,531	200,000	27,853	0	306,384	+227,853	+290.1%
4 - Election Staffing	14,438,806	-53,000	14,385,806	5,660,000	2,004,581	1,346,708	23,397,094	+9,011,288	+62.6%
5 - Financial Services	992,638	-100,000	892,638	0	89,264	25,811	1,007,713	+115,075	+12.9%
6 - Venue Procurement	3,038,288	0	3,038,288	750,000	378,829	139,604	4,306,720	+1,268,432	+41.8%
7 - Voting	2,596	-2,596	0	0	0	0	0	0	0%
8 - Counting and Results	1,503,664	0	1,503,664	0	150,366	92,641	1,746,671	+243,007	+16.2%
9 - Election Procedures Documentation	813,108	0	813,108	0	81,311	0	894,419	+81,311	+10%
10 - Logistics	████	████	████	████	████	████	████	████	████
11 - Media, Communication & Advertising	3,327,841	-1,200,000	2,127,841	0	212,784	0	2,340,625	+212,784	+10%
12 - IT Infrastructure	1,134,882	-410,000	724,882	0	72,488	0	797,370	+72,488	+10%
13 - Call Centres	████	████	████	████	████	████	████	████	████

14 - Ballot Paper Production, Allocation & Distribution	1,326,504	0	1,326,504	0	132,650	114,722	1,573,876	+247,372	+18.7%
15 - Nominations & How-to-Vote	574,306	-185,000	389,306	0	38,931	0	428,236	+38,931	+10%
16 - Events Operations Management	586,614	-300,000	286,614	0	28,661	0	315,276	+28,661	+10%
17 - IT Business Systems	3,273,720	-1,400,000	1,873,720	0	187,372	0	2,061,092	+187,372	+10%
18 - HO & RW Infrastructure	741,016	-290,000	451,016	215,000	66,602	0	732,618	+281,602	+62.4%
19 - Town Hall	345,498	-100,000	245,498	0	24,550	0	270,047	+24,550	+10%
20 - Overtime	1,165,009	-300,000	865,009	0	86,501	69,201	1,020,711	+155,702	+18%
23 - Registration of candidates - Local Government Elections	58,127	0	58,127	50,000	10,813	0	118,939	+60,813	+104.6%
26 - Postal Voting	786,558	0	786,558	250,000	103,656	82,802	1,223,015	+436,458	+55.5%
99 -Local Government Election Programme	2,916,797	-812,110	2,104,687	0	210,469	0	2,315,156	+210,469	+10%
Sydney Town Hall (District 254)	196,239	0	196,239	0	19,624	0	215,863	+19,624	+10%
Election Management Fee - \$0.70 per elector	3,297,158	0	3,297,158	0	0	263,773	3,560,931	+263,773	+8%
<b>Total</b>	<b>47,828,567</b>	<b>- 6,477,958</b>	<b>41,350,609</b>	<b>8,225,000</b>	<b>4,627,845</b>	<b>2,333,247</b>	<b>56,536,701</b>	<b>15,186,092</b>	<b>+36.7%</b>

Source: NSWEC

### 3.5 NSWEC's projected capital expenditure for LGE 2020

The NSWEC's projected capital expenditure for LGE 2020, including expenditure incurred in 2018-19, is shown in Table 2.

**Table 3: NSWEC's top-down projected capital costs for LGE 2020**

	2018-19	2019-20	Notes
<b>Cost components</b>	<b>TOTAL costs</b>	<b>Additional costs</b>	
1 - Local Government regulation changes	0	5,661,000	Funding has been allocated in the 2019-20 NSW State Budget <sup>28</sup>
2 - iVote Enhancement for SGE 2019	2,784,000	0	
3 - SGE - IT Equipment Refresh	953,000	0	
4 - Online Nominations	1,967,000	0	
5 - FDC Lite	1,542,000	0	
<b>Total</b>	<b>7,246,000</b>	<b>5,661,000</b>	

Source: NSWEC

<sup>28</sup> NSW Government, Budget Paper No. 2, p 5 - 34 <[https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget\\_Paper\\_2-Infrastructure%20Statement-Budget\\_201920.pdf](https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget_Paper_2-Infrastructure%20Statement-Budget_201920.pdf)>.

### 3.6 Cost items not included in NSWEC's top down estimates for LGE 2020

The NSWEC have indicated several expenditure items that have not been included in the LGE 2020 top-down budget estimates. These items are outlined in Table 3. Some of the estimates are solely based on the expenditure incurred in SGE 2019. Therefore, the amounts provided in Table 3 are not necessarily comprehensive.

**Table 4: Expenditure items not included in the NSWEC's top-down budget estimates for LGE 2020**

	LGE 2020		Notes
Cost components	Type	TOTAL costs	
1 - IT rent	Operating expenditure		The cost of capital equipment for LGEs has not been recovered from Local Councils in previous elections. The Commission intends to recover the costs of renting capital equipment in LGE2020.

Source: NSWEC



## 4. Review of NSWEC's projected costs for LGE 2020

### 4.1 Approach

The NSWEC developed its top-down estimates of operating costs for LGE 2020 using an approach equivalent to a broad 'base-step-trend' approach, which is generally comprised of three components:

- ▶ Actual costs for the most recent year or period are used as a starting point and then adjusted for any non-recurrent or anomalous costs to estimate the 'base costs'
- ▶ 'Step change' increases in relevant cost categories are then added
- ▶ Escalations or increases for 'trends' are then applied to estimate a forecast for future expenditure.

It is worth noting that LGE 2020 top-down budget estimates have been derived solely from escalations and step-change increases applied to 2016-17 base costs. There does not appear to be any identification of potential productivity improvements or efficiency initiatives that would result in any reductions in 2016-17 base costs. Further, there does not appear to be any offsetting cost reductions that the NSWEC has achieved or expects to achieve due to undertaking other activities, such as logistics, that it might be reasonable to expect would improve efficiency.

### 4.2 Key findings

#### 4.2.1 Service levels

Section 3.3.2 discusses some of the challenges in assessing efficiency in the absence of a reasonably objective definition of the service levels that are expected to be delivered for a certain level of cost. The NSWEC does have some relevant KPIs, but they do not appear to have been operationalised (i.e. specified in a measurable way that can be monitored over time), so that they can be used as a tool to better understand service performance and drive improvements over time. This also applies to the KPIs relevant to efficiency (e.g. reduction in cost per elector, operating within budget allocation).

Addressing these issues, as part of new funding arrangements, may be a way of improving the ability of NSWEC to demonstrate the service levels it is providing and driving efficiency improvements over time. This would appear to be particularly relevant given the projected increase in the cost per elector (of 27% nominal in LGE 2020 compared to LGE 2016-17),<sup>29</sup> for what appears to be a relatively modest (and unspecified) improvement in service levels.

#### 4.2.2 Top-down estimates

The NSWEC's LGE 2020 top-down cost estimates have been developed using indicative estimates of the 'step changes'. As a result, based on the information provided, EY has not been able to:

- ▶ Identify the precise rationale for the step changes
- ▶ Assess the reasonableness of this rationale
- ▶ Assess the reasonableness of the quantum of the proposed step change increase in costs.

For example, in relation to election staffing, the NSWEC estimates the total cost of polling place staff to increase by a step change of \$2.8m between LGE 2016-17 and LGE 2020 to align the costs with new staff rates introduced in SGE 2019. However, as these cost increases have been projected

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<sup>29</sup> Analysis of LGE Base Costs Consideration - LGE2020 - 051218.xlsx, using the enrolment numbers provided in NSWEC 2020 LGE Cost Estimate.xlsx, indicates a per elector cost of \$8.78 in LGE 2016-17 compared to an estimated \$11.11 in LGE 2020.

using a top-down estimate, the amount by which the \$2.8m step change increase has been driven by an increase in staff pay rates, an increase in the number of polling place staff, or both, is not clear.

EY acknowledges that the NSWEC intends to update these forecasts using the bottom-up budget methodology to estimate costs for LGE 2020.

In particular, as the step changes have not been forecast using the bottom-up budget methodology, EY has been unable to understand the specific nature and details of the step changes (e.g. the extent to which it is driven by increased volumes of resources vs increased unit prices, or when the step change will occur between LGE 2016-17 and LGE 2020). As a result, it is difficult to determine:

- ▶ The appropriate magnitude of the step change cost increase given the high-level nature on which they have been determined
- ▶ Whether it is appropriate to apply escalation to reflect increased costs due to growth in the electoral roll (i.e. number of electors) to 2020. For example, the step change may already implicitly capture the costs associated with growth in the electoral roll (e.g. if more resources are required to deliver the appropriate level of service)
- ▶ The appropriate number of years of escalation for CPI and wage growth to be applied. For example, step changes which increase the cost base in 2017 will require a greater number of years of escalation compared to those step changes which increase the cost base in 2020.

### 4.2.3 Election staffing

#### 4.2.3.1 NSWEC projections

The NSWEC projects costs for election staffing in LGE 2020 to increase by 61% (+8.8m) in nominal terms compared to LGE 2016-17 base costs (i.e. removing duplicate costs), as shown below.

Election staffing is the largest component of the NSWECs operating costs for conducting LGEs. This would increase the election staffing costs as a proportion of total election costs from 35% in LGE 2016-17 (base costs) to 41% in LGE 2020.

**Table 5: NSWEC's top-down estimate of election staffing costs for LGE 2020**

Cost components	LGE 2016-17: Base costs	LGE 2020: Step changes	LGE 2020: CPI & wage growth	LGE 2020: Roll growth	LGE 2020: Top-down estimate
Employment Support Desk	101,934	-	10,193	8,970	121,098
04.1 PP Staffing	6,034,492	2,850,000	888,449	781,835	10,554,777
04.2 OA Staffing	5,167,073	1,150,000	631,707	555,902	7,504,682
RO Office Security	349,427	500,000	84,943	-	934,370
04.2 OM Staffing	-	-	-	-	-
04.3 ROSO Wages	-	-	-	-	-
04.4 RO Recruitment & Wages	2,441,885	1,000,000	344,189	-	3,786,074
RO Postage	80,457	80,000	16,046	-	176,502
RO Utilities	89,687	80,000	16,969	-	186,656
04.5 Training of All Election Officials	-	-	-	-	-

04.6 ROSO Support Centre	-	-	-	-	-
04.7 Performance Assessments Reports and Surveys	-	-	-	-	-
04.8 RO Office Administration Costs	92,842	-	9,284	-	102,127
04.9 Post Election Surveys	-	-	-	-	-
Project 4 Resources	28,008	-	2,801	-	30,809
<b>Total Election Staffing</b>	<b>14,385,806</b>	<b>5,660,000</b>	<b>2,004,581</b>	<b>1,346,708</b>	<b>23,397,094</b>

Source: NSWEC

#### 4.2.3.2 NSWEC rationale

Based on consultations and the information provided, the NSWEC indicated that the increase in costs for LGE 2020 has been underpinned by:

- ▶ The increase in costs in LGE 2020 primarily driven by the introduction of a new Election Day Staffing Model<sup>30</sup> and to bring the rates of pay in line with the rates determined for SGE 2019<sup>31</sup>
- ▶ The need of working conditions to align with the *GSE Act* and workplace health and safety and wellbeing considerations, particularly the NSWEC's Fatigue Management Guidelines
- ▶ The need for staff retention between elections
- ▶ Consultation with a range of internal and external stakeholders, including NSW Treasury Industrial Relations and the Crown Solicitor's Office
- ▶ Comparison of the NSWEC's pay rates with other electoral jurisdictions (e.g., the Victorian Electoral Commission). A list of the electoral commissions considered, along with relevant sources, is contained in Appendix C
- ▶ Comparison of the NSWEC's and the Australian Electoral Commission's table loadings
- ▶ The use of the same rates of pay for election officials at LGEs and SGEs to ensure that election officials are offered the same remuneration.

#### 4.2.3.3 Pay rates

##### Key considerations

Our understanding of the approach undertaken by the NSWEC to develop its pay rates for LGE 2020 is as follows:

- ▶ The NSWEC initially reviewed its pay rates for election staff following SGE 2015 to address two issues:
  - ▶ The need to rewrite role descriptions for Election Managers (EM), Senior Office Assistances (SOA) and Office Assistants (OA) to align with the *GSE Act* Capability Framework.<sup>32</sup> The rates of remuneration for these role descriptions were evaluated in line with the NSW

<sup>30</sup> Provided by NSWEC on 1 May 2019, titled Election Day Staffing Model.pdf

<sup>31</sup> The pay rates for SGE 2019 were approved the Electoral Commissioner on 20 November 2018, following work undertaken by an internal working group established to review rates of pay, working conditions and staffing models for SGE 2019 to more closely align them with the *GSE Act* and workplace health, safety and wellbeing principles

<sup>32</sup> The NSW Public Sector Capability Framework provides a common foundation tool that enables the NSW public sector to attract, recruit, develop and retain a responsive, capable workforce. It is developed by the NSW Public Service Commission.

Government's Mercer Job Evaluation Methodology,<sup>33</sup> in accordance with the *Crown Employees 2009 Salaries Award*

- ▶ The need to address challenges associated with attracting Election Managers. The NSWEC indicated that it experienced a 20% turnover rate for Election Managers prior to and during SGE 2015. However, the NSWEC did not provide any documentation or further evidence to substantiate the turnover rate (or why this was a problem)
- ▶ This culminated in the development of a Memorandum approved by the Electoral Commissioner on 20 November 2018 for pay rates to be used at SGE 2019 for all staff, including election day staff (e.g. ordinary issuing officers, ballot box guards)
- ▶ Subsequently the NSWEC intends to undertake a further review prior to LGE 2020 and additional increases on top of those approved on 20 November 2018 Memorandum have been projected in the NSWEC's current staffing model for LGE 2020.<sup>34</sup>

We make the following observations in relation to the assumed pay rates the election staffing costs underpinning LGE 2020.

#### *Election day staff*

- ▶ In relation to PP staffing (i.e. election day staff), the only supporting evidence provided in relation to increasing pay rates for LGE 2020 was to align them with SGE 2019 pay rates (including escalation) and to compare them against pay rates for electoral commissions in other jurisdictions
- ▶ The NSWEC did not:
  - ▶ Provide any evidence that hiring election day staff was difficult for LGE 2016/17 or why the increase in pay rates is necessary
  - ▶ Explain why pay rates for LGEs should align with SGEs in general
  - ▶ Provide any explanation why the increase in pay rates for PP staffing is efficient
- ▶ EY undertook research to obtain data on election day pay rates for other electoral commissions in Australia from public sources (refer to Appendix C for more details).<sup>35</sup> Based on this:
  - ▶ The only electoral commission that appears to be a directly relevant comparator is the Victorian Electoral Commission (VEC) because:
    - ▶ The VEC publishes rates specific to LGEs rather than a rate for SGEs or a generic rate. This provides a more relevant comparison for LGE 2020
    - ▶ The rates of pay are expressed on an equivalent basis (e.g. they refer to similar breakdowns of staff, exclusive of on-costs)
    - ▶ They relate to election day officials performing similar tasks for an equivalent election
    - ▶ NSW and Victoria are also likely to be the most comparable in terms of cost of living and demographics
  - ▶ We could not obtain any publicly available data on election day pay rates for Electoral Commission of Queensland

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<sup>33</sup> The NSW Commission of Audit on Public Sector Management (Commission of Audit) 2012 commissioned Mercer to develop this methodology to ensure a comparative analysis of remuneration within the NSW Public Service.

<sup>34</sup> NSWEC 2017 Report on Local Government Elections, page 49

<sup>35</sup> Data on election day pay rates is generally available from Commission websites, Guides for election day staff or Determinations on pay and working conditions issued by the relevant electoral commission.

- ▶ Pay rates for all other electoral commissions were not considered comparable for various reasons<sup>36</sup>
- ▶ It is not clear why the pay rates for LGEs should necessarily align with those for SGEs given the difference in complexity of the upper house ballot paper. While the process of issuing ballot papers is expected to be consistent between LGEs and SGEs, we expect that the counting process is likely to be more complex for SGEs due the size of the ballot paper and average number of applicants. A template for the 2019 SGE Legislative Council ballot paper, provided on the NSWEC's website, indicates the size and complexity of the ballot paper.<sup>37</sup> It is not unreasonable to expect that this would increase the complexity of the SGE count
- ▶ The VEC pay rates for LGEs are between 2% and 10% lower than the pay rates for equivalent staff working on SGEs)<sup>38</sup>

#### *Non-election day staff*

- ▶ The NSWEC identified the need to address challenges associated with attracting Election Managers. The NSWEC indicated that it experienced a 20% turnover rate for Election Managers prior to and during SGE 2015, and increasing the pay rates for SGE 2019 was necessary to attract staff. However, the NSWEC did not provide any documentation or further evidence to substantiate the turnover rate (or why this was a problem)
- ▶ The NSWEC has rewritten role descriptions for EM, SOA and OA to align with the NSW Public Sector Capability Framework. However, the rationale for this is not clear given:
  - ▶ There does not appear to be any obligation for the NSWEC to do this, as the Capability Framework is not a binding legislative, regulatory or policy instrument
  - ▶ It is not clear why the Capability Framework is relevant or suitable to the majority of the election day staff working in SGEs (e.g. temporary, short-term nature of work). It is more intended to "attract, recruit, develop and retain a responsible capable workforce."

### **Key findings**

Based on the evidence provided:

- ▶ The proposed increase in pay rates for PP staffing for LGE 2020 has not been adequately justified. It is not clear why:
  - ▶ The pay rates for LGEs should align with pay rates for SGEs
  - ▶ The increase in pay rates for PP staffing is efficient
- ▶ On that basis, we recommend adopting pay rates for PP staffing LGE 2020 that apply a 6% discount on escalated SGE 2019 pay rates to reflect the lower complexity of the LGE upper ballot papers
- ▶ The proposed increase in pay rates for OA staffing has not been justified and we recommend adopting pay rates equal to LGE 2016-17 rates escalated for CPI
- ▶ The proposed increase in pay rates for RO staffing for LGE 2020 has also not been adequately justified. On that basis, we recommend adopting pay rates for RO staffing for LGE 2020 based on escalated SGE 2015 pay rates plus an increase in pay to reflect the increase in required working hours (from 45 to 50 hours). The difference in complexity of the upper house ballot papers between LGEs and SGEs is not expected to affect the roles of RO staff.

<sup>36</sup> This was either because the Commission did not indicate pay rates specific to local government elections, because roles were not comparable between Commissions, because the information was outdated, or because the pay rates were expressed in hourly rates rather than daily rates.

<sup>37</sup> NSWEC, Ballot paper templated for 2019 NSW State election

<[https://www.elections.nsw.gov.au/NSWEC/media/NSWEC/SGE%202019/ballot-papers/LC\\_Ballot\\_Paper\\_NSW\\_2019.pdf](https://www.elections.nsw.gov.au/NSWEC/media/NSWEC/SGE%202019/ballot-papers/LC_Ballot_Paper_NSW_2019.pdf)>

<sup>38</sup> Refer to Appendix D for details.

#### 4.2.3.4 Table loadings

##### Key considerations

Our understanding of the approach undertaken by the NSWEC to develop its table loadings for LGE 2020 is as follows:

- ▶ In June 2018, the NSWEC engaged Safety Australia Group to conduct a review of the NSWEC's workplace health and safety management system and arrangements to assess the level of legislative compliance.<sup>39</sup> Safety Australia Group made five recommendations to the NSWEC, one of which focused on the need to manage fatigue
- ▶ In response, the NSWEC developed its Fatigue Management Guidelines to apply for SGE 2019. As part of the Fatigue Management Guidelines, the NSWEC decreased table loadings in SGE 2019 by 20% to allow for more staff to be hired on election day, consistent with the Fatigue Management Guidelines. This was tied to several objectives:<sup>40</sup>
  - ▶ Providing greater capacity for staff to take breaks during the day
  - ▶ Making more staff available to be involved in the counting of ballots to ensure the activity could be conducted efficiently
  - ▶ Improving service delivery
- ▶ The updated Election Staffing Day Model provided by the NSWEC indicates that the table loadings for SGE 2019 will be rolled over and used for LGE 2020
- ▶ The table loadings used by the NSWEC for LGEs are adopted consistently for all local government areas across NSW. According to the Data Management Project Plan,<sup>41</sup> required election day staff numbers are determined by applying the table loadings to projected participation levels by polling venue in each local government area. Provided that the NSWEC's projections consider the individual factors influencing actual voter turnout at each polling venue (and not simply taking into account enrolment levels), the staffing model and table loadings will ensure the hiring of an appropriate level of election day staff based on the best available information at the time.

**Table 6: Comparison of table loadings**

	Prior to SGE 2019	SGE 2019	LGE 2020
Ordinary Table Loading for Metro, Country-Metro and Country	550-600	450-500	450-500
Declaration Table Loading for Metro, Country-Metro and Country	100-120	100-120	100-120

Source: NSWEC

##### Key findings

Based on the above:

- ▶ The NSWEC indicated that the new table loadings used in SGE 2019 reduced staff compensation claims by 55% and recorded incidents by 32% compared to SGE 2015. However, it is worth considering this in the context of magnitude the number of claims and incidents:

<sup>39</sup> NSWEC Annual Report 2017-18, page 36

<sup>40</sup> NSWEC Fatigue Management Guidelines SGE 2019, page 2.

<sup>41</sup> NSWEC, Data Management Project Plan, page 6.

- ▶ The NSWEC Report on the Conduct of the 2015 State Government Election stated that there were 82 workplace safety incidents reported and the bulk of them (66% or 54 of them) occurred on election day
- ▶ The NSWEC Report on the Conduct of the 2017 Local Government Election stated that there were 5 progressed claims (10 potential claims) in 2017 and 17 claims in 2016<sup>42</sup>
- ▶ The magnitude of claims is low in respect of total staff numbers working at SGEs and LGEs. For example, the number of election day staff working at SGE 2015 was 22,270<sup>43</sup> and at LGE 2016-17 was 15,250<sup>44</sup>
- ▶ Given the relatively low rate of incidence (e.g. total number of workplace safety incidents from SGE2015 represented 0.37% of the total staff employed in SGE2015), no justification has been provided about why universal reductions in table loadings is an appropriate response given the associated increased costs
- ▶ It is also not clear whether any consideration has been given to more targeted ways to address the problem (e.g. implement reduced table loadings in selected council areas with significant demand or peak periods, and conversely have increased table loadings in other council areas where there may be spare capacity) which could be more appropriate and cost-efficient solutions
- ▶ Further, no evidence or explanation has been provided about:
  - ▶ The extent to which fatigue and workplace safety incidents were a problem in LGE 2016-17 (e.g. severity of staff fatigue and how widespread this was, proportion of staff that worked past the 11pm closing time)
  - ▶ How the evidence on reduced compensation claims and incidents for SGEs relates to LGEs and whether the benefits would necessarily be transferrable to LGEs
  - ▶ The nature of these compensation claims. For example, it is not clear how many of these claims were related to fatigue or related issues, as opposed to being caused by other unrelated factors (such as hazardous working environments)
  - ▶ That the reduction in these claims were as a direct result of the reduction in table loadings
  - ▶ The extent to which these risks may be mitigated in the future due to the impact of pre-polling or postal voting
  - ▶ How the previous table loadings would not have complied with the Fatigue Management Guidelines.
- ▶ In addition, another objective of the decreased table loadings in SGE 2019 was to have more staff available in the counting of ballots to ensure the activity was to be conducted efficiently. The NSWEC's report on the SGE 2019 is not yet available. However, media reports suggested that there were delays in the counting and reporting of the election results.<sup>45</sup> The NSWEC indicated that this was caused by the introduction of additional results audit processes. However, no evidence has been provided to demonstrate that the reduced table loadings did contribute to a more efficient counting process
- ▶ There was no evidence to suggest that service delivery had been adversely affected by the older table loadings, as indicated by elector survey responses in LGE 2016-17. For example:
  - ▶ The 2016 IPSOS survey - 82% were satisfied with overall experience, 97% were satisfied with how long it took to vote

<sup>42</sup> NSWEC, Report on the Conduct of the 2017 Local Government Election, p. 49

<sup>43</sup> NSWEC, Report on the Conduct of the 2015 State Government Election, p.12

<sup>44</sup> NSWEC, Report on the Conduct of the 2016 Local Government Election, p 8 and NSWEC, Report on the Conduct of the 2017 Local Government Election, p 6.

<sup>45</sup> <https://www.abc.net.au/news/2019-03-25/sydney-news-morning-briefing-monday-march-25/10934676>

- ▶ Of those voters surveyed after the 2016 LGEs, held with staffing levels set for 500-650 votes per issuing table:<sup>46</sup>
  - ▶ 89% voted in the election
  - ▶ 82% were satisfied with their overall experience
  - ▶ 59% were able to cast their vote immediately
  - ▶ 97% were satisfied with how long it took them to cast their vote
  - ▶ 97% were satisfied with polling place facilities
  - ▶ 97% found voting on Election Day in their Council to be secure
  - ▶ 83% found that the NSWEC conducted the elections fairly and impartially
  - ▶ 85% were confident in the accuracy of the election results
  - ▶ 70% found the level of information regarding when they were required to vote to be sufficient
- ▶ Of those voters surveyed after the 2017 LGEs, held with staffing levels set for 500-650 votes per issuing table:<sup>47</sup>
  - ▶ 91% voted in the election
  - ▶ 75% were satisfied with their overall experience
  - ▶ 47% were able to cast their vote immediately
  - ▶ 94% were satisfied with how long it took them to cast their vote
  - ▶ 93% were satisfied with polling place facilities
  - ▶ 95% found voting on election day to be secure
  - ▶ 81% found that the NSWEC conducted the elections fairly and impartially
  - ▶ 89% were confident in the accuracy of the election results
  - ▶ 47% found the level of information regarding when they were required to vote to be sufficient
- ▶ The NSWEC has provided benchmarking with the Australian Electoral Commission's table loadings. However, no explanation or justification has been provided about the complexity associated with running a Federal Election as opposed to a Local Government Election
- ▶ Candidate surveys also failed to provide sufficient evidence that old table loadings were adversely affecting service delivery. While 52% of candidates indicated that they would like results to be posted faster,<sup>48</sup> only 4% of candidate dissatisfaction was because it 'took too long to get results'<sup>49</sup> It is reasonable to expect that candidates would appreciate results to be posted faster, but the low proportion of dissatisfaction indicates that candidates did not see this to be a significant service delivery failure
- ▶ In summary, based on the evidence provided, the 20% reduction in table loadings that was adopted for SGE 2019 is difficult to justify for LGE 2020. It has not been demonstrated that they achieved the intended objectives of improving efficiency or service delivery. On this basis, it not unreasonable to assume that the table loadings used prior to SGE 2019 are sufficient to meet the Fatigue Management Guidelines, and can be adopted for LGE 2020.

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<sup>46</sup> New South Wales Electoral Commission, Report on the 2016 Local Government Elections, p 31; 2016-17 Local Government Elections Electors Survey Report (February 2018).

<sup>47</sup> New South Wales Electoral Commission, Report on 2017 Local Government Elections, p 26; 2016-17 Local Government Elections Electors Survey Report February 2018.

<sup>48</sup> IPSOS, 2016-17 Local Government Elections Candidates Survey Report (December 2016), p 20.

<sup>49</sup> Ibid, p 18.



**Table 7: Table loadings**

	NSWEC's proposed LGE 2020	Recommended LGE 2020 (in absence of further justification)
Ordinary Table Loading for Metro, Country-Metro and Country	450-500	550-600
Declaration Table Loading for Metro, Country-Metro and Country	100-120	100-120

Source: NSWEC

## 4.2.4 Venue procurement

### 4.2.4.1 NSWEC projections

The NSWEC projects costs for venue procurement in LGE 2020 to increase by 42% (+1.3m) in nominal terms compared to LGE 2016-17 base costs (i.e. removing duplicate costs), as shown below.

This would increase the venue procurement costs as a proportion of total election costs from 6% in LGE 2016-17 (base costs) to 8% in LGE 2020.

**Table 8: NSWEC's top-down estimate of venue procurement costs for LGE 2020**

Cost components	LGE 2016-17: Base costs	LGE 2020: Step changes	LGE 2020: CPI & wage growth	LGE 2020: Roll growth	LGE 2020: Top-down estimate
06.1 Polling Places	841,140	500,000	134,114	118,020	1,593,274
06.2 RO Offices	1,559,194	0	155,919	0	1,715,114
06.3 Additional Pre-poll Locations	245,264	0	24,526	21,583	291,374
06.4 Declared Institutions	0	0	0	0	0
06.5 RO Office Security	0	0	0	0	0
Counting Hubs	171,359	250,000	42,136	0	463,495
Project 6 Resources	221,331	0	22,133	0	243,465
<b>Total Venue Procurement</b>	<b>3,038,288</b>	<b>750,000</b>	<b>378,829</b>	<b>139,604</b>	<b>4,306,720</b>

Source: NSWEC

### 4.2.4.2 NSWEC rationale

Based on consultations with the NSWEC and the information provided, we understand that the increase in costs for LGE 2020 are primarily driven by increases in the costs of procuring venues from the NSW Department of Education and Training (DET).

The increased costs are also expected to be driven by growth in the number of electors requiring additional polling place venues and the greater use of counting hubs. However, we understand that the most material driver is the increase in venue hire costs charged by the DET.

- The NSWEC previously had a Memorandum of Understanding with the DET that determined rates for the hiring of school venues for LGEs<sup>50</sup> that was expired on 1 July 2017. The

<sup>50</sup> Memorandum of Understanding - NSW Electoral Commission and NSW Department of Education for the use of Schools in connection with State, Local Government and Aboriginal Land Council Elections, April 2016

Memorandum was extended for use at the 2019 SGE, however, the DET Secretary has stated that the extension was an interim measure, and that a new MoU would need to be negotiated

- ▶ A new MoU has not been agreed. However, the NSWEC expects that the new rates for the LGE 2020 will be in line with the sample not-for-profit hourly rates for school venues published on the DET's website.<sup>51</sup> Based on this, the NSWEC expects that an additional \$500,000 will be incurred in LGE 2020.

The NSWEC considers that there are limited options for venues that meet its requirements for LGEs, which include:

- ▶ Availability for short-term leases
- ▶ Safety, security and accessibility requirements
- ▶ Consistency of venues across Local and State Government Elections being a key driver of voter participation.

#### 4.2.4.3 Key considerations

In assessing the NSWEC's proposed costs, we note that:

- ▶ There are alternative venues that the NSWEC has adopted for LGEs in some circumstances in the past, such as scout halls, churches and commercial providers. However, based on our analysis of venue hire fees incurred by the NSWEC for LGE 2016-17, commercial providers and non-government schools tended to charge higher fees than the DET<sup>52</sup>
- ▶ There is merit in ensuring consistency in the venues used across LGEs and SGEs to encourage greater levels of voter participation
- ▶ Procuring venues from a single provider is likely to have some merits as this allows the NSWEC to more easily consider venue requirements such as security and accessibility
- ▶ It is also not clear why the NSWEC has assumed escalation for CPI growth in addition to a step change increase for polling places. To the extent that these both capture the additional costs required from increases in the number of electors, these will be duplicative. In other words, the DET's increase in price (i.e. step change increase) would already appear to capture the effect of increases in rental price of existing volumes of rented premises
- ▶ Venue procurement costs have increased by a step change of \$250k in LGE 2020 due to the use of counting hubs in regional areas. According to the NSWEC, these will be introduced due to the increased complexity of the batching and counting process, which required support from skilled Head Office staff. There are only a small number of staff able to support this activity and the use of counting hubs meant that the NSWEC could concentrate the use of skilled Head Office staff in a smaller number of locations. The NSWEC cites the following evidence for this:
  - ▶ In SGE 2019, OA staffing costs were budgeted to be \$7.34m. Actual OA staffing costs were above budget at \$8.06m due to the increasing complexity of the batching and counting process
  - ▶ To address this complexity for LGE 2020, the NSWEC intends to use counting hubs at a cost of \$250k
  - ▶ This will then mean OA staffing costs for LGE 2020 are equal to \$7.5m, which is \$552k lower than the actual SGE 2019 OA staffing costs (\$8.06m) - which is assumed by the NSWEC as what LGE 2020 OA staffing costs otherwise would be
- ▶ No adequate justification has been provided to explain:
  - ▶ The reasons for the increasing complexity in the batching and counting process

<sup>51</sup> <https://education.nsw.gov.au/about-us/using-school-facilities/community-use-agreement/not-for-profit-hire-charges>

<sup>52</sup> LGE 2017 Election Costs and Invoicing - FINAL.xlsx, provided by the NSWEC on 2 May 2019.

- ▶ The reasons for the variance between budgeted and actual OA staffing costs in SGE 2019
- ▶ Why it is appropriate to use SGE 2019 actual costs as a starting base instead of LGE 2016-17 actual costs
- ▶ The validity of the savings of \$552k, given it is not clear why SGE 2019 actual OA staffing costs would necessarily represent what LGE 2020 OA staffing costs would be without the counting hubs.

#### 4.2.4.4 Key findings

Based on the above:

- ▶ Overall, based on the evidence provided, the increase in venue procurement costs do not appear to be unreasonable, as they were largely outside the control of the NSWEC and could not reasonably be avoided without the risk of reduced effectiveness (e.g. with respect to voter participation) or incurring significant costs elsewhere
- ▶ A more cost-effective approach could not be identified<sup>53</sup>
- ▶ We did not identify any evidence to suggest that these costs are not appropriate or efficient based on the amount of resources utilised and the unit price incurred
- ▶ As a result, the NSWEC's proposed top-down costs for procurement of polling place venues for LGE 2020 do not appear to be unreasonable
- ▶ Based on the evidence provided, the rationale for counting hubs has not been adequately justified, and the basis on which the \$250k spend on counting hubs would necessarily result in reducing LGE 2020 OA staffing costs by \$552k is not clear. As a result, it is not unreasonable to assume that the \$250k in counting hubs do not reflect efficient costs.

## 4.2.5 Logistics

### 4.2.5.1 NSWEC projections

The NSWEC projects costs for logistics in LGE 2020 to increase by █████ (████) in nominal terms compared to LGE 2016-17 base costs (i.e. removing duplicate costs), as shown below.

The increase to LGE 2020 is expected to be driven by escalation for growth in CPI and wages and the electoral roll, with no step changes are projected. However, it is worth observing that logistics costs increased by █████ (████) between LGE 2012 and LGE 2016-17.

**Table 9: NSWEC's top-down estimate of logistics costs for LGE 2020**

Cost components	LGE 2012: Actual	LGE 2016-17: Base costs	LGE 2020: Step changes	LGE 2020: CPI & wage growth	LGE 2020: Roll growth	LGE 2020: Top-down estimate
██████████	████	████	████	████	████	████
██████████	████	████	████	████	████	████
██████████	████	████	████	████	████	████
██████████	████	████	████	████	████	████
██████████	████	████	████	████	████	████

<sup>53</sup> We were unable to obtain information on the venue procurement costs incurred by councils that chose to administer the elections themselves



basis, logistics costs increased from \$[REDACTED] per elector in LGE 2012 to \$[REDACTED] per elector in LGE 2016-17<sup>55</sup>

- The rationale for this has not been adequately justified and without further information on the reasons for the new logistics roles, it may be reasonable to assume a reduction in the efficient level of logistics costs.

#### 4.2.5.4 Key findings

Based on the above, the rationale:

- For the increase in logistics costs have not been adequately justified and without further information on the reasons for the new logistics roles, it may be reasonable to assume a reduction in the efficient level of logistics costs based on LGE 2012 levels
- Provided would appear to suggest that the logistics costs should have been, at least in part, self-funding (i.e. they were designed to improve efficiency and reduce costs). The rationale to incur the costs to improve service levels has not been justified.

### 4.2.6 Call centres

#### 4.2.6.1 NSWEC projections

The NSWEC projects costs for call centres in LGE 2020 to increase by [REDACTED] (+[REDACTED]) in nominal terms compared to LGE 2016-17 base costs (i.e. removing duplicate costs), as shown below.

Call centre costs are only a small proportion of total election costs, with these projections increasing call centre costs as a proportion of total election costs from [REDACTED] in LGE 2016-17 (base costs) to [REDACTED] in LGE 2020.

**Table 10: NSWEC's top-down estimate of call centres costs for LGE 2020**

Cost components	LGE 2016/17: Base costs	LGE 2020: Step changes	LGE 2020: CPI & Wages	LGE 2020: Roll Growth	LGE 2020: Top-down estimate
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: NSWEC

#### 4.2.6.2 NSWEC rationale

Based on consultations with the NSWEC and the information provided, we understand that the increase in costs for LGE 2020 are primarily driven by:

- The NSWEC establishing and operating its own Elector Enquiry Centre (EEC) to replace the previous call centre at Riverwood upon expiry of the lease in December 2017
- Alignment of the estimated costs of the NSWEC operating the EEC with the actual costs incurred in SGE 2019.

<sup>55</sup> Assuming 4.8m electors in LGE 2012 and 5.082m in LGE 2016-17. Sourced from LGE 2020 Election Estimates Calculator- ST 20181216

#### 4.2.6.3 Key considerations

In assessing the NSWEC's proposed costs, we note that:

- ▶ The NSWEC has developed its estimate for the call centre costs in LGE 2020 based on actual SGE 2019 actual costs, subtracting for iVote call costs (which are not relevant for LGE 2020) and escalating for CPI. No other adjustment has been made
- ▶ Based on the evidence provided, the rationale for the NSWEC establishing and operating its own call centre, with a step change increase of \$1m to replace the previous call centre at Riverwood, is not clear. For example, the proportion of the additional \$1m that is driven by staffing numbers, as opposed to wages and set up costs, has not been specified
- ▶ According to the NSWEC:
  - ▶ It initiated discussions with Service NSW to engage it as the operator for the call centre, but Service NSW withdrew from the negotiations after 6 months and no agreement was reached
  - ▶ This did not provide them with enough time to go to market for SGE 2019 and as a result, it leased a venue and built its own call centre for SGE 2019
  - ▶ The venue used for SGE 2019 is no longer available, however it intends to adopt a similar approach for LGE 2020 and lease another venue and again build and staff its own call centre
- ▶ As a result, the NSWEC has assumed the top-down estimates for the call centre costs for LGE 2020 will be broadly consistent with the costs incurred in SGE 2019
- ▶ The NSWEC has not provided any data on the actual or projected numbers and duration of enquiries for LGE 2016-17 and LGE 2020. However, the NSWEC did provide data on the breakdown of actual SGE 2015 and projected SGE 2019 calls and volumes<sup>56</sup>
- ▶ It is not clear why these costs would necessarily be consistent across SGE 2019 and LGE 2020. We expect that there are several factors which would likely have an upwards or downwards influence the number of enquiries beyond the number of electors (which is the same across SGEs and LGEs). These may include:
  - ▶ Complexity of the election process. For example, the NSWEC notes that LGEs in general provide a high level of complexity due to ward boundaries, direct mayoral elections, constitutional referenda and council polls also being run. However, LGE 2020 may be simpler now due to the complexity regarding council amalgamations
  - ▶ Level of profile and advertising and media coverage. The NSWEC notes that LGEs have a lower profile, resulting in more enquiries from electors regarding whether they are required to vote
  - ▶ Level of voter participation,<sup>57</sup> which could be used as a proxy for the number of enquiries. Voter participation has averaged 92.4% across the past six SGEs from 1995 to 2015. In comparison, voter participation averaged 83.7% across the past four LGEs from 2004 to 2016.
  - ▶ Overall levels of community engagement and interest
- ▶ These are some examples of factors which may potentially influence the difference in the number of enquiries expected to be received by call centres across SGE 2019 and LGE 2020. However, the NSWEC has not provided any evidence or information relating to the above
- ▶ It is also not clear why the NSWEC has assumed escalation for electoral roll growth in addition to a step change increase for call centre personnel as these may be duplicative (i.e. to the

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<sup>56</sup> NSWEC - ECC - SGE 2019 Budget less iVoteCall Costs.xlsx

<sup>57</sup> The 2015 NSWEC State Election Report (page 14) indicates a voter participation rate of 90.5%. This compares to 84% for the 2016 LGEs notes in the NSWEC LGE Report (p 8).

extent that both the escalation and the step change increase capture the additional costs required from increases in the number of electors). In other words, the new call centre (i.e. step change increase) would already appear to capture the effect of increases in the number of voters. i.e. a new call centre would be developed to meet expected demand.

#### 4.2.6.4 Key findings

Based on the above:

- ▶ The rationale for the \$1,000,000 increase in call centre costs for LGE 2020 has not been adequately justified and without further information on the reasons for the new call centre, it is difficult to conclude that the step change is efficient. For example, it is not clear:
  - ▶ If anything has been done to consider the efficiency of these costs (e.g. value for money assessments, market testing)
  - ▶ Why SGE 2019 costs of running a call centre are being used as a starting point rather than LGE 2016-17 costs
  - ▶ If any work has been undertaken to project the expected number of enquiries for LGE 2020 - e.g. whether there is evidence that there could be less calls from electors for LGE 2016-17 due to less confusion around amalgamation issues
- ▶ The rationale for this has not been adequately justified. It would therefore not be unreasonable to base the efficient level of call centre costs on actual LGE 2016-17 levels

### 4.2.7 Programme Management Office (PMO)

#### 4.2.7.1 NSWEC projections

The NSWEC projects costs for its PMO in LGE 2020 to increase by 10% (\$0.2m) in nominal terms compared to LGE 2016-17 base costs (i.e. removing duplicate costs), as shown below.

PMO costs are only a small proportion of total election costs, with these projections reducing PMO costs as a proportion of total election costs from 5% in LGE 2016-17 (base costs) to 4% in LGE 2020.

The increase to LGE 2020 is expected to be driven by escalation for growth in CPI and wages and the electoral roll, with no step changes are projected. However, it is worth observing that the PMO was first established prior to LGE 2016-17 at a cost of \$2.1m (i.e. actual costs for LGE 2016-17 less duplicate costs of \$800k).

**Table 11: NSWEC's top-down estimate of PMO costs for LGE 2020**

LGE 2012: Actual	LGE 2016-17: Base costs	LGE 2020: Step changes	LGE 2020: CPI & wage growth	LGE 2020: Roll growth	LGE 2020: Top-down estimate
Contingency	0	0	0	0	0
PMO	1,887,954	0	188,795	0	2,076,749
Reporting & Evaluation	157,514	0	15,751	0	173,266
Legal	59,219	0	5,922	0	65,141
Amalgamation Discount	0	0	0	0	0
Whole of Project	0	0	0	0	0
<b>Total PMO</b>	<b>2,104,687</b>	<b>0</b>	<b>210,469</b>	<b>0</b>	<b>2,315,156</b>

Source: NSWEC

#### 4.2.7.2 NSWEC rationale

Based on consultations with the NSWEC and information reviewed, the PMO was established prior to LGE 2016-17 to fill a gap in project management capabilities in the conduct of LGEs.

The PMO aimed to reduce its risk exposure by:

- ▶ Implementing a holistic decision-making framework
- ▶ Increasing predictability of project delivery success through establishing PM consistency
- ▶ Increasing the capability of project leadership, governance and delivery across the organisation to deliver large scale events and change.

#### 4.2.7.3 Key considerations

In assessing the NSWEC's proposed costs, we have reviewed the structure and operation of the PMO against the NSW Government Department of Finance and Services' Project Management Guidelines<sup>58</sup> and note that the PMO has the following features:

- ▶ The NSWEC Portfolio Management Office Operating Model<sup>59</sup> notes that the PMO was established for the 'efficient achievement of business outcomes' and to 'provide independent oversight and assurance, and build delivery capability across the NSWEC'
- ▶ The PMO's Operating Model outlines a set of KPIs, including increase voter turnout, operating within budget allocations, reduced costs per elector, increased stakeholder satisfaction and improved risk maturity
- ▶ The NSWEC's PMO Findings and Organisation Strategy 2017 lists the quarterly business case re-estimations for all projects as a key deliverable, indicating a focus on financial management
- ▶ GANTT analysis is used by the PMO to track the delivery of key projects
- ▶ The NSWEC has outlined a rigorous reporting mechanism for the PMO in its Revised Reporting Lines published in March 2018.

Based on the above, the PMO appears to be set up and operate in a manner that is consistent with the NSW Government's Project Management Guidelines Principally, the NSWEC's PMO's purpose and KPIs also appear to align with the:

- ▶ Objective to 'deliver a project's end product on time, within budget, according to specification and at a level of quality that meets professional standards and management expectations'<sup>60</sup>
- ▶ Key areas for success in the respect that:<sup>61</sup>
  - ▶ The PMO has a defined business objective
  - ▶ Project Owners are accountable for a project
  - ▶ There is an objective for regular and consistent progress reporting
  - ▶ The NSWEC has indicated a preferred methodology for project management.

#### 4.2.7.4 Key findings

Based on the above:

- ▶ The use of a PMO by the NSWEC appears to be consistent with the management aspects of NSW Government agencies

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<sup>58</sup> NSW Government Department of Finance and Services, Project Management Guideline (2011).

<sup>59</sup> NSW Electoral Commission Portfolio Management Office Operating Model (2018)

<sup>60</sup> Ibid, p 2.

<sup>61</sup> Ibid, p 2-3.



- ▶ At this point in time, there is no evidence to suggest that the operating costs of the NSWEC's PMO are unreasonable.

#### 4.2.8 Capital expenditure

##### 4.2.8.1 Key issues

The NSWEC is currently projecting total capital expenditure of \$12.8m for LGE 2020. We understand that this is comprised of:

- ▶ \$5.6m allocated in the 2019-20 budget to meet Local Government regulation changes<sup>62</sup>
- ▶ Approximately \$7m in other capital expenditure, based on discussions with the NSWEC.

The NSWEC currently recovers the cost of all capex through NSW Government funding, and does not currently recover any amount of capex from Councils.

However, we understand that IPART is considering recommending that the NSWEC recovers an appropriate portion of capital expenditure from Councils where it is attributable to LGEs. If IPART chooses to do this, it would require the determination of what a prudent and efficient level of capex would be. This would require an assessment of:

- ▶ The efficiency and prudence of previously undertaken capex
- ▶ The efficiency and prudence of future planned capex
- ▶ The appropriate share attributable to LGEs and which should be borne by councils.

All capex that is funded by the NSW Government must be approved through the NSW Treasury's Business Case process. As part of this process:

- ▶ The NSWEC must develop a business case that adheres to the NSW Treasury Business Case Guidelines (Treasury Guidelines) to provide 'a robust evidence base for government policy and investment proposals and informs effective and efficient resource allocation decisions for capital'<sup>63</sup>
- ▶ A detailed business case that complies with the Treasury Guidelines:
  - ▶ Ensures that NSW Treasury has sufficient information to make an assessment and determine whether the business case proposal represents an efficient level of expenditure
  - ▶ Does not necessarily ensure that the proposed expenditure is efficient.

#### Key findings

Based on the above, we have not been able to review the efficiency of the NSWEC's proposed capital expenditure:

- ▶ The NSW Budget for 2019-20 approved \$5.6m in funding for Local Government regulation changes in accordance with standard practice for capital investments, consistent with the NSW Treasury's Business Case process and the Business Case Guidelines<sup>64</sup>
- ▶ The purpose of the Treasury Guidelines is to ensure that NSW Treasury has sufficient information to make an assessment and determine whether the business case proposal represents a worthwhile use of government funds (i.e. that the economic benefits outweighs the economic costs). It also allows NSW Treasury to consider how the expenditure should be

<sup>62</sup> NSW Government, Budget Paper No. 2, p 5 - 34 <[https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget\\_Paper\\_2-Infrastructure%20Statement-Budget\\_201920.pdf](https://www.budget.nsw.gov.au/sites/default/files/budget-2019-06/Budget_Paper_2-Infrastructure%20Statement-Budget_201920.pdf)>.

<sup>63</sup> NSW Treasury, NSW Government Business Case Guidelines, p i.

<sup>64</sup> NSW Treasury, NSW Government Business Case Guidelines, p i.

procured and funded, which relate to questions of efficiency. However, the level of detail in a business case can vary considerably as often they are undertaken relatively early in the investment decision making process

- ▶ As a result, the NSW Government providing funding in the 2019-20 Budget does not necessarily always ensure that the proposed expenditure is efficient as this is not the primary purpose of the business case
- ▶ If the NSWEC is unable to demonstrate that the proposed capital expenditure was determined with regard to the concepts of prudence and efficiency, it would not be unreasonable to expect a commercial approach to reduce capital expenditure in the order of 5-10%.

#### 4.2.9 Other observations

There are also a number of other observations in respect of the projected costs for LGE 2020:

- ▶ More broadly, there do not appear to be any efficiency or productivity gains assumed in the NSWEC's top-down estimates through initiatives such as pre-polling and use of counting hubs. Pre-polling rates in LGEs have grown significantly over time with pre-poll or declared institution votes. This also provides additional support for the retention of table loadings used prior to SGE2019, as a smaller proportion of total electors voting on polling day can be expected to reduce the workload of ballot issuing staff, and can reasonably be expected to reduce queues on polling day. For example, pre-poll rates accounted for:
  - ▶ 8.7% of total votes in LGE 2008<sup>65</sup>
  - ▶ 13.1% in LGE 2012<sup>66</sup>
  - ▶ 26.2% in LGE 2016 tranche 1<sup>67</sup>
  - ▶ 19.1% in LGE 2017 tranche 2<sup>68</sup>
- ▶ Similar to the increase in logistics costs, the costs of IT Business Systems increased were projected to increase to LGE 2020 driven by escalation for growth in CPI and wages and the electoral roll, with no step changes projected. However, these costs increased by 751% (+\$1.7m) between LGE 2012 and LGE 2016-17 due to a significant investment in IT prior to LGE 2016-17. It is not clear what the rationale and justification for this was. We did not appear to be provided with a Project Plan or any business case document which outlined the justification for the increased expenditure (e.g. whether it would create cost savings and / or improved service levels)
- ▶ Major investments in IT systems are typically expected to result in efficiencies elsewhere (e.g. reduced staff costs), otherwise the investment would typically not be made. The rationale for this has not been adequately justified and without further information on the benefits that the investments brought, it would not be unreasonable to assume a reduction in the efficient level of IT Business Systems costs in the order of 5-10%
- ▶ With respect to postage costs:
  - ▶ LGE 2020 top-down budget estimates indicate an increase of \$250,000, due to unit postage costs rising from \$0.99 to \$1.49.<sup>69</sup> However, no detailed workings underpinning this calculation have been provided
  - ▶ It is not clear why the NSWEC has assumed escalation for CPI growth in addition to a step change increase for postal voting costs as these may be duplicative (i.e. to the extent that

<sup>65</sup> NSWEC, Report on 2008 Local Government Elections, p 40.

<sup>66</sup> NSWEC, Report on 2012 Local Government Elections, p 51.

<sup>67</sup> NSWEC, Report on 2016 Local Government Elections, p 41.

<sup>68</sup> NSWEC, Report on 2017 Local Government Elections, p 36.

<sup>69</sup> LGE Base Costs Consideration - LGE2020.xlsx

both the escalation and the step change increase capture the additional costs required from increases in the number of electors)

- ▶ The use of a 2.5% escalation per annum for CPI and wages growth, applied in labour intensive activities, does not appear to be unreasonable when benchmarked against historical and forecast projections for wage indexes. The ABS reported an annual change in the wage price index of 2.3% through the year to the March quarter of 2019.<sup>70</sup> Further, the 2019 Pre-election Economic and Fiscal Outlook forecasts wage growth of 2.75% through the year to the June quarter 2020<sup>71</sup> However, actual historical CPI figures compounded over the election period have been used where available to more accurately determine the escalation.
- ▶ We also note there are additional costs identified in consultations with the NSWEC that have not been included in the top-down estimates. These include:
  - ▶ Increase in IT rental costs of \$1-2m due to rental of IT equipment that the NSWEC previously owned
  - ▶ Additional [REDACTED] of capex for [REDACTED]
- ▶ The LGE 2020 top-down estimates indicate that an additional full-time employee will be hired for the Client Liaison project at a cost of \$100,000. Based on the evidence provided, a justification of this salary level has not been identified. A sample of job vacancies for similar roles suggest that lower salaries are being offered in the market.<sup>72</sup> Therefore, it is not unreasonable to assume that an efficient operator may be able to offer a salary for the additional Council Liaison FTE in the order of 5-10% lower than projected
- ▶ The LGE2020 top-down estimates also indicate that 2 additional data analytics officers, at a total cost of \$200,000. Based on the evidence provided, a justification of this salary level has not been identified. However, a sample of job vacancies for similar roles in government agencies suggests that similar salaries are being offered in the market.<sup>73</sup> However, it is not unreasonable to assume that an efficient operator may be able to offer a salary for the additional Council Liaison FTE in the order of 5-10% lower than the projected levels
- ▶ Our analysis has focussed on the key costs items for which the estimates are materially higher than the previous costs. We have not reviewed the efficiency of other costs. It would be reasonable however to expect some efficiency improvements in those costs over time. We note, for example, that the NSW Government introduced an annual efficiency dividend for all government agencies in the 2018-19 budget.<sup>74</sup> On this basis, we have assumed the efficient operating costs for LGE 2020 incorporate a reduction in operating expenditure by 0.5% per annum between LGE 2016-17 and LGE 2020 for all cost items that have not been considered as part of this review (i.e. where we have not formed a view on the efficient cost base for)
- ▶ We also made a number of minor adjustments to the escalation rates:
  - ▶ Actual changes in CPI (June quarter ending) between 2016 and 2018 used for CPI growth and assumed forecasts of 2.5% per annum from 2018 to 2020
  - ▶ CPI growth was applied only to the LGE 2016-17 cost base (not to step change adjustments)

<sup>70</sup> ABS, Wage Price Index, Australia March 2019 Key Figures, <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0>

<sup>71</sup> <https://www.finance.gov.au/sites/default/files/pefo-2019-economic-outlook.pdf>

<sup>72</sup> For example, Lane Cove Council offered a salary of between 61K and 67K for a customer liaison officer (<https://au.indeed.com/Liaison-Officer-jobs-in-New-South-Wales>), TAFE NSW offered \$80,203 - \$86,371 for a Finance Government Liaison (<https://au.indeed.com/Liaison-Officer-jobs-in-New-South-Wales?vjk=ea27255ad583c59b>), and \$79,630 has been identified as an average annual base salary for client liaison roles advertised on Glassdoor Recruiting ([https://www.glassdoor.com.au/Salaries/client-liaison-salary-SRCH\\_K00,14.htm](https://www.glassdoor.com.au/Salaries/client-liaison-salary-SRCH_K00,14.htm)).

<sup>73</sup> Despite an average annual salary of \$77,417 advertised on Glassdoor Recruiting ([https://www.glassdoor.com.au/Salaries/data-analyst-salary-SRCH\\_K00,12.htm](https://www.glassdoor.com.au/Salaries/data-analyst-salary-SRCH_K00,12.htm)), a search for job vacancies found public sector data analyst roles to advertise higher salaries. For example, a data analyst role for ASIC with an advertised salary of \$79,830 - \$115,340 (<https://au.indeed.com/Data-Analyst-Government-jobs-in-Sydney-NSW>), and a data analyst role for Ashdown, contracted to the NSW Government, with an advertised salary of \$117,000.

<sup>74</sup> NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

- Escalation for electoral roll growth of 2% per annum was applied only to LGE 2016-17 cost base (not to step change adjustments).

## Appendix A Information provided by the NSWEC

EY had several meetings with the NSWEC to undertake this work.

- ▶ Wednesday 1 May 2019 - introduction meeting
- ▶ Thursday 2 May 2019 - meeting with finance team
- ▶ Tuesday 7 May 2019 - meeting with finance team
- ▶ Thursday 9 May 2019 - 5 x meetings with operational teams.

The NSWEC provided the following information for review by EY upon request by EY and IPART.

**Table 12: Information provided by the NSW Electoral Commission**

Item	Date received by EY
Calculation-of-NSW-Electoral-Commission-service-charge-to-local-government-report-2016-(PDF-322kB).pdf	15/04/2019
Council Budget Estimates Scope Summaries LGE2020_V3.docx	15/04/2019
LGE Base Costs Consideration - LGE2020.xlsx	15/04/2019
LGE Base Funding_Business Case_NSWEC_4 February_v1.0.docx	15/04/2019
LGR Changes Detailed Business Case.docx	15/04/2019
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Appendix C - NSWEC Cybersecurity Strategy_vFinal.pdf	14/05/2019
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SE.155 Role description Voting Centre Manager_FINAL.pdf	15/05/2019
SE.157 Role description Election Official_FINAL.pdf	15/05/2019
SE.158 Role description Declaration Vote Issuing Officer_Information Officer_FINAL.pdf	15/05/2019
SE.159 Role description Deputy Voting Centre Manager_FINAL.pdf	15/05/2019
SE.164 Role description Office Assistant_FINAL.pdf	15/05/2019
SE.165A Role description SOA Staffing and Venues_FINAL.pdf	15/05/2019
SE.165B Role description SOA Election Material_FINAL.pdf	15/05/2019
SE.165C Role description Early Voting Centre Manager_FINAL.pdf	15/05/2019
SE.165D Role description SOA Counting and Results_FINAL.pdf	15/05/2019
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LGE Base Costs Consideration - LGE2020 - 051218.xlsx attached in email from Simon Thompson advising on use of cost estimates provided in public submission.	03/06/2019

## Appendix B NSWEC election staffing roles

According to the role descriptions provided by the NSWEC, we understand respective election staff to have the following responsibilities:

- ▶ Election Manager: responsible for the conduct of the election by coordinating all election-specific activities including office, venue and team set up<sup>75</sup>
- ▶ Voting Centre Manager: responsible for the management of a single voting centre<sup>76</sup>
- ▶ Election official: responsible for marking electors off on the electoral roll, issuing ballot papers, ensuring ballot papers are placed in the correct box, and undertaking counting activities after voting has closed<sup>77</sup>
- ▶ Declaration vote issuing officer: responsible for issuing ballot papers to voters who require a declaration vote, providing electors with any relevant information they require, and undertaking counting activities after voting has closed<sup>78</sup>
- ▶ Deputy voting centre manager: responsible for supporting the voting centre manager in the set-up, conduct and decommissioning of the voting centre. Also assists in the counting of ballot papers<sup>79</sup>
- ▶ Office assistant: responsible for supporting the election manager and senior office assistants by performing administrative and clerical tasks<sup>80</sup>
- ▶ Senior office assistant (staffing and venues): responsible for implementing the NSWEC recruitment process for staff working on election day<sup>81</sup>
- ▶ Senior office assistant (election material): responsible for the receipt, packing and distribution of election materials in the Election Manager's office and the supervision of the secure management of ballot paper distribution and return of materials by election staff<sup>82</sup>
- ▶ Senior Office Assistant (counting and results): responsible for managing the initial and check counts that take place in the Election Manager's office. Also supervises office assistants.<sup>83</sup>

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<sup>75</sup> SE. 153 Role description Election Manager\_FINAL.pdf

<sup>76</sup> SE. 155 Role description Voting Centre Manager\_FINAL.pdf

<sup>77</sup> SE.157 Role description Election Official\_FINAL.pdf

<sup>78</sup> SE.158 Role description Declaration Vote Issuing Officer\_Information Officer\_FINAL.pdf

<sup>79</sup> SE.159 Role description Deputy Voting Centre Manager\_FINAL.pdf

<sup>80</sup> SE.164 Role description Office Assistant\_FINAL.pdf

<sup>81</sup> SE.165A Role description SOA Staffing and Venues\_FINAL (002).pdf

<sup>82</sup> SE.165B Role description SOA Election Material\_FINAL.pdf

<sup>83</sup> SE.165D Role description SOA Counting and Results\_FINAL.pdf



## Appendix C Comparison of pay rates with other electoral commissions

Note that all pay rates have been escalated to 2020 using a CPI escalation of the rates reported in the relevant source.

- ▶ No information was found for the Queensland electoral commission
- ▶ No rates were found for election day staff employed by the Tasmanian Electoral Commission beyond returning officers and logistics assistants<sup>84</sup>
- ▶ The most recent information that could be found for the ACT was from 2016, and was for a limited number of roles in comparison to those provided by the NSWEC
- ▶ Roles indicated in the SA Commission's Determination do not align with those provided by the NSWEC, and the rates were paid on an hourly basis.<sup>85</sup>

Pay rates for the Australian Electoral Commission have not been included as they pertain to Federal Elections and are not considered as relevant a comparator as the electoral commissions administering LGEs.

**Table 13: Comparison of pay rates between jurisdictions (exclusive of on-costs)**

Election Day Role	Adjusted NSWEC pay rates for LGE 2020 <sup>86</sup>	VEC pay rates for LGEs - escalated to 2020 <sup>87</sup>	NT standard pay rates for elections - escalated to 2020 <sup>88</sup>	WA pay rates for SGEs and by-elections - escalated to 2020 <sup>89</sup>
Election Official (including Ballot Box Guard/Ordinary Issuing Officer)	445.80	481.72	513.95	600.31
Declaration Vote Issuing Officer / Information Officer	533.82	550.39	658.86	651.52
Deputy Voting Centre Manager	682.34	761.53	871.30	906.69
Voting Centre Manager 1	806.46	890.67	967.25	1110.51
Voting Centre Manager 2-3	842.77	890.67	967.25	1110.51

<sup>84</sup> Tasmanian Electoral Commission, Recruitment Information Package 8 June 2018, p 2.

<sup>85</sup> Electoral Commission of South Australia, Determination of Employment Terms and Conditions 2018 Local Government Periodic Elections, p 11.

<sup>86</sup> Staffing memo provided by the NSWEC, dated 20 November 2018.

<sup>87</sup> Victorian Electoral Commission, 'Employment Guide for Election Casuals and Officials' <<https://www.vec.vic.gov.au/files/employment-guide-for-election-casuals-and-officials.pdf>>.

<sup>88</sup> NTEC Electoral Official Pay Rates, <[https://ntec.nt.gov.au/\\_\\_data/assets/pdf\\_file/0004/572350/NTEC-Electoral-official-pay-rates.pdf](https://ntec.nt.gov.au/__data/assets/pdf_file/0004/572350/NTEC-Electoral-official-pay-rates.pdf)>.

<sup>89</sup> Western Australian Electoral Commission, '2018 State By-election Guide for polling staff and other casual workers', p 4; Western Australian Electoral Commission, '2017 State General Election Guide for polling staff and other casual workers', p 4.

Voting Centre Manager 4-5	879.57	944.99	1027.76	1187.21
Voting Centre Manager 6-7	885.74	944.99	1090.19	1187.21
Voting Centre Manager 8-9	905.90	1012.64	1090.19	1267.05
Voting Centre Manager 10-11	920.66	1012.64	1090.19	1267.05
Voting Centre Manager 12	958.65	1122.30	1090.19	1267.05

## Appendix D      Comparison of Victorian Electoral Commission for pay rates between State and Local Government Elections

**Table 14:<sup>90</sup> Comparison of pay rates for State and Local Government Election staff paid by the Victorian Electoral Commission**

Election Official Role	2018 State election package rate	Local Government and by-election package rate
Assistant Voting Centre Manager	782	743
Count Support Officer (part day pm)	161	164
Election Liaison Officer	944	885
Enquiry/Dec/Absent Issuing Officer	546	537
Ordinary Issuing Officer	513	470
Support Officer/Count Support Officer	314	305
Support Officer (part day am)	161	164
Voting Centre Assistant	126	129
Voting Centre Manager L1	966	869
Voting Centre Manager L2	998	922
Voting Centre Manager L3	1,064	988
Voting Centre Manager L4	1,149	1,095

<sup>90</sup> Victorian Electoral Commission, 'Employment Guide for Election Casuals and Officials', page 10.

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## D Weighted average cost of capital

We use a building block approach to determine the NSW Electoral Commission's (NSWEC) efficient level of costs, for the purpose of recommending prices for election services. Our Weighted Average Cost of Capital (WACC) calculation determines the rate of return we use for the return on assets and return on working capital building blocks.

### D.1 Standard WACC method used

We applied our standard WACC method with the input decisions noted below to derive our WACC estimate of 3.2% post-tax real. We explain the reasons for these decisions below. Table D.1 sets out the WACC calculation.

**Table D.1 WACC calculation for Election Costing Draft Report**

	Step 1		Step 2 - Final WACC range		
	Current market data	Long term averages	Lower	Midpoint	Upper
Nominal risk free rate	2.30%	3.30%			
Inflation	2.40%	2.40%			
Implied Debt Margin	2.20%	2.60%			
Market Risk premium	8.9%	6.0%			
Debt funding	45%	45%			
Equity funding	55%	55%			
Total funding (debt + equity)	100%	100%			
Gamma	0.25	0.25			
Corporate tax rate	30%	30%			
Effective tax rate for equity	30%	30%			
Effective tax rate for debt	30%	30%			
Equity beta	0.45	0.45			
Cost of equity (nominal post-tax)	6.3%	6.0%			
Cost of equity (real-post tax)	3.8%	3.5%			
Cost of debt (nominal pre-tax)	4.5%	5.9%			
Cost of debt (real pre-tax)	2.1%	3.4%			
Nominal Vanilla (post-tax nominal) WACC	5.5%	6.0%	5.5%	5.8%	6.0%
<b>Post-tax real WACC</b>	<b>3.0%</b>	<b>3.5%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.5%</b>
Pre-tax nominal WACC	6.5%	6.9%	6.5%	6.7%	6.9%
pre-tax real WACC point estimate	4.0%	4.4%	4.0%	4.2%	4.4%

Source: IPART calculations

### Gearing and beta

Local government elections are held once every four years, and every elector in each council area is required to vote. The scope of work undertaken by an election service provider is pre-determined, predictable and largely fixed. In other words, the demand for the service is subject to very little uncertainty. This situation is different to the demand faced by most firms in the economy, and it makes the business of providing election services largely risk-free. This suggests that such a business would have a very low beta compared to almost all other firms in the economy.

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Following an approach we used for the Valuer General 2019 price review, we note that realistic values for beta and gearing of very low-risk firms can be estimated as follows. Professor Damodaran's published beta estimates for a wide variety of industries in the United States allow us to construct a rough probability distribution of betas across the 7,209 firms and 94 industries he sampled. We identified the industries within the lowest decile for asset beta, but excluded financial services (non-bank & insurance) because of its atypical capital structure. The median equity beta for the remaining seven industries was 0.45 and the median gearing for these industries was 45%.

### **Sampling dates for market observations**

We sampled market observations for the current year to the end of May 2019, which is the last available whole month. For earlier years in the trailing average calculation of the cost of debt, we sampled to the end of July in each year. We chose that date so that the Final Report WACC would sample all years in consistent months, which will minimise the change from our draft decisions.

### **Tax rate**

We assume that, like the NSWEC, the Benchmark Efficient Entity (BEE) would conduct both state and local government elections, as there are substantial scope economies in doing so. The NSWEC has an average annual turnover that is above the threshold and therefore not eligible to receive the reduced corporate income tax rate. Therefore, we use a tax rate of 30%.

### **Regulatory period**

There is no established period between now and the next review of local government election costings. However, given the four year election cycle it is reasonable to assume that any future reviews would be synchronised with this cycle. As to the necessity of future reviews, that also seems likely, given the rate of change of election technologies and the consequent impacts on the NSWEC's cost structures.

### **Application of trailing average method**

We introduced the concept of a transition to the trailing average for current debt so that utilities that have previously been regulated by IPART under the pre-2018 WACC method would have the opportunity to restructure their debt portfolio to match the assumptions of the 2018 WACC method.

For firms that were never subject to IPART's pre-2018 WACC method, such as the NSWEC, there should be no need to restructure their debt portfolio to match the 2018 WACC method assumptions. Instead, our WACC calculation assumes that the transition to trailing average is complete.

## D.2 Detailed analysis of input decisions

### Beta and gearing

In estimating the WACC for Local Government election services provided by the NSWEC, our benchmark entity is a firm operating in a competitive market facing similar risks to the NSWEC, which is a firm providing election services for local councils in a competitive market. The total number of council elections is generally stable over time, and outside councils' discretion as local government terms are fixed by statute. Since revenue is driven by the number of local government elections in NSW, they also remain stable over time. This implies that revenue is only weakly correlated, if at all, with broader economic conditions.

The hypothetical competition between benchmark entities would be unlikely to increase the systematic risk faced by election services providers, as noted above.

In determining an equity beta for a regulated firm, we try to identify proxy companies that have a comparable risk profile. Ordinarily, that is done by examining firms in the same or similar industries. In this case, there are no industries that have a comparable risk profile to the NSWEC, so traditional proxy company analysis is unlikely to produce relevant estimates of beta.

An alternative approach for proxy company analysis might be to identify companies where demand for a firm's product is generally fixed and not affected by the market. Unfortunately, we do not observe such firms on stock exchanges. These considerations lead us to examine what would be the minimum acceptable return to an equity investor in a very low-risk firm.

### Lowest observed betas

In order to make an empirical assessment of the minimum return an equity investor would require for a very low-risk investment, we considered the range of asset betas observed across the universe of listed firms in the United States. We chose the United States because it is a large, diversified economy for which relevant data is readily available. Professor Aswath Damodaran (who is also the author of one of the MRP methods we use) regularly publishes a set of beta estimates for each of 94 industries in the United States in spreadsheet form.<sup>155</sup>

We sorted the industries in his list in order of increasing asset beta (unlevered beta). We calculated the cumulative number of firms sampled in each industry. By plotting the cumulative fraction of firms against asset beta, we were able to construct a cumulative probability density function for asset beta. The result is shown below at Figure D.1.

There are eight industries (comprising 387 sampled firms) in the lowest decile for asset beta. Of these, we eliminated "Financial Services (non-bank & insurance)", which has a gearing ratio of 92%. Financial firms are often unsuitable proxies because of their highly geared capital

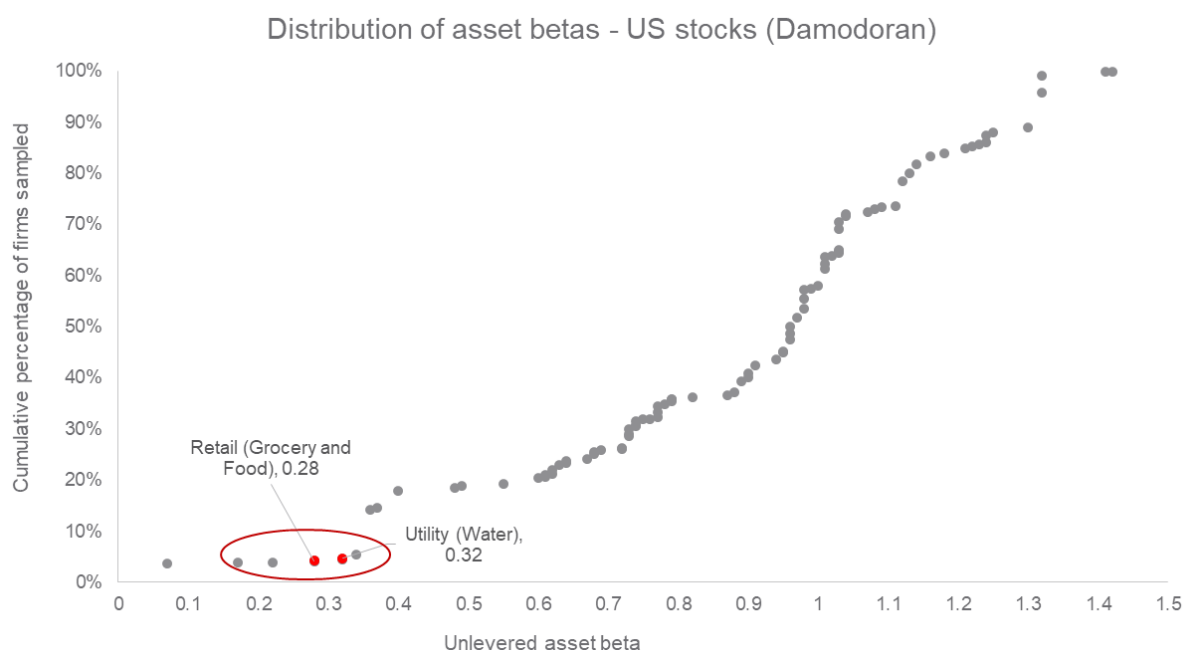
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<sup>155</sup> A. Damodaran, Beta, Unlevered beta and other risk measures  
[www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls](http://www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls) (last updated on 5 January 2019)

structures. For the remaining seven industries,<sup>156</sup> the median equity beta is 0.45 and the median gearing is 45%.

This is the same approach that we took for our 2019 review of the Valuer General's prices for property valuation services provided to local government.

**Figure D.1 Distribution of asset betas**



**Source:** A. Damodaran, Beta, Unlevered beta and other risk measures, [www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls](http://www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls) (last updated on 5 January 2019); and IPART analysis.

### Comparison to other betas published by IPART

The proposed equity beta of 0.45 with 45% gearing corresponds to an asset beta of 0.28, which is at the bottom end of asset betas previously adopted by IPART. Table D.2 below shows the range of asset beta values we have previously adopted.

<sup>156</sup> These seven industries are: Utility (general), Rubber & Tires, Retail (Grocery and Food), Bank (Money Center), Utility (Water), Auto & Truck, Power.



**Table D.2 Range of asset beta values previously adopted by IPART**

Industry	Asset beta adopted by IPART
Cruise terminal	0.60
Private ferries, Sydney ferries	0.45
Rural and regional buses	0.43
Rail access – freight rail (2014)	0.38
Sydney and NSW Trains (passenger rail)	0.36
Light rail	0.35
Valuer General (2014, implied from equity beta and gearing)	0.34
Water industry	0.28
Valuer General (2019)	0.28
<b>Election Costing (2019 proposed here)</b>	<b>0.28</b>

**Note:** Equity beta values will be higher than these asset betas because they also reflect financial risk. The conversion between the two depends on each firm's gearing and the prevailing corporate tax rate.

**Source:** IPART analysis.

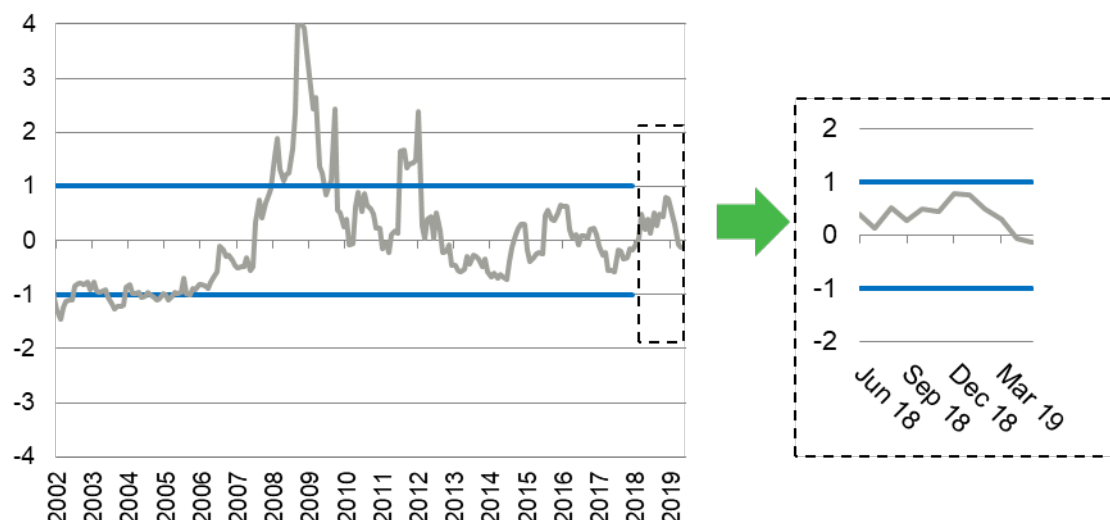
## Gearing ratio

We propose to adopt a gearing level of 45% based on the median of the seven remaining industry groups (after excluding Financial Services (non-bank & insurance)) within the lowest decile of asset beta from the Damodaran data set. This gearing level is matched to the industry with the median equity beta from that set, so it represents an example of an industry in which people are actually prepared to invest equity at the implied equity return.

## Uncertainty index

We tested the uncertainty index for market observations to the end of May 2019. It was within the bounds of plus and minus one standard deviation of the long-term mean value of zero. Therefore, we maintain the default 50% weighting between current and historic market estimates of the cost of debt and the cost of equity.

**Figure D.2** IPART's uncertainty index



**Data source:** Thompson Reuters, Bloomberg and IPART calculations.

### D.3 Background to method

#### Documentation of our method

We have applied IPART's standard WACC method, as described in our February 2018 Final Report:

<https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Reviews/WACC/WACC-Methodology-2017/20-Feb-2018-Final-Report/Final-Report-Review-of-our-WACC-method-February-2018>

We use our standard WACC model spreadsheet to perform these calculations. We publish a public version of this spreadsheet bi-annually:


<https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Regulatory-policy/WACC/Market-Update/Spreadsheet-WACC-model-February-2019>

We are presently consulting on our automated method of performing proxy company analysis to determine equity beta and target gearing for a Benchmark Efficient Entity:

<https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-administrative-legislative-requirements-sea-wacc-methodology-2017/fact-sheet-estimate-equity-beta-1-april-2019.pdf>

#### Proxy company analysis

In order to estimate representative values of gearing and equity beta for the BEE, we undertake proxy company analysis. This analysis begins by identifying industry types that have a similar level of systematic risk to the BEE. If the BEE clearly belongs to an industry



with many listed firms, then we would use that as the proxy industry. Otherwise, we would use other methods to find industries that, while not directly related to the BEE, might face a similar risk profile to the BEE.

Within the proxy industries, the firms for which sufficient data is available are the proxy companies. We calculate the equity beta for each of these proxy companies by estimating the covariance between the monthly returns of the firm and the monthly returns of a portfolio of all equities in the market, divided by the variance of the market returns. Using the gearing of each firm, we compute an asset beta from its equity beta (de-levering).

We find the median asset beta for the proxy company set, and then re-lever it using a target gearing, which we would usually establish with regard to the median gearing from the proxy firms. The resulting equity beta is the one we use in our WACC calculation.

## E Glossary

Client councils	Councils which have engaged the NSWEC to manage their elections.
Common costs	Costs incurred by the NSWEC that are common to both local government election services and the NSWEC's other functions (eg, State Government election services).
CPI	Consumer Price Index.
Direct costs	Incremental costs traceable to an individual client council.
EMF	Election Management Fee. Share of the NSWEC's executive overheads that is recouped from councils on a per elector basis under its existing costing methodology.
Impactor	The entity that creates the costs – or the need to incur the costs.
Incremental costs	Costs incurred by the NSWEC that are specific to local government elections.
IPART	The Independent Pricing and Regulatory Tribunal of NSW.
LGCI	Local Government Cost Index.
NRR	Notional revenue requirement. Revenue requirement recommended by IPART that represents the NSWEC's total efficient costs of providing the 2020 local government elections.
NSWEC	New South Wales Electoral Commission.
RAB	Regulatory asset base.
WACC	Weighted average cost of capital.
WIGM	Weighted inclusive Gregory method.