

25 June 2019

WHAT

IPART is reviewing the amount the NSW Electoral Commission (NSWEC) can charge councils for administering local government elections in 2020.

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 all client-councils, mostly on a per-electoral basis.
- ▼ The NSW Government pays for non-contestable election services as no mechanism exists to charge for these 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.

WHY

The NSW Government has asked IPART to recommend a costing methodology to be applied in determining the amount the NSWEC charges councils for local government election services.

This is the first time IPART has reviewed the cost of local government elections.

WHO

We would like to hear from:

- ▼ Local councils
- ▼ NSW Government agencies (eg, the NSWEC, Treasury)
- ▼ Private providers of election services
- ▼ Any other interested stakeholders.

HOW

We have considered the NSWEC’s proposal and stakeholders’ submissions on our Issues Paper in making our draft recommendations. We also sought advice from Ernst & Young (EY) on the efficient costs of administering local government elections

We are now seeking stakeholder feedback on our draft recommendations. We will consider all stakeholder views prior to presenting our final recommendations to the Minister for Local Government by **Friday 30 August 2019**.

WHAT NEXT

We invite all interested parties to make a submission on our Draft Report by COB, **19 July 2019**. Information on how to make a submission can be found here: <https://www.ipart.nsw.gov.au/Home/Contact-Us/Make-a-Submission>

We will hold a Public Forum on **2 July 2019**. You can register to attend the Public Forum on IPART’s website.

1 Our Draft Recommendations

We have identified 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 State 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 consumption decisions over time by the councils in relation to the provision of election services.
- ▼ Ensure that the NSWEC is not unduly advantaged or disadvantaged in competing with potential alternative election services suppliers to councils (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 1.1 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 identified efficiency savings

We recommend a \$2.6 million (4.5%) reduction to the NSWEC's proposed costs to provide its election services for the 2020 local government election services. The savings would result from:

- ▼ Reducing the NSWEC's operating costs for local government elections by \$8.8 million (or 15.6%), to \$47.7 million, compared to the \$56.5 million it proposed.

- ▼ Adding \$6.2 million of capital related costs and overheads required to run local government elections, which were not included in the NSWEC's proposal.

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 joint common costs to our estimate of the total efficient cost of local government elections in 2020.

Price regulation is required for the 2020 local government elections

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 findings highlight the need to review the efficiency of the NSWEC's proposed costs and to regulate prices, at least in the short-term.

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 proposed measures to better facilitate competition post 2020. These measure would increase councils' range of choices and enhance cost certainty.

Councils should pay a larger share of efficient costs

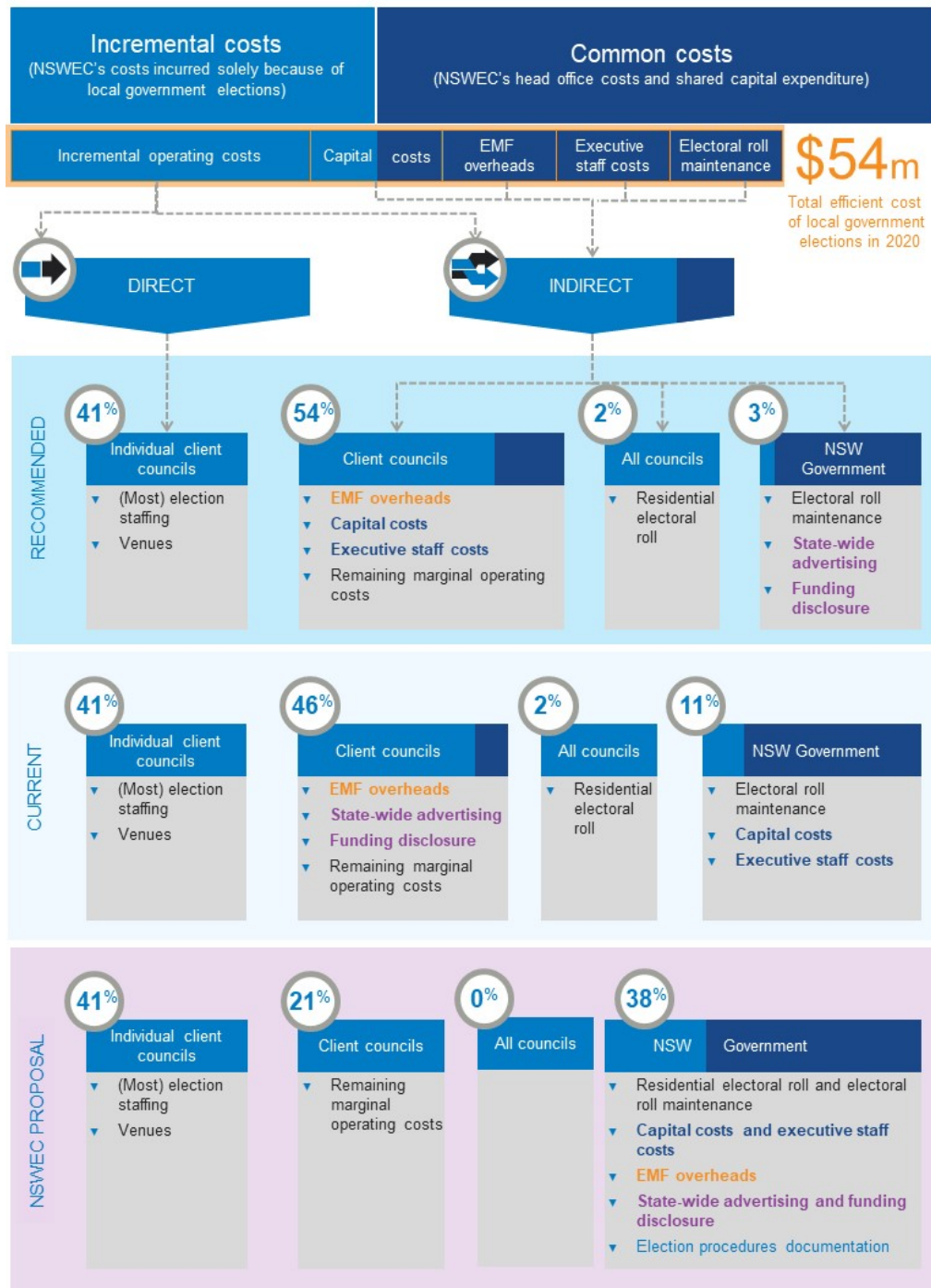
Consistent with the impactor-pays principle, we recommend councils, in aggregate, pay a **larger share of the efficient costs** of providing local government elections compared to what they have in the past and what the NSWEC proposed for 2020.

Figure 1 shows that under our approach, councils would pay for 97% of the NSWEC's costs of administering local government elections. The NSW Government (or NSW taxpayers) would pay the NSWEC's remaining costs of administering local government elections. In contrast:

- ▼ Under the NSWEC's existing allocation of costs, councils would pay for 89% of the cost of local government elections.
- ▼ Under the NSWEC's proposed allocation of costs, councils would pay for 62% of the cost of local government elections.

This means that while the NSWEC's 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 around 62% compared to 2016-17 and around 24% compared to what the NSWEC proposed. Despite these substantial increases, IPART expects any impact on ratepayers to be modest as election costs account for a small proportion of councils' total costs.

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.