



Independent Pricing and Regulatory Tribunal  
New South Wales

# Review of local government election costs

Final Report  
Local Government

August 2019

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# 1 Executive summary

The Premier asked IPART to provide the Minister for Local Government (the Minister) with advice on the cost of conducting local government elections. This is our Final Report to the Minister, which outlines our recommended costing methodology to be applied in determining the amount the NSW Electoral Commissioner (NSWEC) charges councils which use it to administer their ordinary elections.

In preparing our advice to the Minister, we found that the NSWEC's proposed costs for administering local government elections in September 2020 are greater than efficient levels. It proposed costs of \$12.72 per elector (\$2020-21). This is 45% higher than the cost of administering elections in 2016 and 2017, and 96% higher than the cost of administering elections in 2012.

We found that significant efficiency savings can be achieved through price regulation and greater competition in the market for election services. Despite having the option available to them since 2011, very few councils have used an alternative provider to administer their elections. This may partly reflect impediments to competition, which we have sought to address in our recommendations, including how the NSWEC's efficient costs are allocated between the NSW Government and local councils.

Our recommended costing methodology allocates the full, efficient costs of the NSWEC's contestable services to councils. We have done this because cost-reflective bills:


- ▼ 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
- ▼ 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 innovation and cost savings over time associated with such competition).

Moving to cost-reflective prices for the 2020 elections would mean an average increase in council bills from the NSWEC of 51% compared to the 2016-2017 elections.<sup>1</sup> This is in part due to general inflation and growth in the number of electors. It is also due to the removal of opaque government subsidies of the NSWEC's costs and some increases in efficient costs.

To ease council's concerns about the affordability of higher bills, we recommend that the NSW Government provide \$15.0 million in direct funding to councils to offset bill increases in 2020. This would mean that councils face no net increase in bills, excluding the effects of inflation and electoral roll growth, since 2016-17. We recommend the subsidy be paid to all councils, regardless of which election services provider they engage.

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<sup>1</sup> Excluding Carrathool Shire Council and Coolamon Shire Council which held uncontested elections in 2016.



We estimate that, with this subsidy to councils, average council bills would increase in nominal terms (ie, including the effects of inflation and roll growth) by 9% from the 2016-17 elections to the 2020 election. Over the same period, we estimate that, under the rate peg, council general income will increase by 7%. Councils that have experienced growth in elector numbers would face higher total bill increases than those who have not experienced such growth – but, under our recommended subsidy, councils would face no increase in their election costs on a per elector basis, apart from inflation.

Our recommendation to provide a subsidy direct to councils rather than the NSWEC would also help to promote competition in the supply of election services and hence greater choice for councils. Over time, such competition, or even the threat of competition, can promote innovation and other efficiency gains in the supply of election services.

We also recommend that the NSW Electoral Commission establish performance standards (ie, minimum level of service) that would apply to all local government elections, including those administered by the NSWEC, as well as those administered by private electoral service providers.

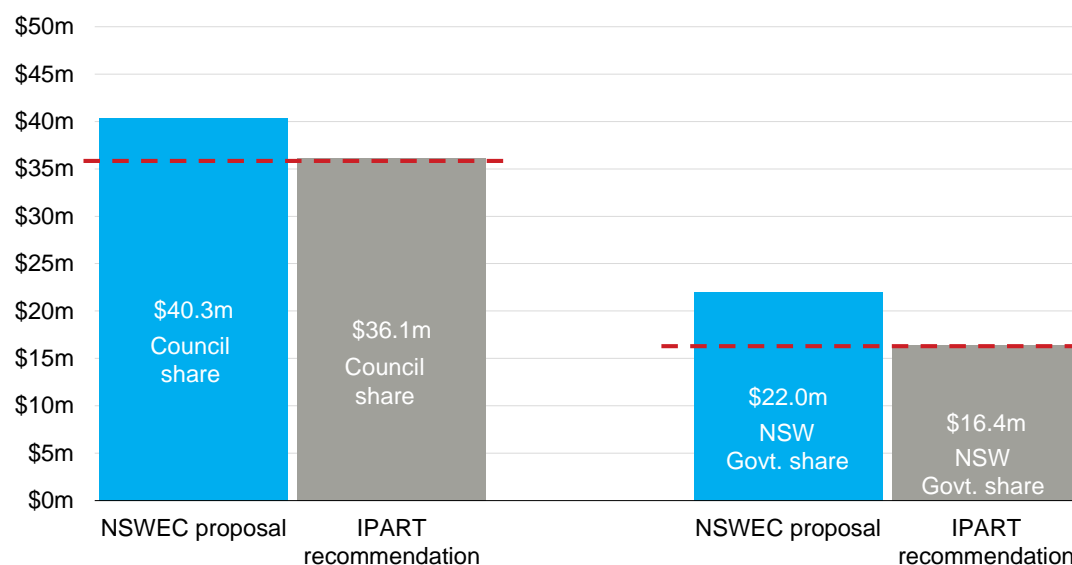
Additionally, we recommend the NSW Government reduce the period before an election by which a council has to resolve to engage the NSWEC from 18 months to 9 months, and give further consideration to:

- ▼ The mandatory offering of specific local government election services by the NSWEC
- ▼ The introduction of eligibility requirements for who can be an ‘electoral services provider’
- ▼ The provision of assistance to councils to further develop their election management capabilities (eg, the process for engaging a suitable electoral services provider), through guidelines and/or a training program delivered by the Office of Local Government
- ▼ The introduction of electronic voting for the 2024 local government elections
- ▼ Shorter pre-polling periods.

Compared to the NSWEC’s proposed costs and allocation of costs, our recommendations would reduce costs to both councils and the NSW Government for the 2020 elections (see Figure 1.1). Notably, our recommendations would also enhance the potential for competition in the supply of election services, and therefore increase the potential for further innovation and cost savings.



**Figure 1.1 NSWEC proposal compared to IPART recommended cost allocation (\$2020 - 21)**



**Note:** The \$16.4 million NSW Government share comprises our allocation of \$2.8 million of the NSWEC's efficient costs, as well as a \$13.6 million subsidy. This \$13.6 million subsidy is for the councils that used the NSWEC in 2016 and 2017. It is what the NSWEC's cost proposal, and therefore our recommended notional revenue requirement, is based on. By including a subsidy for the seven councils that did not engage the NSWEC in 2016 or 2017, plus revising the subsidy for two councils which had uncontested elections during this period (and thus unrepresentatively lower costs), this would increase the total subsidy to \$15.0 million and NSW Government share of costs to \$17.8 million.

**Data source:** IPART analysis.

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

We found that although most local government election services are likely to be contestable, the market for local government election services is currently a near-monopoly. This, and the very sharp increases in costs proposed by the NSWEC, highlights the need to review the efficiency of the NSWEC's proposed costs and to regulate prices, at least in the short-term.

In our view, 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. This would create a pricing structure that gives councils better understanding and more certainty in their bills and an ability to discuss cost savings with the NSWEC. It would also facilitate competition, by improving the available information on the NSWEC's costs and service levels and allowing comparison of the NSWEC with other service providers.

As there are currently no explicit service standards, we recommend they be established by the NSW Electoral Commission and that they apply to local government elections administered by the NSWEC as well as those administered by private electoral service providers. The standards should be consistent with the relevant objectives in the *Electoral Act 2017* and be established with regard to the principles of competitive neutrality. The consequences of a failure to meet performance standards should also be specified in legislation.

Such standards should also be designed and set according to best practice regulatory principles, including the proportionate assessment of alternative options and consideration of their costs and benefits.

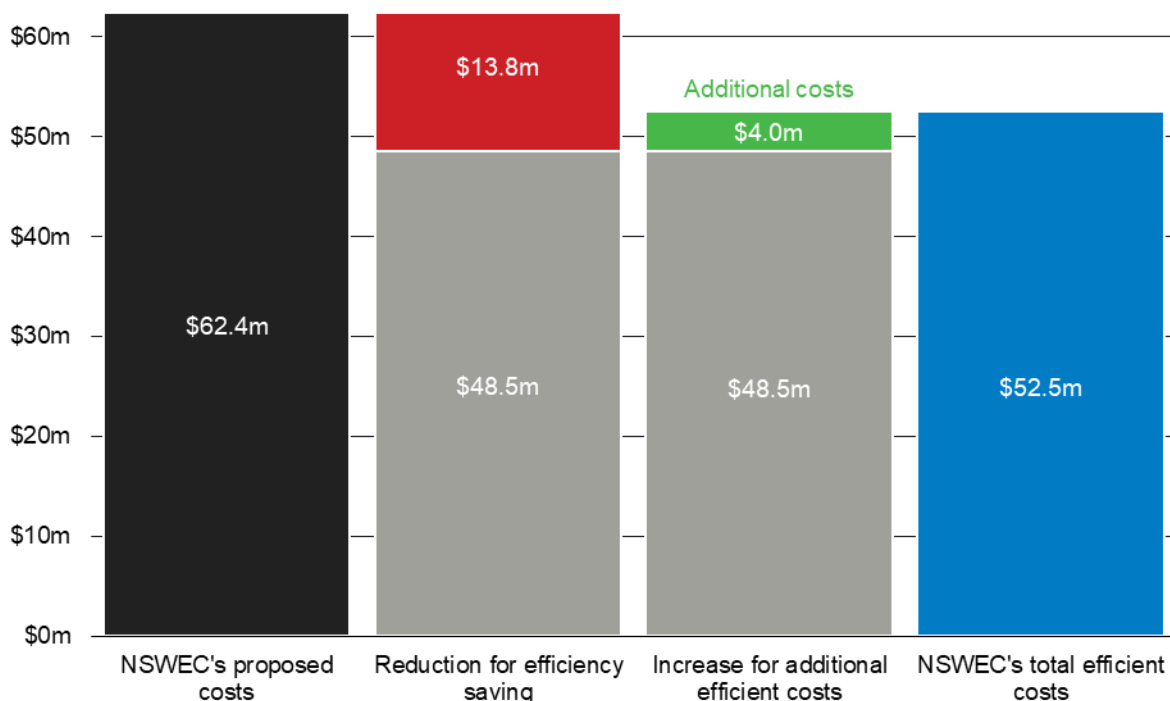
## 1.2 We have identified efficiency savings

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. We also considered whether it would incur additional efficient costs outside of its proposal. We used the 'building block' approach to combine these costs and calculate the NSWEC's notional revenue requirement (NRR).

We recommend that the NRR be set at \$52.48 million. This represents our view of the total efficient costs of the NSWEC administering the 2020 local government elections.

Looking at those items included in the NSWEC's proposal, we are recommending a \$13.8 million (22.2%) reduction in expenditure. That is, we consider the efficient costs of these items to be \$48.5 million, compared to \$62.4 million proposed by the NSWEC. We then included \$4.0 million of additional efficient costs that were omitted from the NSWEC cost estimate, giving our total efficient cost estimate of \$52.5 million (see Figure 1.2).

**Figure 1.2 Efficiency review of NSWEC's proposed election costs (\$2019-20)**



Data source: IPART analysis.

### 1.3 Prices should reflect the full, efficient cost of providing election services

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 local government 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).

We have used our impactor-pays funding hierarchy for allocating these costs. In terms of the NSWEC's costs of providing services for local government elections, we view councils as the 'impactors'. Through holding elections, they create the need for the NSWEC to incur expenditure. Therefore, the efficient costs of the NSWEC providing local government election services (where practical) should be allocated to them.

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

- ▼ 'Direct costs' – which comprise the incremental costs directly traceable to an individual client council – are allocated to those client councils.
- ▼ 'Indirect costs' – which comprise the common costs and remaining incremental costs – are mostly allocated between client councils. The only exceptions are:
  - The cost of electoral roll preparation services,<sup>2</sup> 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 the 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: communications (eg, state-wide advertising and community education materials) and maintaining the electoral roll.<sup>3</sup>

Compared to the NSWEC's proposal, we are recommending: lower costs overall, a greater share of costs be allocated to councils, and a lower share of costs be allocated to the NSW Government.

### 1.4 NSW Government should subsidise council bills for the 2020 elections

As noted above, since our Draft Report we have included an additional recommendation that the NSW Government provide \$15.0 million in direct funding to councils to offset bill increases in 2020. This would mean that councils should face no net increase in bills, excluding the effects of inflation and electoral roll growth since 2016-17.

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<sup>2</sup> The NSWEC's cost proposal uses the term 'event roll' rather than 'electoral roll'. For ease of understanding, we have used the term 'electoral roll', which is consistent with how we described this service in the Draft Report.

<sup>3</sup> In the Draft Report, we also recommended the NSWEC's funding disclosure services should be allocated to the NSW Government. However, it did not include this service in its revised cost proposal, which we have examined in Chapter 3 of this report.

We consider it important that this subsidy be paid directly to councils. This has two benefits:

- ▼ Councils would still receive a cost-reflective bill from their election service provider, and as such the full costs of that provider would be made transparent to the council.
- ▼ Direct payment of the subsidy to councils would mean that they receive the benefit of the subsidy regardless of the service provider they choose. This enhances competition and gives councils greater control and choice.

Under the NSWEC's proposal, the total NSW Government contribution towards the 2020 local government elections would be \$22.0 million. This is based on its allocation of "core" activity costs to government, with "non-core" activity costs allocated to councils.

Under our final recommendations, the total NSW Government contribution would be \$17.8 million, made up of:

- ▼ \$2.8 million of efficient costs allocated to government for services that are non-contestable
- ▼ \$15.0 million in direct government subsidies to councils.<sup>4</sup>

Our recommendations result in lower costs for both councils and the NSW Government for the 2020 elections.

## 1.5 Structure of this report

The following chapters explain how we have reached our final recommendations:

- ▼ Chapter 2 examines the state of the market for election services and explains our recommendations about price regulation, performance standards and possible further reform of the regulatory arrangements concerning the administration of local government elections.
- ▼ Chapter 3 discusses our efficiency review of the NSWEC's election services and explains our recommendations on the components of its notional revenue requirement.
- ▼ Chapter 4 explains our recommendations 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 decisions on councils' election bills and explains our recommended subsidy to councils.

Appendix E sets out the estimated cost-reflective bills for each council, which excludes our recommended Government subsidy. Appendix F shows our recommended Government funding (or subsidy) for each council, as well as each council's net bill (ie, the costs they would actually face after receiving the government subsidy we recommend).

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<sup>4</sup> The \$15.0 million subsidy includes \$13.6 million for councils that used the NSWEC for the 2016-17 elections, an additional \$1.5 million to the other seven councils that did not engage the NSWEC in 2016 or 2017, plus a revised subsidy for two councils which had uncontested elections (and thus unrepresentatively lower costs).

## 1.6 List of final recommendations

- 1 The NSWEC be required to clearly and transparently price each of its local government election services at an explicit and measurable level of service provision. 18
- 2 The NSW Electoral Commission establish performance standards (ie, minimum level of service) that would apply to the local government elections administered by the NSWEC as well as those administered by private electoral service providers. The standards should be consistent with the relevant objectives in the *Electoral Act 2017* and be established with regard to the principles of competitive neutrality. The consequences of a failure to meet performance standards should also be specified in legislation. 18
- 3 The NSWEC be required to provide a binding quote to each council that is interested in the NSWEC administering its election. 18
- 4 The NSW Government reduce the period before an election by which a council has to resolve to engage the NSWEC to 9 months and give further consideration to: 23
  - The mandatory offering of specific local government election services by the NSWEC 23
  - Introduction of eligibility requirements for who can be an ‘electoral services provider’ 23
  - Provision of assistance to councils to further develop their election management capabilities (eg, the process for engaging a suitable electoral services provider), through guidelines and/or a training program delivered by the Office of Local Government 23
  - Introduction of electronic voting for local government elections 23
  - Shorter pre-polling periods. 23
- 5 For the 2020 local government elections, the NSWEC’s notional revenue requirement be set at \$52.48 million. This comprises allowances for: 36
  - Operating expenditure of \$49.75 million. 36
  - A return of assets (depreciation) of \$1.65 million. 36
  - A return on assets of \$0.36 million. 36
  - A return on working capital of \$0.57 million 36
  - Tax of \$0.16 million. 36
- 6 The NSWEC allocate its efficient costs of managing local government elections using a methodology based on the impactor-pays funding hierarchy. That is, where possible, costs are allocated to the parties that create the need for those costs. Where it is impractical to allocate costs in this way, they are funded by the NSW Government (ie, taxpayers). 62
- 7 Applying the impactor-pays funding hierarchy means the NSWEC allocates to: 62

- 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. 62
  - Client and non-client councils, the efficient cost of the electoral roll preparation services it provides to both types of council. 63
  - 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, communications – such as state-wide advertising and community education materials - as well as maintaining the electoral roll). 63
- 8 The indirect costs the NSWEC allocates to client councils (and, in relation to electoral roll services, client and non-client councils) 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: 63
- Shared Returning Officer costs should be allocated by the number of electors for each client council in the Shared Returning Officer grouping. 63
  - Sydney Town Hall costs should be allocated by the number of ballots for each of the client councils using the Sydney Town Hall as a polling place (both pre-polling and on election day). 63
  - 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. 63
  - Other counting and results costs (eg, project resource costs) should be allocated by the number of ballots for each client council. 63
  - Local government boundaries costs (part of electoral roll preparation 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). 63
  - Postal voting costs should be allocated by the number of ballots issued by each client council. 63
- 9 The prices charged by the NSWEC for administering local government elections in 2020 be no more than the cost-reflective amount for each council that we have listed in Table E.1 at Attachment E. 81
- 10 The NSW Government provide funding of the amount listed in Table F.1 at Attachment F to each council (rather than the NSWEC), regardless of whether the council engages the NSWEC or a private electoral services provider. This would mean the maximum real increase per elector, for the 2020 elections, for councils that held contested elections in 2016-17 would be 0%. 84

## 2 Price regulation and competition

The Terms of Reference (ToR) for this review require us to have regard to the market for electoral services in which the NSWEC operates. This is important in the context of assessing the NSWEC's costs and charges to local councils in providing election services, and ensuring local government elections are conducted efficiently and cost-effectively (which the ToR indicates is the purpose of our review).

We assessed the state of the market in NSW for electoral services to local government to understand the current level of competitiveness in the market, and the possible development of competition over the next few years.

Consistent with our Draft Report:

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

In our Draft Report, we explained how increasing competitive pressure in the market for local government election services could provide benefits to councils. We proposed a new model of service provision and supporting measures to address existing barriers to participating in the market.

Features of the new market model we proposed included the mandatory unbundling, component pricing and offering of the NSWEC's specific local government election services. We also recommended the establishment of independent regulatory oversight of the NSWEC's prices for unbundled local government election services, until genuine choice and competition emerges.

In this Final Report, we maintain that 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. As noted in our Draft Report, this 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.

However, we recognise that while many council stakeholders support the unbundling of the NSWEC's services in principle, several have concerns about how this would work in practice. The NSWEC is also opposed to a model where it only provides some services.

Given this, we recommend that the NSW Government give further consideration to the mandatory offering of the NSWEC's individual (ie, unbundled) local government election services<sup>5</sup> and other possible regulatory reforms and supporting measures.

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<sup>5</sup> That is, whether the NSWEC should be required to enter into an arrangement where a council only uses a sub-set of its services (and engages a private provider for the remaining services).

## 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>6</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 Competition in the market for local government election services

Since 2011, councils have had the option of contracting the NSWEC or a private provider to administer their elections. Until June 2019, council general managers could also choose to administer their council’s election without entering into a contract with an election service provider. Despite having the option available to them, very few councils have used an alternative provider to administer their elections and only one council has conducted its own election.

While the market for the provision of local government election services is at present a near-monopoly, we consider most local government election services are likely to be contestable in the longer term. These findings are unchanged since our Draft Report.

Councils that have used a private provider have found that they pay less than what they expected to pay had the NSWEC administered their elections.<sup>7</sup> Consistent with this experience, we expect increasing competitive pressure in the market for local government election services would help reduce costs to councils and increase flexibility and options in service delivery, giving councils more choice in how elections are administered.

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<sup>6</sup> NSW Electoral Commission, *Annual Report 2016-17*, p 28.

<sup>7</sup> Lake Macquarie City Council submission to IPART Issues Paper, May 2019, p 1; Penrith City Council submission to IPART Issues Paper, May 2019, p 2.



The NSWEC has a small capital base and most expenditure on local government elections is scalable, which means that any loss in efficiencies derived through economies of scale would likely be small. Further, we expect any loss would be outweighed by the benefits of dynamic, allocative and productive efficiency gains that may be achieved through increased competition.

We also 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.

We acknowledge the concerns of some councils that private electoral service providers may favour some areas over others. However, in response we note that:

- ▼ We have sought to allocate the NSWEC's costs and set its prices so that they are as cost-reflective as possible. This should minimise the opportunity for inefficient 'cherry picking' by private providers and mean that private providers should only be able to obtain market share from the NSWEC where they can genuinely provide services at lower cost and/or a higher level than the NSWEC.
- ▼ Through the pressures of competition or price regulation, the NSWEC's remaining customers should pay no more than the efficient costs of providing services to them (ie, they should not be allocated costs greater than what is required to efficiently service them). This may mean, for example, that if the NSWEC were to lose sufficient market share, it may need to write down or 'strand' assets rather than seek to recover all of its fixed costs from a smaller customer base. This means that customers would pay no more than the efficient cost of providing the service.

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

As set out in our Issues Paper and Draft Report, the market for local government election services appears to be highly concentrated. Despite the introduction of contestability for the 2012 elections, 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 provided election services to around 9% of local government elections in 2012,<sup>9</sup> with its market share decreasing to around 5% for the 2016 and 2017 elections. It has mainly serviced larger metropolitan and regional councils.<sup>10</sup>

Our assessment is that the market for local government election services is currently not workably competitive. That is, most councils do not currently have genuine choice in terms of their service provider.

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<sup>8</sup> At the 2016 and 2017 local government elections, it managed 121 of the 127 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> NSW Department of Premier and Cabinet, *Review of 2012 Council Run Elections*, June 2013, p 3; NSW Parliament Joint Standing Committee on Electoral Matters, *Inquiry into the 2012 Local Government Elections*, March 2014, p iv.

<sup>10</sup> In 2016 and 2017 the Australian Election Company provided election services for Fairfield City Council, Kempsey Shire Council, Lake Macquarie City Council, Maitland City Council and Penrith City Council.

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 NSWEC (which favours the appointment of the NSWEC).
- ▼ 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 more detail in Chapter 6 of our Draft Report.<sup>11</sup> Section 2.4 provides our recommendations to the NSW Government on possible reforms for future elections that would address these issues.

Although one council commented on contract value thresholds for tendering requirements in response to our Draft Report,<sup>12</sup> we have not included this in our list of items for further consideration because we consider it important that councils go through a competitive tender process for high value procurements to obtain value for money. We also do not think it is reasonable to require the NSWEC to participate in a tender process where the council has no intention of using an alternative provider. We do, however, recommend that the NSWEC be required to provide a binding quote to each council that is interested in the NSWEC administering its election.

### **2.2.2 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.

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<sup>11</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 specialised 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>12</sup> Lane Cove Council noted that the recent increase in the tender threshold to \$250,000 does not negate the need for competitive tendering for election services from private providers for larger councils, and that undertaking this (the tender) process results in further diversions of council resources and costs to rate payers, increasing the attractiveness of engaging the NSWEC. (Lane Cove Council submission to IPART Draft Report, July 2019, p 3)

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.

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 is that these services are contestable.

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

- ▼ Supplying electoral roll products for local government elections (including a list of voters registered to automatically receive postal votes).
- ▼ 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.
- ▼ Maintaining the residential electoral roll.<sup>16</sup>
- ▼ Ensuring funding and disclosure procedures are updated for the latest legislative and operational changes and in time for the election.
- ▼ Notifying individuals of their eligibility to vote and enrolling electors for a ward or area.

In its proposed costs for local government elections in 2020, the NSWEC has included amounts for the first two of these services (ie, supplying electoral roll products and running a state-wide election awareness advertising campaign).<sup>17</sup> We have included the efficient costs for

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<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.

<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> The cost estimates used in our Draft Report also included proposed costs for funding and disclosure procedures.



these services, as well as the efficient costs of maintaining the residential electoral roll, in our estimate of the NSWEC's notional revenue requirement (see Chapter 3).

Because these three services cannot currently be delivered 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.

We have maintained the finding in our Draft Report that the counting of votes using the Weighted Inclusive Gregory Method (WIGM) is a contestable service.<sup>18</sup> The Australian Election Company stated that a cost-effective licensing arrangement to access the NSWEC's counting software would be advantageous. However, it considers it will "not be difficult to update its counting software for the regulatory changes".<sup>19</sup>

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<sup>18</sup> 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, 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 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. This change will take effect on 11 September 2020, immediately before the 2020 local government elections.

<sup>19</sup> Australian Election Company submission to IPART Draft Report, July 2019, p 1.

**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>	
Staffing	Contestable
Venue procurement	Contestable
Procedures, forms and training	Contestable
Logistics	Contestable
Ballot papers	Contestable
Project management	Contestable
Electoral roll preparation <sup>a</sup>	Non-contestable
Client liaison	Contestable
Call centre	Contestable
Nominations	Contestable
Counting and results <sup>b</sup>	Contestable
Postal voting	Contestable
Technology	Contestable
Communications – State-wide election awareness campaign	Non-contestable
Communications – Post election surveys	Contestable
Event readiness	Contestable
Event financial management	Contestable
Data management	Contestable
Overtime	Contestable
Sydney Town Hall	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> 'Electoral roll' means the 'event roll' referred to in the NSWEC's cost proposal.

<sup>b</sup> We consider the service of counting votes by the Weighted Inclusive Gregory Method (WIGM) is a contestable service.

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

### 2.2.3 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, customers get the best possible prices, quantity, and quality of goods and services.

Competitive markets are also responsive to changes in customer 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 innovation which results in new or better products, or more efficient processes. Innovation benefits customers with new and better products.

Competition is a means to increasing consumer welfare and while greater competition is generally desirable, it may not be possible (or practicable) for all election services.<sup>20</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'.<sup>21</sup>

Box 2.1 outlines how competition can drive the different types of economic efficiency, for the benefit of customers and society as a whole.

### **Box 2.1 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 customers.

**Allocative efficiency** is achieved when production represents customer 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.

At present, local government election 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, and councils have limited opportunity to influence decisions on the level of service they receive.

**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.

Competing service providers will respond to changes in customer 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.

In response to our Draft Report, several stakeholders argued that greater competition will lead to higher service costs given the economies of scale and scope benefits attributable to a

<sup>20</sup> Although this can change over time with, for example, advances in technology.

<sup>21</sup> This means that one party will not have any undue advantage or disadvantage over relative to another, so that competition occurs where it is efficient.

monopoly supplier.<sup>22</sup> Brewarrina Shire Council states that "...assuming that the larger metropolitan and city councils choose to outsource the election to others, there is no suggestion that as a consequence, the SEC [sic] will reduce staff and administration costs".<sup>23</sup>

The NSWEC also commented on economy of scale benefits:

Pricing is currently based on a minimum 90 per cent of councils utilising all NSWEC services. Not all services are elastic. The diminution in use of services will result in a loss of 'economy of scale' and thereby lead to higher per council costs.<sup>24</sup>

The NSWEC has a small capital base and most expenditure on local government elections is scalable which means that any loss in efficiencies derived through economies of scale would likely be small. Further, we expect

We acknowledge that the productive efficiency of a provider could be affected by economies of scale, but the effect may not be as great as stakeholders think given the NSWEC has a small capital base and most expenditure on local government elections is scalable. We consider that the potential dynamic, allocative and productive efficiency gains that may be achieved through increased competition would likely outweigh any loss in efficiencies derived through economies of scale.

We also note that if the NSWEC does lose market share to private providers, all of its remaining fixed costs should not necessarily be allocated across its (smaller) remaining customer base. Rather, through the pressures of competition or price regulation (which we recommend where a council does not have genuine choice in its service provider), only the efficient costs of serving its remaining customers should be allocated across this customer base. This may mean that some of the NSWEC's assets are 'stranded' or written down – as can occur in competitive markets when incumbents lose market share to new entrants.

#### **2.2.4 Councils are concerned private electoral service providers may favour some areas**

In our Draft Report we 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>25</sup> However, it explained that certain characteristics of regional and rural councils lead to higher expenses for some election components. This observation was also made Lake Macquarie City Council in its submission to our Issues Paper.<sup>26</sup>

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<sup>22</sup> Brewarrina Shire Council submission to IPART Draft Report, June 2019, p 2; Cessnock City Council submission to IPART Draft Report, July 2019, pp 2-3; Hawkesbury City Council submission to IPART Draft Report, July 2019, p 2; Northern Beaches Council submission to IPART Draft Report, July 2019, p 4; Riverina Joint Organisation submission to IPART Draft Report, July 2019, p 3.

<sup>23</sup> Brewarrina Shire Council submission to IPART Draft Report, June 2019, p 2.

<sup>24</sup> NSWEC submission to IPART Draft Report, July 2019, p 2.

<sup>25</sup> NSWEC submission to IPART Issues Paper, July 2019, p 20.

<sup>26</sup> Lake Macquarie City Council, submission to IPART Issues Paper, 9 May 2019, p 4.

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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 council).

We note that the structure of the NSWEC's prices for election services will have a strong effect on where private providers choose to and are able to compete to offer services. Private providers will have an incentive to supply to councils where their margins are the greatest (ie, where there is the greatest difference between their costs of supplying the services and the revenue they receive from the prices they levy councils). For a given level of service, the NSWEC's prices will likely represent a cap on the price the private providers can practically charge.

If the NSWEC was to set prices by averaging all of its costs across councils, so that it charged uniform prices to all councils, regardless of variations in the costs of servicing different councils, then private providers would have an incentive to 'cherry pick' lower cost councils and potentially 'out compete' the NSWEC even though they may not be more efficient. On the other hand, if the NSWEC was to levy cost-reflective prices based on the cost of servicing different councils, then private providers would only have an incentive to service councils where they could genuinely provide services more efficiently. Our cost allocation approach seeks to set the NSWEC's prices to councils in a way that is as cost-reflective as possible, to promote efficient competition (see Chapter 4).

## 2.3 Regulation of the NSWEC's prices and establishing service standards

### Final Recommendations

- 1 The NSWEC be required to clearly and transparently price each of its local government election services at an explicit and measurable level of service provision.
- 2 The NSW Electoral Commission establish performance standards (ie, minimum level of service) that would apply to the local government elections administered by the NSWEC as well as those administered by private electoral service providers. The standards should be consistent with the relevant objectives in the *Electoral Act 2017* and be established with regard to the principles of competitive neutrality. The consequences of a failure to meet performance standards should also be specified in legislation.
- 3 The NSWEC be required to provide a binding quote to each council that is interested in the NSWEC administering its election.

We present our recommendations on the NSWEC's efficient costs in Chapter 3 and in Chapter 4 we explain our approach to allocating the efficient costs to councils to achieve cost-reflective prices. Our recommended cost-reflective prices for local government elections administered by the NSWEC in 2020 are set out for each council in Appendix E.

The consultant we used to inform our recommendation on the NSWEC's efficient costs noted that its task of assessing the prudence and efficiency of the NSWEC's proposed expenditure on local government elections was challenging, given the absence of explicit and measurable



level of service provision. In response, we recommend the NSW Electoral Commission establish performance standards (ie, minimum level of service) that would apply to the local government elections administered by the NSWEC as well as those administered by private electoral service providers.

As well as being essential for price regulation, we consider that the introduction of explicit and measurable service standards is important because it would address councils' concerns about the lack of flexibility in how the NSWEC delivers its service. Further, explicit and measurable service standards would assist councils seeking to engage a private electoral services provider.

### **2.3.1 Transparent and cost-reflective pricing may enhance competition**

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. In addition, we recommend that the NSWEC be required to provide a binding quote to each council that is interested in the NSWEC administering its election. In response, the NSWEC submitted that:

There are significantly different and nuanced policy considerations that apply to the regulation of democratic processes, as opposed to the regulation of utilities or public transport delivered by government-owned businesses. If a pricing regime were to be introduced, the Electoral Commissioner could not be required to provide election services at a price he does not believe would support the conduct of a fair and transparent election.<sup>27</sup>

Although we have identified significant cost savings, we are not proposing that prices be set at a level that compromises the conduct of a fair and transparent election. Our usual approach in regulating prices is to set prices that reflect the efficient costs of providing appropriate levels of service to customers (including the costs of complying with regulatory and mandated service level requirements). If the regulated entity's actual costs are greater than the costs we allow for in setting prices, then the entity (and its owner) must bear the difference (at least until the next price re-set). This approach provides an incentive for the regulated entity to enhance its efficiency over time, without compromising services to customers. We adopt this approach across a range of sectors where it is imperative that appropriate service levels are maintained – including, for example, in regulating the prices of drinking water.

Several council submissions note the potential benefits of regulating the NSWEC's prices. For example, Canada Bay Council supports regulatory reform that would allow councils to see the costs of the NSWEC's services "on an individual basis and allow for more binding quotes to be received by Councils".<sup>28</sup> Similarly, Blacktown City Council welcomes "greater transparency of service pricing".<sup>29</sup>

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<sup>27</sup> NSWEC submission to IPART Draft Report, July 2019, p 3.

<sup>28</sup> City of Canada Bay submission to IPART Draft Report, July 2019, p 5. On the issue of cost certainty, the NSWEC submitted that "Invoices issued to councils at a price above the estimate issued to councils are rare. The NSWEC has delivered the conduct of the elections for less than the total budget for all major election events since 2012" (NSWEC submission to IPART Draft Report, July 2019, p 24).

<sup>29</sup> Blacktown City Council, submission to IPART Draft Report, July 2019, p 4.

Kiama Municipal Council linked regulation of the NSWEC's prices to competition. It welcomes "IPART's capacity for price regulation .... which will assist in the development of competition over the next few years which should also promote efficiency gains over time".<sup>30</sup>

Both Hawkesbury City Council and Port Stephens Council are concerned about the administrative costs of regulatory oversight.<sup>31</sup> We consider the administrative costs of regulation would be outweighed by competition and efficiency benefits.

In this Final Report, we maintain our recommendation that the NSW Government regulate NSWEC's prices.

The degree of regulatory oversight required could change over time as the market evolves. It could also vary by geographic location. 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 customers with the services they want.<sup>32</sup>

### **2.3.2 Service standards are essential for price-regulation and may also enhance competition**

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.<sup>33</sup> However, there are no explicit and measurable service standards or performance indicators in relation to the conduct of local government elections. The NSWEC's current set of service standards appear to be limited to the following 'success measures' outlined in the 2017-20 Strategic Plan:

- ▼ Increased voter turnout
- ▼ Increased stakeholder satisfaction
- ▼ Increase in valid registration, nomination and disclosures
- ▼ Reduction in costs per elector
- ▼ Improved timeliness of count
- ▼ Operating within budget allocation
- ▼ Improved employee engagement
- ▼ Increased portfolio and project management maturity
- ▼ Improved risk maturity.<sup>34</sup>

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<sup>30</sup> Kiama Municipal Council submission to IPART Draft Report, July 2019, p 1.

<sup>31</sup> Hawkesbury City Council submission to IPART Draft Report, July 2019, p 2; Port Stephens Council submission to IPART Draft Report, July 2019, p 2.

<sup>32</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>33</sup> NSWEC, *Local Government Elections 2016/17 Service Commitment Charter*, pp 5-6.

<sup>34</sup> NSWEC, *Strategic Plan 2017 – 2020*, p 17.

Our expenditure consultant, EY, explained that this creates some challenges in assessing both the value that additional expenditure is providing to local councils and thus the prudence and efficiency of that expenditure.<sup>35</sup>

EY also suggested that:

Future assessments of efficiency would be improved with better defined, measurable service standards or performance indicators for conduct of LGEs. In other words, assessing efficiency is more complex in the absence of objective service standards and required service levels.<sup>36</sup>

EY proposed some possible standards against which service performance and expenditure could be assessed (see Box 2.2). We note that some of them may be better suited to measuring rather than mandating performance.

### **Box 2.2 Possible service standards**

Our expenditure consultant, EY, suggested that the following service standards would be useful to monitor the success of the significant increase in election costs it has observed:

- ▼ Setting a target increase for voter participation compared to LGE 2016-17, noting that the NSWEC has an overall objective to maximise voter participation.
- ▼ Establishing an average wait time target for electors that represents a material reduction compared to LGE 2016-17.
- ▼ Setting a time target for LGE results to be finalised for candidates and electors while ensuring a targeted level of accuracy to maintain the integrity of the democratic process. This could be enhanced with the implementation of WIGM, which can be expected to allow for greater speed and accuracy in the election count, as the random sampling of ballots for allocating preferences will be replaced by an automated process.
- ▼ Strengthening the commitment to reducing costs per elector, which is an objective outlined in the NSWEC's Strategic Plan for 2017-2020, by reporting on this in annual reports and tracking performance over time. This can be achieved by delivering services in more efficient and cost-effective ways.
- ▼ Documenting outcomes and results of the council liaison process (e.g. through the use of surveys) to track improvements in service delivery experienced by councils.

**Source:** EY Final Report, p 7.

As well as being essential for price regulation, we consider that the introduction of explicit and measurable service standards is important because it would address council's concerns about the lack of flexibility in how the NSWEC delivers its service.<sup>37</sup>

In its submission on our Draft Report, the NSWEC responded to comments made by two councils at IPART's public forum about the flexibility offered by the third party provider

<sup>35</sup> EY, *Review of efficient costs of the NSW Electoral Commission's conduct of local government elections*, August 2019 (EY Final Report), p 6.

<sup>36</sup> EY Final Report, p 7.

<sup>37</sup> Eurobodalla Shire Council submission to IPART Draft Report, July 2019, p 3; Lane Cove Council submission to IPART Draft Report, July 2019 p 2.

around the number of polling places, their locations and the number of staff employed at these venues:

The NSWEC appreciates that some councils may value controlling these aspects of an election and that this flexibility may have been appropriate in the circumstances. Being a NSW public sector agency, however, the NSWEC must select polling places based on public interest factors, not only the client preference. For example, the NSWEC is cautious to avoid any perceived risk that the selection and number of polling places benefits some candidates over others. When a client council can provide sound rationale for the change or abolishment of a particular polling place, the NSWEC will give that serious consideration. In the absence of such a rationale, the NSWEC believes it is prudent to mitigate the risk by reserving the right to make the final decision on the number and location of polling places.

The number of staff employed by the NSWEC at a particular venue is also based on a number of criteria and driven by the number of ballot papers projected to be issued at that venue.<sup>38</sup>

Explicit and measurable service standards would allow councils that are interested in negotiating with the NSWEC on how the service standards are met to do so with a better understanding of what it must achieve and therefore what options it might reasonably consider.

Further, explicit and measurable service standards would:

- ▼ Give councils seeking to engage a private electoral services provider more confidence that their elections will be delivered at the same standard as for councils where the NSWEC administers elections.
- ▼ Make it easier for councils seeking to engage a private electoral services provider to evaluate tenders on a like-for-like basis (as standards are critical to inform a scope service).

In our view, legislation should expressly require the NSW Electoral Commission to establish performance standards (ie, minimum level of service) that would apply to the local government elections administered by the NSWEC as well as those administered by the NSWEC and by private electoral service providers. The standards should be consistent with the relevant objectives in the Electoral Act 2017 and be established with regard to the principles of competitive neutrality. The consequences of a failure to meet performance standards should also be specified in legislation.

Minimum standards should follow best practice regulatory principles and be optimally set, taking into account costs and benefits. For example, a very stringent standard may eliminate all risk and ensure a high level of 'service', but its costs may be greater than its benefits. Similarly, consideration should be given to whether standards should be very prescriptive or more outcomes-based.

### **2.3.3 The NSWEC should offer binding quotes**

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

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<sup>38</sup> NSWEC submission to IPART Draft Report, July 2019, p 23.

with an estimate of the costs of conducting elections, rather than a binding quote, and subsequently recovers its actual costs.<sup>39</sup> These arrangements have the following impacts:

- ▼ Councils cannot directly compare the costs of engaging the NSWEC to an alternative provider (ie, self-provision and/or engaging a private provider).<sup>40</sup>
- ▼ There is no cost certainty for councils that engage the NSWEC, with subsequent risk to council budgets.<sup>41</sup>
- ▼ 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>42</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). In the short term, it may be necessary for the NSW Government to direct the NSWEC to provide binding quotes.

## 2.4 Possible further reform for local government elections in 2024

### Final recommendation

- 4 The NSW Government reduce the period before an election by which a council has to resolve to engage the NSWEC to 9 months and give further consideration to:
  - The mandatory offering of specific local government election services by the NSWEC
  - Introduction of eligibility requirements for who can be an ‘electoral services provider’
  - Provision of assistance to councils to further develop their election management capabilities (eg, the process for engaging a suitable electoral services provider), through guidelines and/or a training program delivered by the Office of Local Government
  - Introduction of electronic voting for local government elections
  - Shorter pre-polling periods.

Our Draft Report proposed that the NSW Government implement a new market model for local government election services, with a key feature being the mandatory unbundling, component pricing and offering of the NSWEC’s specific local government election services. We recommended that in advance of the 2024 local government elections, the NSWEC be required to unbundle 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.

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<sup>39</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 submission to IPART Draft Report, July 2019, p 4.

<sup>40</sup> Lake Macquarie City Council saw this as a barrier to competition. See: Lake Macquarie City Council, submission to IPART Issues Paper, May 2019, p 1.

<sup>41</sup> For example, see: Lake Macquarie City Council, submission to IPART Issues Paper, May 2019, p 1.

<sup>42</sup> For example, see: Central Coast Council submission to IPART Issues Paper, May 2019, p 1.

As discussed in section 2.3.1 of this chapter, we maintain that 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. This 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.

However, we recognise that while many councils support the unbundling of the NSWEC's services in principle, several have concerns about how this would work in practice. We therefore recommend that the NSW Government give further consideration to the mandatory offering of specific local government election services by the NSWEC. We also recommend that it:

- ▼ Reduce the period before an election by which a council has to resolve to engage the NSWEC to 9 months
- ▼ Consider other possible regulatory reforms and supporting measures that could enhance competition and reduce costs ahead of local government elections in 2024, as discussed below.

#### **2.4.1 Legislative change to reduce the period before an election by which a council has to resolve to engage the NSWEC.**

In our Draft Report we recommended that the Government reduce the period before an election by which a council has to resolve to engage the NSWEC from 18 months to 9 months. We noted that shorter periods had already occurred in practice:

- ▼ Councils have until 1 October 2019 to make a decision on the administration of their September 2020 ordinary elections (and must enter into an election arrangement with the NSWEC no later than 1 January 2020).
- ▼ 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*.

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, a private provider becomes insolvent, key council staff are no longer available).

Ten individual councils and LGNSW support our Draft Recommendation to reduce the period from 18 months to 9 months.<sup>43</sup>

The Australian Election Company submitted that:

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<sup>43</sup> Blacktown submission to IPART Draft Report, July 2019, p 4; Camden submission to IPART Draft Report, July 2019, p 4; Canada Bay submission to IPART Draft Report, July 2019, p 5; Eurobodalla submission to IPART Draft Report, July 2019, p 3; Lake Macquarie submission to IPART Draft Report, July 2019, p 2; Lithgow submission to IPART Draft Report, July 2019, p 2; LGNSW submission to IPART Draft Report, July 2019, p 9; Penrith submission to IPART Draft Report, July 2019, p 6; City of Sydney submission to IPART Draft Report, July 2019, p 6; Warrumbungle submission to IPART Draft Report, July 2019, p 1; Woollahra submission to IPART Draft Report, July 2019, p 2.

The proposed reduction to 9 months would be rather more appropriate; however, we believe there is sufficient scope, and safety, to further reduce the determination period to 6 months.

In the past, given tender requirements, tender evaluation considerations and subsequently the scheduling of Council meetings, in reality, instead of the mandated 18 months period, we have had to provide our estimated costings up to two (2) years in advance of a scheduled election. This has been and remains an unreasonable burden and requirement.<sup>44</sup>

However, the NSWEC “believes that 9 months is too short a time frame for it to receive final advice on the size of its client base and still deliver a state-wide local government election” and its “experience is that planning for such an event needs to commence at least 12 months in advance of election day”.<sup>45</sup>

We maintain that the notification period should be no more than 9 months. In addition to reducing the risk to private providers of providing binding quotes a long way out from an election, we note that developments in technology may reduce the complexity of administering, and therefore preparing for, an election.

#### **2.4.2 The unbundling of local government election services may be complex**

Unbundling and component pricing would allow flexibility and choice 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. 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, but we received mixed feedback on our draft recommendation for the mandatory offering of the NSWEC’s individual (ie, unbundled) local government election services.

The NSWEC calls for IPART to explain “how this recommendation could be implemented in light of recent legislative reform that means councils can no longer run their own elections” (See Box 2.3). It also identifies cost implications of unbundling services including “additional overhead incurred in council liaison, price determination, managing drafting of contracts and contract variation”, and costs for a “new framework for ensuring accountability for different steps in the electoral process is identified and maintained.”<sup>46</sup>

Further, it states that:

The NSWEC remains concerned that, as a government agency, the regulatory and governance environment in which it operates imposes a higher cost structure on the NSWEC that is not imposed on a private provider. This has implications for the NSWEC in providing competitive component

<sup>44</sup> Australian Election Company submission to IPART Draft Report, July 2019, p 2.

<sup>45</sup> NSWEC submission to IPART Draft Report, July 2019, p 4.

<sup>46</sup> NSWEC submission to IPART Draft Report, July 2019, p 2.

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pricing and may artificially distort the market in favour of private providers and result in significant negative externalities for electors and political participants.<sup>47</sup>

Penrith City Council submitted that:

That the proposed unbundling of NSWEC election services for LGE 2024 be subject to further consultation with NSWEC and private electoral service providers to ensure services are grouped where appropriate to avoid cost increases due to inefficiency.<sup>48</sup>

Camden Council also suggested “further consultation with the sector” on “who is responsible for a valid election result,<sup>49</sup> while Shoalhaven City Council asked about transfer of risks, tendering requirements, project management and regulatory oversight.<sup>50</sup>

Given the mixed responses to our recommendation, and the potential complexity in assigning responsibility for a valid election result, we recommend that the NSW Government give further consideration to the mandatory offering of the NSWEC’s individual (ie, unbundled) local government election services. In particular, further consideration should be given to how services might be defined (ie, what constitutes individual services) and who is responsible for a valid election result.

In terms of the NSWEC’s concerns about the cost implications of unbundling, we are mindful that the NSWEC’s costs of providing local government elections services has increased significantly over time, and well above the rate of inflation and elector growth (see Chapter 3). Our expenditure consultant, EY, found the NSWEC’s proposed increase in costs was difficult to justify.<sup>51</sup> We consider there would likely be significant gains that could be achieved through greater scrutiny of the NSWEC’s costs and competition – both of which would be aided by the unbundling of the NSWEC’s costs and services.

In terms of the NSWEC’s concerns that, as a government agency, it is at a potential competitive disadvantage relative to private providers, we consider we have largely addressed this issue by recommending that the costs of the NSWEC’s non-contestable services, which must be provided by the NSWEC, are allocated to the NSW Government rather than local councils (see section 4.2.3).

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<sup>47</sup> NSWEC submission to IPART Draft Report, July 2019, p 3.

<sup>48</sup> Penrith City Council submission to IPART Draft Report, July 2019, p 2.

<sup>49</sup> Camden Council submission to IPART Draft Report, July 2019, p 4.

<sup>50</sup> Shoalhaven City Council submission to IPART Draft Report, July 2019, p 3.

<sup>51</sup> EY Final Report, p 2.



### **Box 2.3 Recent changes no longer allow councils to administer their own elections**

The *Local Government Amendment Act 2019* was assented to on 25 June 2019 and a number of provisions came into effect on 25 June 2019. The amendments prevent councils from administering their own elections but do not prevent them from engaging a private provider to conduct them on their behalf.

Section 296A of the *Local Government Act 1993* applies to elections administered by an electoral services provider and requires that the electoral services provider is to:

- ▼ Appoint a returning officer and a substitute returning officer for the election<sup>a</sup>
- ▼ Appoint the polling places
- ▼ Determine the fees payable to the returning officer, substitute returning officer and electoral officials.

Our Draft Report proposed a model where councils could choose (within a set time before the election was due to be held) which election services they required from which providers ie, the NSWEC, self-provision and/or a private provider. One of the options we proposed was:

“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 members where this leads to cost efficiencies).”

The amendments suggest that councils would not be able to provide services in-house or in conjunction with nearby councils/Joint Organisation members.

<sup>a</sup> The returning officer is to appoint one or more electoral officials.

### **2.4.3 There are no eligibility requirements for who can be an ‘electoral services provider’**

Prior to the June 2019 amendments, the concept of an ‘electoral services provider’ existed only in section 296AA of the *Local Government Act 1993* as an option available to the general manager where a council has resolved that the elections of the council are to be administered by the general manager of the council. However, following the recent amendments, the concept of ‘electoral services provider’ has been elevated such that it is now those service providers that may administer an election (as an alternative to the NSWEC).

The term ‘electoral services provider’ is not defined in the *Local Government Act 1993* and there are no eligibility requirements for who can be an ‘electoral services provider’ set out in the Act or the *Local Government (General) Regulation 2005*.

While there are some broad protections to ensure the integrity of council elections,<sup>52</sup> the risk of an invalid election result may be reduced if legislation mandated eligibility requirements for who can be an electoral services provider. This could give councils more confidence in appointing an electoral services provider.

<sup>52</sup> For example, candidates may appoint scrutineers to observe the administration of elections: see *Electoral Act 2017*, s119(1). Also the returning officer, who plays a key role in the administration of elections, cannot be an employee of a council: see *Local Government Act 1993*, s 296A(4),(5), 296B(4). Further, a person who is nominated for election to civic office in an area cannot be appointed as a returning officer (or other election official): see *Local Government (General) Regulation 2005*, cl 276(1).

Eligibility requirements should relate to clearly identified objectives and impose the minimum cost necessary to ensure those objectives are achieved. The requirements may include:

- ▼ Relevant qualifications or experience
- ▼ Absence of any criminal history (or conflict of interest through affiliation with a political party, etc), and/or
- ▼ Business attributes (confidentiality and security processes, quality assurance, insurance, prudential requirements, etc).

We also note that there is currently a mismatch between the Act and the Regulations. The Regulations still refer to the 'general manager' throughout rather than an 'electoral services provider'. This mismatch *may* have significant implications for elections administered by 'election services providers'. For example, the Regulations impose several obligations and powers on the 'election manager' but the definition for this term in the Regulations does not contemplate elections administered by 'electoral services providers'. It is not immediately clear from the Regulations who the 'election manager' would be (if anyone) in an election administered by an 'electoral services provider'.

#### **2.4.4 Provision of assistance to councils to further develop their election management capabilities**

Under the service model we proposed in our Draft Report we suggested that, once an alternative provider is chosen for a single election service, responsibility for delivering a valid election result would become the responsibility of the council General Manager. We recognised that election expertise is generally only required by a council every four years and that it would be important that councils who wish to conduct their own elections are able to build capacity in this area. Therefore, we recommended provision of assistance to councils to further develop their election management capabilities through a training program delivered by the Office of Local Government.

Several submissions on our Draft Report supported this recommendation. However, the recent changes to the *Local Government Act 1993* mean that councils are no longer able to administer their own elections. Support from Office of Local Government may, therefore, be more relevantly targeted at enhancing councils' capacity to obtain value for money proposals from private electoral service providers (although they may already have sufficient guidance in terms of procurement generally) or ensure that they choose suitably qualified providers. We consider the nature of required support should be considered alongside possible regulatory changes as outlined in this report.

We also note that our recommendation for the NSWEC to establish performance standards (minimum levels of performance) for it and other providers of election services should assist councils in their procurement of election services. Clear performance standards may reduce the need for support from the Office of Local Government over time.

### 2.4.5 Introduction of electronic voting

In our Draft Report we said that competing service providers will respond to changes in customer 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 Universal Postal Voting (UPV), employ electronic voting (as opposed to using a paper ballot) or pursue online voting.<sup>53</sup>

The NSWEC considers the presence of competing service providers is not relevant to the availability of electronic or online voting and that “These are matters for the NSW Government and Parliament. If use of these voting channels was legislated the NSWEC would provide them.”<sup>53</sup>

In response to our Draft Report, we received a submission from the provider of software for the iVote core voting system for the NSWEC. This provider recommends:

- ▼ Legislative change to allow the use of iVote for the upcoming Local General Elections: as an alternative to postal votes.
- ▼ The iVote system is made available for use to all electors, possibly through the NSWEC making the service available to alternate election service providers.<sup>54</sup>

In support of electronic voting, the provider described:

- ▼ High levels of voter satisfaction with iVote.
- ▼ The “decline of the postal service” leading to extended delivery times and higher prices.
- ▼ The accessibility features supported by iVote that allows visually impaired voters and other voters who can’t access a polling booth, the ability to cast their vote securely and in private.<sup>55</sup>

Several councils also asked the Government to allow electronic voting for local government elections.<sup>56</sup>

We therefore recommend the NSW Government consider the introduction of electronic voting for the 2024 elections. This should include consideration of whether the NSWEC should be required to provide private electoral service providers access to the iVote system (and, if so, at what price).

### 2.4.6 Shorter pre-polling periods

Although not related to the facilitation of competition, several submissions commented on the duration of the pre-poll period and how this increases the cost of local government elections.


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<sup>53</sup> NSWEC submission to IPART Draft Report, July 2019, p 24.

<sup>54</sup> Scytl submission to IPART Draft Report, July 2019, p 3.

<sup>55</sup> Scytl submission to IPART Draft Report, July 2019, pp 1-2.

<sup>56</sup> Forbes submission to IPART Draft Report, July 2019, p 2; Kiama submission to IPART Draft Report, July 2019, p 1; Nambucca submission to IPART Draft Report, July 2019, p 1.



The pre-poll period is to be determined by the election manager within regulated bounds (being 1 to 12 days prior to the election).

Blacktown City Council submitted that “the excessive length of the pre-poll voting period is a matter beyond the control of local government” and suggested it be reduced to one week.<sup>57</sup> Moree Plains Shire Council also suggested reducing pre-polling times as a way to reduce the costs of local government elections.<sup>58</sup>

These responses are consistent with LGNSW’s recommendation:

That the pre-poll voting period be reduced to one week (Saturday to Friday in the week before election day), for all local government elections whether the election is administered by the NSW Electoral Commission or by a private election services provider.<sup>59</sup>

Given the potential to reduce the cost of local government elections and the support from councils, we recommend the NSW Government consider whether the pre-poll voting period be reduced to one week. In doing so, it should consider the potential impact on voter participation. Alternatively, this may be a relevant matter for the establishment of mandatory performance standards.

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<sup>57</sup> Blacktown City Council submission to IPART Draft Report, July 2019, p 3.

<sup>58</sup> Moree Plains Shire Council submission to IPART Draft Report, July 2019, p 2.

<sup>59</sup> LGNSW submission to IPART Draft Report, July 2019, pp 9, 11.

### 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>60</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).

The NSWEC’s costs have grown rapidly at recent local government elections. For the 2020 elections, it proposed an almost 100% increase in costs (on a per elector basis) compared to the 2012 elections. Given the market for local government election services is currently highly concentrated (see Chapter 2), competitive pressures are unlikely to ensure the NSWEC’s costs remain in line with efficient levels. Therefore, it is important to scrutinise their efficiency.

Our focus on efficiency is consistent with our Terms of Reference. It facilitates the NSWEC conducting elections in an efficient and cost-effective way. In addition, 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>61</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. 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.

We found there was scope for efficiency savings of around 22% in NSWEC’s proposed costs. After combining these savings with the additional election costs it incurs outside its proposal, our recommended total efficient costs are around 16% lower than those proposed by the NSWEC.

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<sup>60</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>61</sup> As noted in our Terms of Reference (see Appendix B), 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.”

### 3.1 Efficiency review of NSWEC’s election services

The NSWEC is proposing significantly higher expenditure for the 2020 local government elections. We have identified key drivers of these cost increases, considered their efficiency and recommended savings to reduce costs to efficient levels.

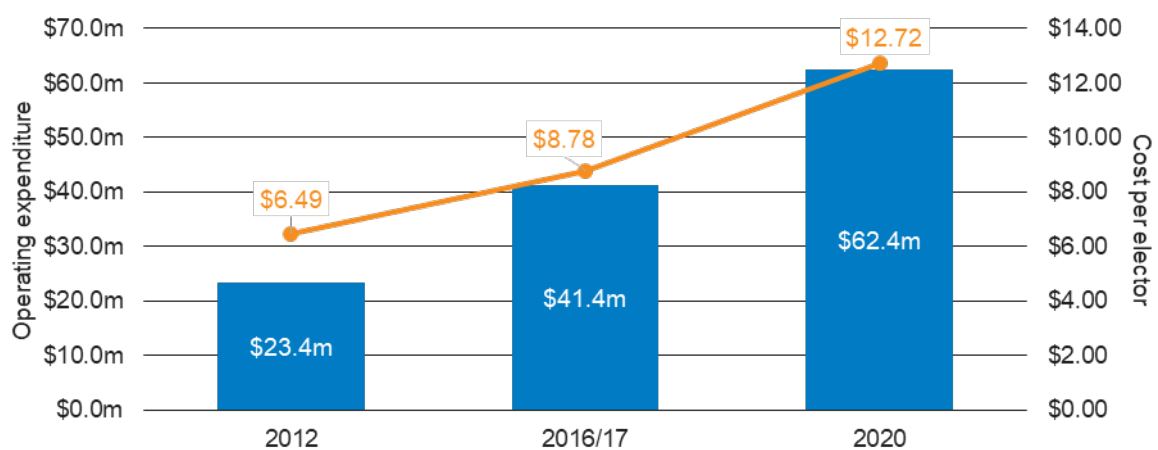
#### 3.1.1 NSWEC’s election costs have grown rapidly

The NSWEC’s expenditure has increased substantially at recent elections. Its proposal for the 2020 elections, in nominal terms, is:

- ▼ 50.8% (\$21.0 million) higher compared to the 2016 and 2017 elections,<sup>62</sup> and
- ▼ 166.8% (\$39.0 million) higher compared to the 2012 elections.

As a result, the average cost per elector has almost doubled, from \$6.49 in 2012 to \$12.72 in 2020 (see Figure 3.1). The magnitude of these cost increases over a relatively short period of time, combined with the NSWEC operating as a near-monopoly provider of local government election services, underlines the need for scrutiny around the efficiency of these costs.

**Figure 3.1 Growth in NSWEC’s operating expenditure and cost per elector (\$nominal)**



**Data source:** IPART analysis based on information provided by the NSWEC.

To understand the broad drivers of these increases, we examined how costs changed across the election cycles. We found that servicing more electors caused part of the increase between 2012 and 2016-17. In contrast, the NSWEC’s proposed increase between 2016-17 and 2020 was predominantly driven by changes to its operating model:

<sup>62</sup> All references to actual costs for the 2016 and 2017 local government elections include adjustments to remove duplicate cost items, which were a result of those elections being run in two tranches due to council amalgamations.

- ▼ While operating expenditure increased by 76.9% between 2012 and 2016-17, the average cost per elector rose by 35.3%. This means that some of the expenditure increase was from the NSWEC servicing more electors in 2016-17.<sup>63</sup>
- ▼ Under the NSWEC's proposal, the increase in operating expenditure and average cost per elector between 2016-17 and 2020 would be very similar (50.8% and 44.9%, respectively). Therefore, unlike the previous election cycle, the expenditure increase appears to be mainly caused by the NSWEC changing its approach to running local government elections (rather than servicing more electors).

The specific drivers of the cost increases are discussed in section 3.3.

### **3.1.2 NSWEC's approach to risk management is driving costs and it is unclear whether increased expenditure has led to service improvements**

EY reviewed the prudence and efficiency of the NSWEC's election costs. It found that the NSWEC's changed approach to risk management was one factor that had led to its costs increasing over recent election cycles. EY identified that this creates a trade-off between the NSWEC's KPIs of managing risks and reducing per elector costs.

In addition, EY found that the NSWEC does not have explicit and measurable service standards for administering elections. This made it more complex to assess the efficiency of its cost increases. It suggested service standards to monitor whether the NSWEC's increased expenditure has led to service improvements.

#### **NSWEC's approach to risk management has impacted its costs**

A key feature of the NSWEC's changed approach, and driver of costs, is its greater focus on risk management. The NSWEC's strategic plan identified improved risk maturity as one of its KPIs.<sup>64</sup> Further, many of the reasons the NSWEC provided to justify its 2020 cost proposal involved managing the risks around local government elections.<sup>65</sup> For example, it is proposing increased expenditure – through hiring more temporary staff – to address the risks around project management and security.

Reducing costs per elector is another one of the NSWEC's KPIs. Therefore, while it is important to manage election risks, it is also necessary to consider the cost impacts on councils and find the appropriate balance between these KPIs. In this regard, EY found it was difficult to conclude the NSWEC's focus on risk management was supported by clearly defined service standards that would allow for the trade-off between different KPIs to be more transparent.<sup>66</sup>

We discuss the importance of having explicit performance standards (ie, minimum level of service) around the administration of election in Chapter 2. We also outline in this chapter the NSW Electoral Commission's role in:

<sup>63</sup> In particular, several large councils – who had previously used a private provider or conducted their own elections in 2012 – chose to use the NSWEC in 2016-17. For example, councils like Coffs Harbour, Newcastle and Sutherland did not engage the NSWEC in 2012, but used it to run their elections in 2016-17 (see OLG, *Review of 2012 council run elections, June 2013, NSWEC, Report on the Local Government Elections 2016, and NSWEC, Report on the Local Government Elections 2017*).

<sup>64</sup> NSW Electoral Commission, *Democracy Delivered: Strategic Plan 2017- 2020*, p 17.

<sup>65</sup> EY Final Report, pp 7-8.

<sup>66</sup> EY Final Report, p 8.

- ▼ Determining how the NSWEC should meet the performance standards. This involves considering the costs and benefits of alternative approaches to how the standards could be met, and requires the NSW Electoral Commission to consider the nature of and appetite for risk.
- ▼ Consulting with councils on the most cost-effective way the NSWEC can meet the standards within an accepted level of risk.

### **Without measureable service standards, it is unclear whether cost increases are generating service improvements**

In addition to its efficiency recommendations, EY found that the legislative requirements around local government elections were relatively limited. In the absence of competition and genuine choice for councils, this affords the NSWEC a wide degree of discretion in how it conducts the elections.

In exercising this discretion, EY noted that the NSWEC does not have explicit and measurable service standards or KPIs. This makes it challenging to assess the efficiency of its activities. It also means it is difficult to judge whether the NSWEC's proposed risk reduction is being delivered.

EY outlined potential service standards (eg, wait time targets) that could be used to monitor whether the substantial growth in election expenditure has led to quantifiable improvements in services.<sup>67</sup> We discuss this in more detail in Chapter 2.

### **3.1.3 We are recommending substantial efficiency savings**

Consistent with its position in the Draft Report, EY considered there was scope for significant efficiency savings. It recommended reductions of 22% to the NSWEC's forecast operating expenditure (see section 3.3), and 5 to 10% to its capital expenditure program (see section 3.4). We have accepted these recommendations and applied them to determine the NSWEC's efficient election costs and NRR.<sup>68</sup>

Looking at those items included in the NSWEC's proposal, we are recommending a \$13.8 million (or 22.2%) reduction in expenditure. That is, we consider the efficient costs of these items to be \$48.5 million, compared to \$62.4 million proposed by the NSWEC. To derive the NSWEC's total efficient costs of \$52.5 million, we then included \$4.0 million of additional efficient costs (see Figure 3.2).

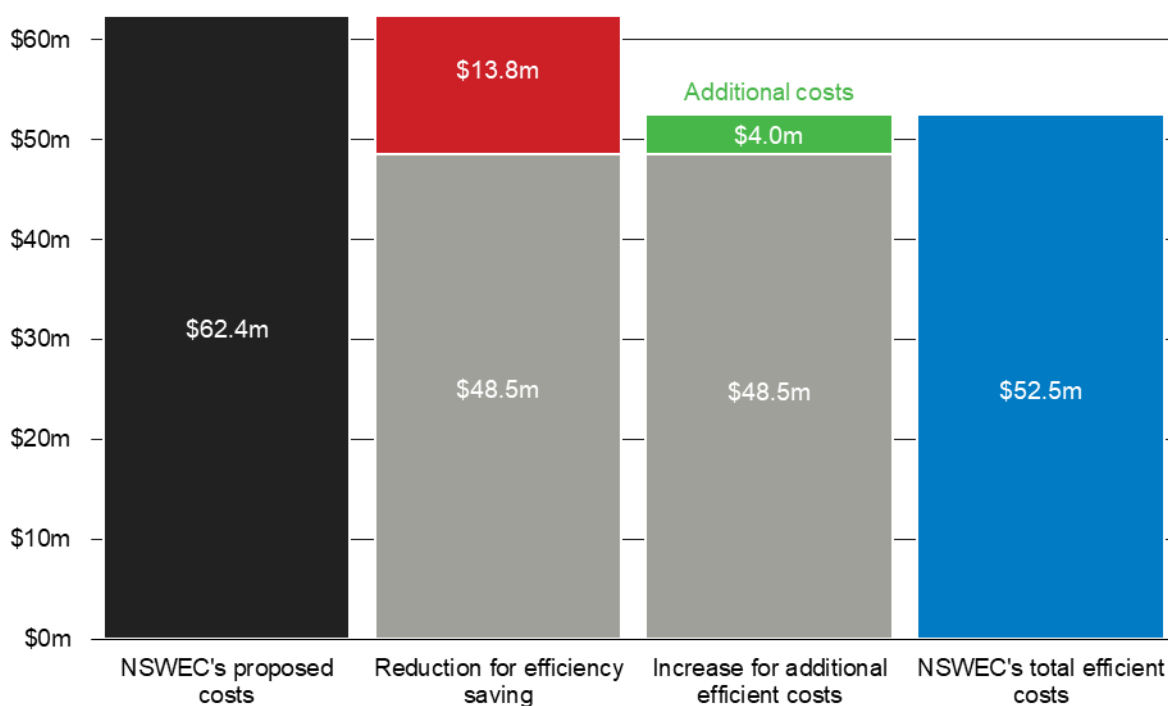
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<sup>67</sup> EY Final Report, pp 6-7

<sup>68</sup> We have amended the inflation adjustment (CPI-X) used by EY in its Final Report to determine the NSWEC's efficient costs. EY's inflation adjustment used Sydney CPI and a forecast inflation of 2.5% for June 2019. Our inflation adjustment instead uses All Capitals CPI (which is consistent with the inflation series we use in our financial models for other industries we regulate) and the actual inflation of 1.7% for June 2019. EY noted that the ABS released this actual CPI figure in late July 2019, and it had therefore not been incorporated into EY's analysis (EY Final Report, p 27). As a result of using different inflation adjustments, there is minor difference between the efficient costs EY recommended and those recommended by IPART. This means that, where we refer to EY's recommended efficient costs in this chapter, the costs include our inflation adjustment.



**Figure 3.2 Efficiency review of NSWEC’s proposed election costs (\$2020-21)**



**Note:** These numbers may not add up due to rounding.

**Data source:** IPART analysis.

There is a gap between the cost of the NSWEC’s activities and those of an entity operating at an optimal level of efficiency. EY found there was little evidence to demonstrate the NSWEC conducted local government elections in the most cost-effective way. For example, there was generally no ‘stress testing’ of the reasonableness of its costs, such as considering alternative modes of service delivery or competitive tendering. This is particularly important in the context of a near monopoly provider passing on (or proposing to pass on) significant cost increases over time – where the onus should be on the entity to justify and explain that its costs are efficient.

Therefore, in the absence of sufficient information from the NSWEC to justify that its proposed costs are efficient, EY concluded there was significant scope to drive efficiencies and deliver cost savings.<sup>69</sup> We have accepted these findings, and consider EY’s recommended efficient costs are reasonable and achievable.

Several councils supported or acknowledged our efficiency findings in the Draft Report.<sup>70</sup> However, the NSWEC disagreed with them and queried EY’s approach to assessing its efficient costs.<sup>71</sup> We have considered these views and discuss the efficiency review in more detail in the sections below.

<sup>69</sup> EY Final Report, p 26.

<sup>70</sup> For example, City of Canada Bay submission to IPART Draft Report, July 2019, p 2; Sutherland Shire Council submission to IPART Draft Report, July 2019, p 1.

<sup>71</sup> NSWEC submission to IPART Draft Report, July 2019, p 19.

Other councils wanted our efficiency review to have a broader scope. Some suggested we explore opportunities to reduce the NSWEC's costs through innovation or technology, such as through introducing electronic or universal postal voting.<sup>72</sup> One council thought we should go beyond the 2020 elections and consider the costs of subsequent elections (when changes to the competitive environment may be more evident).<sup>73</sup>

To ensure the efficiency review aligned with our Terms of Reference, we have not adjusted our approach in response to these submissions. We were asked to review the NSWEC's existing methodology for determining the amount to charge councils. Therefore, we examined the efficiency of the costs proposed by the NSWEC for the 2020 elections.

That said, we acknowledge that technology has the potential to deliver benefits to councils, in terms of more choice and better value. We explore this issue in Chapter 2, where we recommend the NSW Government consider the introduction of electronic voting for the 2024 elections.

### 3.2 Notional revenue requirement

#### Final recommendations

- 5 For the 2020 local government elections, the NSWEC's notional revenue requirement be set at \$52.48 million. This comprises allowances for:
- Operating expenditure of \$49.75 million.
  - A return of assets (depreciation) of \$1.65 million.
  - A return on assets of \$0.36 million.
  - A return on working capital of \$0.57 million
  - Tax of \$0.16 million.

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

Building block component	NSWEC proposal	IPART final recommendation	Difference	Difference (%)	% of total NRR
Operating expenditure	62,352	49,745	-12,607	-20.2%	94.8%
Return of assets (depreciation)	not included	1,646	1,646	.	3.1%
Return on assets	not included	355	355	.	0.7%
Working capital allowance	not included	570	570	.	1.1%
Tax allowance	not included	162	162	.	0.3%
<b>Notional Revenue Requirement</b>	<b>62,352</b>	<b>52,479</b>	<b>-9,873</b>	<b>-15.8%</b>	<b>100.0%</b>

Source: Email from the NSWEC to IPART dated 4 July 2019 and IPART analysis.

<sup>72</sup> Forbes Shire Council submission to IPART Draft Report, July 2019, p 2; Kiama City Council submission to IPART Draft Report, July 2019, p 1, Nambucca Shire Council submission to IPART Draft Report, July 2019, p 1; Northern Beaches Council submission to IPART Draft Report, July 2019, p 4; Port Stephens Council submission to IPART Draft Report, July 2019, p 1.

<sup>73</sup> Cessnock City Council submission to IPART Draft Report, July 2019, p 2.

Our final recommendation on the NSWEC's total NRR for the 2020 local government elections is \$9.9 million (or 15.8%) lower than the NSWEC's proposal from July 2019<sup>74</sup> (see Table 3.1). Consistent with our approach in the Draft Report, it includes the cost of items not included in the NSWEC's proposal. These additional items are:

- ▼ Operating expenditure in the form of NSWEC Executive Office costs (eg, HR salaries) and Joint Roll Agreement costs
- ▼ Capital cost allowances (ie, depreciation, returns on assets and working capital)
- ▼ A regulatory tax allowance.

### 3.2.1 Our final NRR for the NSWEC is slightly lower than the draft NRR

Our recommendation on the final NRR is \$1.4 million (or 2.6%) lower than in the Draft Report (see Table 3.2). Key reasons are the lower allowances for depreciation and return on assets. We considered more detailed information on the NSWEC's existing asset base, and the proportion of this asset base used for local government elections. This involved reducing:

- ▼ The value of existing assets (comprising business systems and intangibles) by 10%, which is in line with EY's recommendations on the reduction in forecast capital expenditure.
- ▼ The proportion of those assets applicable to local government elections.<sup>75</sup>

This had the effect of reducing the capital components of the building block, relative to the Draft Report.

In addition, while the NSWEC proposed higher expenditure for the 2020 elections than what we considered in the Draft Report, we also recommended greater efficiency savings.

**Table 3.2 IPART's draft and final recommendations on the NSWEC's NRR for the 2020 local government elections (\$'000, \$2020-21)**

Building block component	IPART draft recommendation	IPART final recommendation	Difference	Difference (%)
Operating expenditure	49,907	49,745	-162	-0.32%
Return of assets (depreciation)	2,762	1,646	-1,116	-40.40%
Return on assets	426	355	-71	-16.66%
Working capital allowance	632	570	-62	-9.79%
Tax allowance	179	162	-17	-9.33%
<b>Notional Revenue Requirement</b>	<b>53,906</b>	<b>52,479</b>	<b>-1,427</b>	<b>-2.65%</b>

Source: IPART analysis.

<sup>74</sup> The NSWEC's proposed costs 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 Office costs.

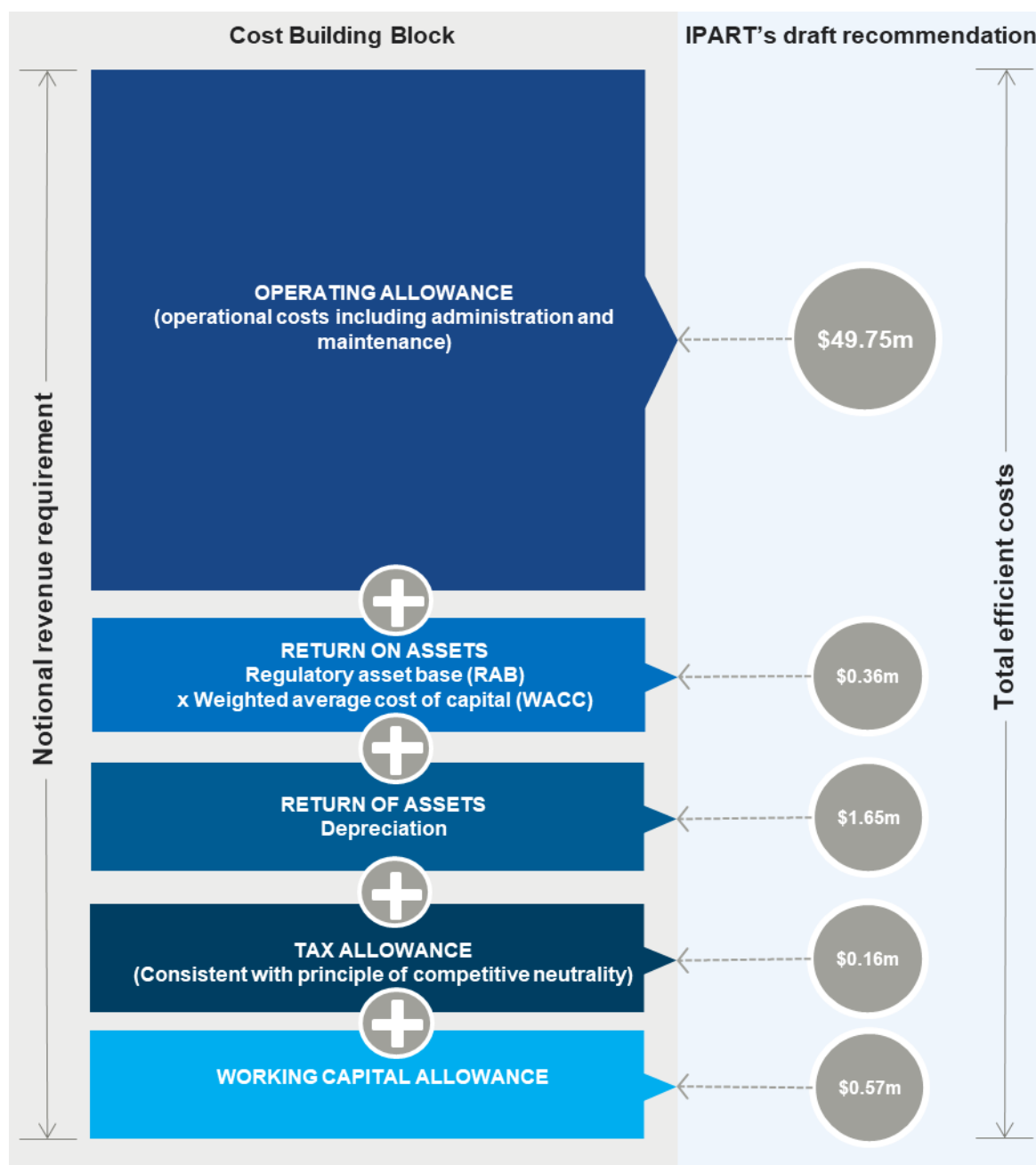
<sup>75</sup> The NSWEC provided information on the appropriate allocation of existing assets (mostly IT system and intangible assets) to the cost of local government elections. As such, we have revised down the share of existing assets to be recovered through prices since our Draft Report.

### 3.2.2 We used the building block method to determine the NRR

The sections that follow discuss our efficiency findings and outline our final recommendations on each of the building block components of the NRR. As outlined in Figure 3.3, 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.
- ▼ A **return of those assets** (regulatory depreciation). This allowance recognises that revenue is required to recover the cost of maintaining the NSWEC's Regulatory Asset Base (RAB) used to provide election services to councils.
- ▼ **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 3.3 IPART’s final recommendation on the NSWEC’s allowance on the key building block components (\$2020-21)**



Source: IPART analysis.

Submissions to our Issues Paper<sup>76</sup> and Draft Report<sup>77</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>78</sup> In any case, the

<sup>76</sup> LG NSW submission to IPART Issues Paper, May 2019, p 10; NSWEC submission to IPART Issues Paper, May 2019, p 35; Penrith City Council submission to IPART Issues Paper, May 2019, p 5.

<sup>77</sup> LG NSW, submission to IPART Draft Report, July 2019, p 6.

<sup>78</sup> It merely results in the return on asset and return of assets (depreciation) components being small.

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NSWEC is proposing capital expenditure of at least \$5.9 million (see section 3.4), so we consider it is appropriate to include the capital building blocks in our assessment of its total efficient costs.

Other stakeholders did not agree with including some (or all) of the specific building block components (eg, return on assets, tax allowance, depreciation, working capital) in pricing between government entities.<sup>79</sup> Including these items helps ensure that all efficient costs associated with delivering services are factored into our consideration of pricing arrangements.

Cost-reflective prices promote efficient investment and consumption decisions, the optimal use and allocation of resources. They also ensure that potential private sector competitors to the NSWEC are not unduly disadvantaged and hence the potential for competition is maximised. These 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.

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<sup>79</sup> Camden Council submission to IPART Draft Report, July 2019, p 2; Cessnock City Council submission to IPART Draft Report, July 2019, pp 4-5; Randwick City Council submission to IPART Draft Report, July 2019, pp 2-3; Riverina Joint Organisation submission to IPART Draft Report, July 2019, pp 1-2.

### 3.3 Operating expenditure

Our final recommendation on the NSWEC's efficient operating expenditure is \$12.6 million (or 20.2%) lower than proposed by the NSWEC. We have included a share of Executive Office costs and Joint Roll Agreement costs in our calculation, neither of which were recognised in the NSWEC's proposal. Excluding these items - and other common costs - results in a \$13.7 million (or 23.3%) efficiency saving in the NSWEC's incremental cost items (see Table 3.3).<sup>80</sup>

**Table 3.3 IPART's final recommendation on the NSWEC's efficient operating costs (\$'000, \$2020-21)**

Cost item	NSWEC proposed (\$'000)	IPART final recommendation (\$'000)	Difference (\$'000)	Difference (%)
<b><i>Incremental costs of conducting local government elections</i></b>				
Staffing	21,685	16,511	-5,174	-23.9%
Venue procurement	4,963	4,963	0	0.0%
Procedures, forms and training	1,117	860	-257	-23.0%
Logistics	3,320	2,987	-333	-10.0%
Ballot papers	1,988	1,509	-479	-24.1%
Project management	1,284	1,246	-38	-3.0%
Electoral roll preparation <sup>a</sup>	835	646	-189	-22.6%
Client liaison	278	1	-277	-99.5%
Call centre	2,165	1,274	-891	-41.1%
Nominations	1,482	745	-737	-49.7%
Counting and results	2,318	1,707	-611	-26.4%
Postal voting	1,616	926	-690	-42.7%
Technology	6,862	4,894	-1,967	-28.7%
Communications	3,605	2,277	-1,328	-36.8%
Event readiness	1,896	1,684	-212	-11.2%
Event financial management	1,664	1,252	-412	-24.7%
Data management	137	66	-71	-51.8%
Overtime	800	800	0	0.0%
Sydney Town Hall	777	721	-56	-7.2%
<b>SUBTOTAL - Marginal costs</b>	<b>58,791</b>	<b>45,069</b>	<b>-13,722</b>	<b>-23.3%</b>
<b><i>Local government election share of common costs</i></b>				
Corporate overheads - EMF <sup>b</sup>	3,561	3,443	-118	-3.3%
Corporate overheads - Executive Office costs	0	854	854	
Joint Roll Agreement <sup>c</sup>	0	380	380	
<b>SUBTOTAL - Share of common costs</b>	<b>3,561</b>	<b>4,676</b>	<b>1,116</b>	<b>31.3%</b>
<b>Total</b>	<b>62,352</b>	<b>49,745</b>	<b>-12,607</b>	<b>-20.2%</b>

<sup>a</sup> 'Electoral roll' means the 'event roll' referred to in the NSWEC's cost proposal.

<sup>b</sup> Election Management Fee

<sup>c</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, *Annual Report 2017-18*, p 91.

**Source:** Email from the NSWEC to IPART dated 4 July 2019 and IPART analysis.

<sup>80</sup> This saving is in relation to the operating expenditure component of the NSWEC's incremental costs (ie, it does not include capital expenditure savings).

### 3.3.1 NSWEC has proposed a 51% increase in its operating expenditure

Based on its detailed 'bottom-up' estimates,<sup>81</sup> the NSWEC is proposing operating expenditure of \$62.4 million for the 2020 local government elections.<sup>82</sup> This represents an increase in nominal terms of 50.8% (or \$21.0 million) compared to the previous elections in 2016 and 2017.<sup>83</sup>

Election staffing is the key driver of this cost increase (see Figure 3.4). It is the NSWEC's main cost item, comprising 34.8% of its operating expenditure, followed by technology (11.0%) and venue procurement (8.0%). The NSWEC is proposing nominal increases in these cost items of 45.4%, 125.0% and 57.3%, respectively.

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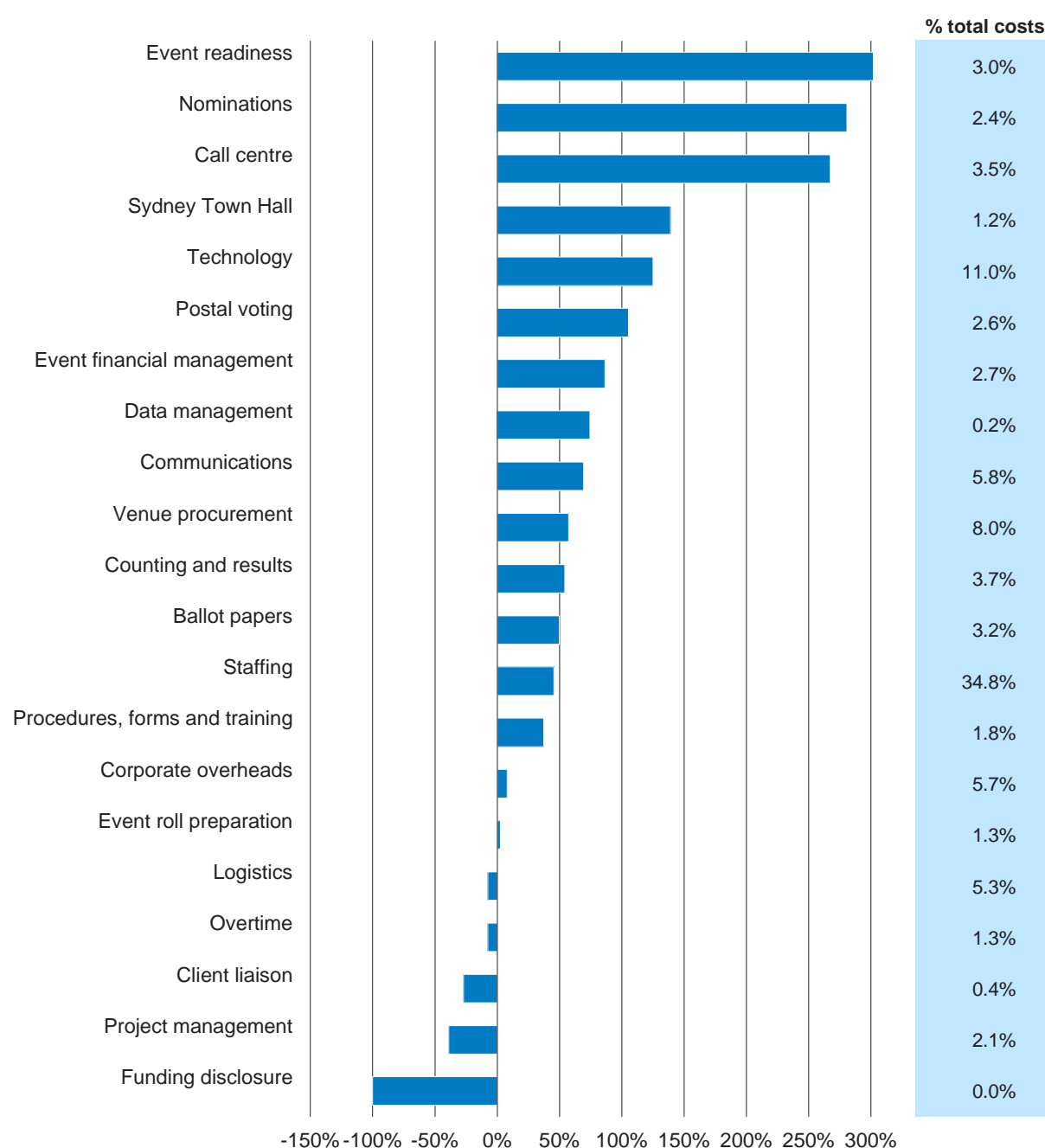
<sup>81</sup> 'Bottom up' estimates are derived by defining the tasks required to administer each council's election, estimating the costs for each of these tasks and then aggregating them. The NSWEC has indicated these estimates are its existing methodology for determining the amount to charge councils which use it to conduct their elections (Email from NSWEC to IPART dated 31 May 2019).

<sup>82</sup> The NSWEC's proposed operating expenditure for the 2020 local government elections comprises estimates for all councils it serviced in 2016 and 2017 (ie, it does not include the six councils that conducted their own elections in 2016 and 2017).

<sup>83</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 Final Report, p 10).



**Figure 3.4 NSWEC’s proposed cost for 2020 local government elections (nominal increase from 2016-17 election costs)**



**Note:** In its 2020 proposal, NSWEC has included some project management costs within the other projects listed above. Further, it did not include any funding disclosure costs in its proposal.

**Data source:** IPART analysis based in information provided by the NSWEC.

In our Draft Report, we reviewed ‘top-down’ estimates<sup>84</sup> of the NSWEC’s operating expenditure, as the ‘bottom-up’ estimates were only finalised shortly before we released the

<sup>84</sup> The NSWEC prepared ‘top-down’ estimates by starting with the actual costs for the 2016- and 2017 local government elections (after adjusting these costs for non-recurrent costs). It then added ‘step change’ increases to relevant cost items (ie, a cost change for reasons other than inflation or electoral roll growth). Finally, it escalated specific cost items for trends (ie, inflation and electoral roll growth).

report.<sup>85</sup> In aggregate, the NSWEC's 'bottom-up' estimates of \$62.4 million are 10.4% (or \$5.9 million) higher than its 'top-down' estimates of \$56.5 million.

The key increases in the NSWEC's proposed 'bottom-up' estimates compared to the 'top-down' estimates are:

- ▼ Project costs, \$7.2 million higher (eg, contracting more temporary staff to assist with the elections, such as managing IT, logistics and communications).<sup>86</sup>
- ▼ Technology costs, \$1.9 million higher (eg, renting IT equipment, instead of purchasing computers and other hardware).<sup>87</sup>
- ▼ Communications, \$0.8 million higher (eg, aligning costs with those incurred for the State Government election in 2019).<sup>88</sup>

The cost increases are partially offset by reductions in other items, such as logistics and election staffing costs. The NSWEC indicated these costs decreased due to it using more detailed information to calculate them when deriving its 'bottom-up' estimates. That is, they are not cost savings generated by the NSWEC in response to our Draft Report efficiency findings.<sup>89</sup>

### 3.3.2 We reviewed the NSWEC's proposal and recommend a 22% efficiency reduction

EY recommended reductions in most of the NSWEC's cost items, to bring them into line with its estimate of efficient costs. In aggregate, they represent a 22.2% decrease to the NSWEC's proposed operating expenditure, compared to 15.6% in the Draft Report. This means that, despite the NSWEC proposing higher costs in its 'bottom-up' estimates, EY's recommended level of efficient expenditure (\$48.5 million) is broadly in line with the one used in the Draft Report (\$47.7 million).

This greater reduction in costs is largely a result of EY applying a revised approach to reviewing efficiency to the 'bottom-up' estimates. If the NSWEC was unable to demonstrate the prudence and efficiency of its cost items, EY applied an efficiency adjustment to them.<sup>90</sup>

Where the costs related to a **new activity** (ie, one not undertaken in previous local government elections), EY reduced the proposed 2020 costs by 10%:

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<sup>85</sup> The NSWEC provided us with 'bottom-up' estimates of its operating expenditure in late May 2019. This did not allow us an adequate opportunity to review the estimates and assess the efficiency of the cost items included in them before release of the Draft Report in late June 2019. Therefore, we reviewed 'top-down' estimates for the Draft Report and 'bottom-up' estimates for the Final Report.

<sup>86</sup> EY Final Report, p 11. NSWEC describes these costs in its 'bottom-up' estimates as 'Aggregated Project Management', 'On-costs' and 'Project Resources' costs. In general, it has included them as subcosts within each of its main projects (eg, counting and results, postal voting, event readiness).

<sup>87</sup> EY Final Report, p 11. The NSWEC's business case showed that leasing or renting IT equipment was the least cost option, compared to purchasing new equipment or renting second hand equipment.

<sup>88</sup> EY Final Report, p 11; Email from NSWEC to IPART dated 31 May 2019.

<sup>89</sup> In addition, most project management costs have been reallocated to, and included in, other project costs. As such, the apparent reduction in project management costs between 2016-17 and 2020 is unrepresentative.

<sup>90</sup> EY Final Report, pp 14, 25-28. The exception to this approach was its efficiency recommendations for polling place staff. EY determined it had sufficient information to recalculate these costs.

- ▼ As a first-time price regulated entity, this efficiency adjustment aims to move the NSWEC closer to the efficient frontier. That is, the costs of an entity operating at an optimal level of efficiency.
- ▼ EY noted that first-time price regulated entities are typically found to propose operating expenditure up to 5% to 10% above efficient costs. In this respect, EY found the NSWEC did not exhibit key indicators of efficiency in business practices (eg, targeted KPIs that measure outputs against defined service levels or adequate justification of service levels).

Where the costs related to an **existing activity**, EY first determined whether the previous election costs were an efficient starting base:

- ▼ If so, it started with the 2016 and 2017 election costs, then escalated them by roll growth<sup>91</sup> and a continuing efficiency factor (CPI-1%).
- ▼ Otherwise, it reduced the 2016 and 2017 election costs by 10% to move them closer to the efficient frontier, and then applied the roll growth and CPI-1% escalation.

Applying the continuing efficiency factor recognises that it is reasonable for the NSWEC to achieve efficiency improvements in its costs over time.

The main differences between the efficiency adjustments in our Draft Report and Final Report are summarised in Box 3.1.

### **Box 3.1 Differences in EY's approach to reviewing the NSWEC's efficiency**

EY revised its approach to estimating the efficient level of the NSWEC's costs, compared to its Initial Report (which was prepared for our Draft Report).

- ▼ Previously, where EY considered the efficiency of a cost item was not justified, it looked to mainly recalculate the costs (ie, based on adjusted efficient units and volume inputs).
- ▼ In addition, time constraints and data limitations meant EY did not specifically review the efficiency of all the NSWEC's cost items in its 'top-down' estimates. Instead, it applied a CPI-0.5% efficiency adjustment to these other costs, on the basis that it would be reasonable to expect some ongoing efficiency improvements in these costs.
- ▼ In its Final Report, where the NSWEC is unable to demonstrate the efficiency of a cost item, EY has generally found that it has insufficient information to recalculate these costs. It has only recalculated polling place staffing costs. Where appropriate, EY has instead looked to apply a 10% adjustment to move the NSWEC's costs closer to the efficient frontier, as well as a continuing efficiency adjustment (CPI-1%).
- ▼ EY has used a higher continuing efficiency adjustment than in the Draft Report (CPI-0.5%). This was because its review of the 'bottom-up' estimates indicated that the NSWEC's level of costs were further away from the efficient frontier than previously thought.

**Source:** IPART Draft Report, p 31; EY Final Report, pp 14, 25-28.

In its submission, the NSWEC viewed EY's continuing efficiency adjustment as arbitrary.<sup>92</sup> However, we consider that EY's approach to reviewing the NSWEC's efficiency is reasonable. For example, it does not propose applying the continuing efficiency adjustment to a cost item

<sup>91</sup> 'Roll growth' is the growth in costs associated with the increase in electors on the electoral roll.

<sup>92</sup> NSWEC submission to IPART Draft Report, July 2019, pp 12-18.

that is subject to a sufficient level of stress testing (eg, competitive tendering) or outside the NSWEC's control (eg, because it is a price taker).<sup>93</sup>

We also consider EY's recommended efficient costs are achievable, and have accepted its recommendations in our Final Report. In general, EY has not prescribed the NSWEC undertake specific organisational changes to deliver the cost savings. Rather, it has left it open for the NSWEC to select the appropriate method (eg, through increasing its productivity or integrating greater market testing into its processes).

The sections that follow discuss our efficiency findings for the NSWEC's main projects:

- ▼ Election staffing
- ▼ Venue procurement
- ▼ Count centres
- ▼ Project costs
- ▼ Technology
- ▼ Logistics.

### **Election staffing**

The NSWEC groups together several cost items within the 'election staffing' project. These costs largely relate to the wages and salaries payable to election officials, such as polling place managers and returning officers, as well as their security and support staff. They also include some of the expenses involved in running the returning officers' premises (eg, postage and utilities).

The election staffing project does not include staffing costs that relate to other projects, such as the vote counting or data management projects, and are allocated by the NSWEC to those projects. Therefore, the NSWEC's staffing costs for the 2020 elections are greater than the costs in the 'election staffing' project.

The NSWEC indicated election staffing costs were increasing by 45.4% in nominal terms (compared to 2016-2017 costs) primarily due to:

- ▼ **Raising pay rates**, revising position descriptions to comply with the NSW Government Capability Framework and aligning pay rates with those offered by electoral commissions in other jurisdictions. The proposed rates are broadly consistent with the higher rates set for the 2019 NSW Government election.
- ▼ **Changing staff ratios**, through a 20% reduction in table loadings, which increases 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.<sup>94</sup>

While this is a 9.6% decrease in election staffing costs from the 'top-down' proposal we reviewed in the Draft Report, it does not appear to result from the NSWEC identifying

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<sup>93</sup> EY Final Report, pp 27-28.

<sup>94</sup> EY Final Report, pp 17, 20-22.

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efficiencies. Rather, it has arisen from the NSWEC having more granularity around its costs from the 'bottom-up' estimate process.

As a result of the efficiency adjustments outlined below, EY recommended election staffing costs of \$16.5 million for the 2020 local government elections. While this represents a nominal increase of \$1.6 million (or 10.7%) for election staffing, compared to the previous elections in 2016 and 2017, it is 23.9% lower than the NSWEC's proposal.

#### Pay rates for polling place staff

Consistent with the Draft Report, EY found the increase in pay rates for polling place staff was not adequately justified as efficient. This finding applies to the pay rates used at the 2019 NSW Government election, and proposed for the 2020 local government elections. The NSWEC did not show there were difficulties in hiring or retaining staff in 2016 and 2017 at the existing pay rates, or that it was necessary to revise position descriptions to comply with the Capability Framework.<sup>95</sup> Further, it did not indicate any KPIs that linked the increase in pay rates to improvements in service delivery.<sup>96</sup>

Cessnock City Council agreed that the NSWEC's proposed increases in election staffing costs were difficult to justify, especially in a low inflation environment. It noted that the NSWEC had no difficulty staffing previous elections, so an increase in wages did not appear warranted and would place an extra burden on councils.<sup>97</sup>

Despite these concerns, EY has adopted a pragmatic approach. The NSWEC has already employed polling place staff at the higher rates for the recent State election. As such, it now may be difficult to hire staff at the existing, lower pay rate for local government elections.<sup>98</sup> Therefore, EY has largely recommended adopting the NSWEC's proposal on pay rates, and aligning them with the rates used at the 2019 NSW Government election (see Table 3.4).<sup>99</sup>

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<sup>95</sup> All NSW Government agencies were required to embed the Capability Framework by August 2016. There was no evidence provided that the rates before the 2019 NSW Government election did not comply with this requirement (EY Final Report, p 19).

<sup>96</sup> EY Final Report, p 19.

<sup>97</sup> Cessnock City Council submission to IPART Draft Report, July 2019, pp 1-3.

<sup>98</sup> For example, staff for both elections are likely to come from the same pool of workers.

<sup>99</sup> EY Final Report, pp 18-19.

**Table 3.4 Recommended pay rates, per day (\$2020-21, exclusive of on-costs)**

Election day role	NSWEC proposed	IPART recommended
Election official	475.48	436.51
Declaration vote official	539.71	522.38
Deputy Voting Centre Manager	667.33	667.14
Voting centre manager (level 1)	788.89	788.71
Voting centre manager (level 2 to 3)	824.13	824.13
Voting centre manager (level 4 to 5)	860.22	860.04
Voting centre manager (level 6 to 7)	866.24	866.06
Voting centre manager (level 8 to 9)	885.89	885.72
Voting centre manager (level 10 to 11)	900.29	900.12
Voting centre manager (level 12+)	937.37	937.19

Source: EY Final Report, p 19.

The exception is for the pay rates for election officials and declaration vote officials. As the NSWEC proposed pay rates exceeding those used for the recent State Government election, EY found they were inefficient and should not be adopted. Instead, it has recommended pay rates for these polling place staff which align with the 2019 NSW Government election pay rates.

In our Draft Report, we accepted EY's recommendation that pay rates be set around 6% below those used at the recent State election. This was partly based on the assumption that local government elections were less complex – and so staff should be offered a lower pay rate – than State elections.<sup>100</sup>

However, several stakeholders disagreed with EY's assumption. Indeed, they consider local government elections may be more complex. For example, there may be multiple polls conducted on election day (mayoral elections, councillor elections, referenda). Further, there are a significantly larger number of candidates nominating for local government elections.<sup>101</sup>

In response to these concerns, EY has revised its assessment about the complexity of local government elections.<sup>102</sup> In any case, for our Final Report, it is now recommending an alignment in pay rates between the State and local government elections.

The NSWEC also considered that the recommended pay rates in our Draft Report would lead to employees being paid below the minimum wage.<sup>103</sup> In response, EY has provided analysis in its Final Report that its recommended pay rates are set above the minimum wage.<sup>104</sup>

We understand that the NSWEC is developing a determination that will set the remuneration and conditions for its election staff. It indicated this determination may lead to increased pay

<sup>100</sup> EY, *Review of efficient costs of the NSW Electoral Commission's conduct of local government elections*, June 2019, pp 21-22 (EY Initial Report).

<sup>101</sup> Australian Election Company submission to IPART Draft Report, July 2019, p 2; NSWEC submission to IPART Draft Report, July 2019, p 6; Penrith City Council submission to IPART Draft Report, July 2019, p 3.

<sup>102</sup> EY Final Report, p 18.

<sup>103</sup> NSWEC submission to IPART Draft Report, July 2019, pp 7-8

<sup>104</sup> EY Final Report, p 20.

rates, and therefore costs.<sup>105</sup> In making this determination, we encourage the NSWEC to take into account our findings around the efficiency of its proposed pay rates, and recommendations to revise them. Councils should not bear the cost of the NSWEC paying rates that are above efficient levels.

#### Table loadings for polling place staff

In relation to changing staff ratios for polling place staff, EY found the NSWEC had not adequately justified its proposed 20% reduction in table loadings.<sup>106</sup> Instead, it recommended the NSWEC revert to the table loadings it used before the 2019 NSW Government elections (see Table 3.5). This is the same position that EY adopted in its Initial Report.

**Table 3.5 Recommended table loadings**

Election day role	NSWEC's 'bottom-up' table loadings	NSWEC's 'top-down' table loadings (same as NSW Govt 2019 election)	IPART's recommended table loadings (same as 2016 & 2017 Local Govt elections)
Ordinary voting – CALD	400-401	400-450	500-550
Ordinary voting – Country, Country Metro, Metropolitan	450-451	450-500	550-600
Declaration voting – CALD	80-90	80-90	80-100
Declaration voting – Country, Country Metro, Metropolitan	100-101	100-120	100-120

**Note:** We have used the NSWEC's description of table load groupings (ie, 'CALD', Country', Country Metro' and 'Metropolitan'). 'CALD' stands for 'culturally and linguistically diverse'. The NSWEC proposed a 20% reduction to table loadings in its 'top-down' estimates. It reduced table loadings even further in the 'bottom-up' estimates, by decreasing the maximum number of votes per day.

**Source:** EY Final Report, p 22.

Penrith City Council and the NSWEC both considered that Work Health and Safety issues were important factors when setting table loadings. Penrith City Council stated that table loadings should be set to provide adequate rest for election officials.<sup>107</sup> In addition, the NSWEC outlined that it wants to reduce fatigue risk by lowering its table loadings (ie, employing more staff for each polling venue). While the risks attributable to fatigue have not yet materialised in previous elections, it noted they are potentially catastrophic.<sup>108</sup>

The NSWEC indicated that applying lower table loadings – and therefore employing more polling place staff – at the 2019 NSW Government election reduced the number of recorded workplace safety incidents (compared to the prior State election). However, EY found there was insufficient evidence to support the NSWEC's WHS concerns. EY found:

<sup>105</sup> NSWEC submission to IPART Draft Report, July 2019, p 7 and Email from NSWEC to IPART dated 26 July 2019.

<sup>106</sup> EY Final Report, pp 20-22. Table loadings are the ratios of polling place staff to electors in polling venues. For example, a table loading of 550-600 means that there is one polling place official for every 550 to 600 electors at the venue.

<sup>107</sup> Penrith City Council submission to IPART Draft Report, July 2019, pp 3-4.

<sup>108</sup> NSWEC submission to IPART Draft Report, July 2019, p 8.

- ▼ The rate of workplace incidents was already relatively low,<sup>109</sup> and it was unclear the extent to which the lower table loadings further reduced these claims.
- ▼ In addition, the NSWEC was unable to provide information about the magnitude of WHS risks at the 2016-2017 local government elections.<sup>110</sup>

Therefore, the NSWEC had not demonstrated why universal reductions in table loadings were an appropriate response to its WHS concerns, particularly given the associated increase in costs.<sup>111</sup>

Improved service delivery and counting efficiency were the other main objectives of the NSWEC's proposal to reduce table loadings. In relation to these objectives, EY found 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. Further, there did not appear to be an increase in counting efficiency when the proposed staff ratios were used at the NSW Government election in March 2019. As a result, the reduced table loadings, and resulting cost increases to councils, were not justified.<sup>112</sup>

#### Efficiency adjustments for other election staff

In the Draft Report, we recommended reductions in other election staffing costs, such as returning officers (RO) and office assistant (OA) staff.<sup>113</sup> This was mainly based on EY proposing efficiency adjustments around pay rates and volumes for these staff.

EY still considers there is scope for efficiency savings in these staffing costs. They have almost doubled since the 2012 election, and there was insufficient evidence to justify increases of this magnitude.<sup>114</sup> Although it reviewed additional information provided by the NSWEC on the Capability Framework, EY thought it remained unclear how complying with this framework could require pay rate increases on the scale proposed by the NSWEC.<sup>115</sup>

In any case, EY has recommend a broad efficiency adjustment to these costs.<sup>116</sup> This allows the NSWEC to increase pay rates to its proposed levels, while generating offsetting cost savings. For example, requiring increased productivity from a higher paid workforce, thereby reducing staffing hours.<sup>117</sup>

<sup>109</sup> EY found the total number of incidents from the 2015 NSW 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 Final Report, p 21.

<sup>110</sup> For example, the severity of staff fatigue and the proportion of staff working after 11pm. EY Final Report, p 21.

<sup>111</sup> EY Final Report, p 21.

<sup>112</sup> EY Final Report, p 21.

<sup>113</sup> The following cost items are included in this analysis: OA staffing, senior office assistant (SOA) staffing, returning officer support officer (ROSO) wages, RO recruitment and wages, ROSO support centre, RO administration costs, employment support desk and performance management HCMS. This terminology is from the NSWEC's cost item descriptions.

<sup>114</sup> The NSWEC's expenditure on these items was \$5.4 million in 2012, and it is proposing expenditure of \$10.4m in 2020, which would result in a 92.6% increase. EY Final Report, p 28.

<sup>115</sup> EY Final Report, p 29.

<sup>116</sup> The other election staffing costs for 2016 and 2017 are reduced by 10%, and then escalated by roll growth and CPI-1%.

<sup>117</sup> EY Final Report, p 29.



## Venue procurement

The 'venue procurement' project includes the cost of leasing polling places, RO offices, pre-poll locations and counting centres. The main driver for the 57.3% nominal increase in these costs (compared to 2016 and 2017 costs) is the Department of Education and Training charging higher rates to use NSW Government schools as polling places. Another factor is the greater use of counting centres in regional areas.

The NSWEC's 'bottom-up' estimates represent an 11.9% increase in venue procurement costs compared to the 'top-down' proposal we reviewed in the Draft Report. The NSWEC indicated this was a result of higher lease costs due to changing market conditions.<sup>118</sup>

EY found that the NSWEC's proposal was adequately justified, which is largely consistent with the Draft Report.<sup>119</sup> It recommended venue procurement costs of \$5.0 million for the 2020 local government elections, representing a nominal increase of \$1.8 million (or 57.3%), compared to the previous elections in 2016-17.

The NSWEC is a price taker in the market for venues, so venue procurement costs are largely outside its control.<sup>120</sup> For example, in relation to polling place, the NSWEC has entered into a Memorandum of Understanding with the Department of Education and Training, which contains substantial increases in its hire rates for school halls.<sup>121</sup> Private venues were not always viable alternatives, since many appeared to charge even higher fees.

In the Draft Report, we outlined how EY did not consider the counting centre cost increases were efficient.<sup>122</sup> EY has subsequently considered the venue hire and operating costs for the counting centres separately (the latter is discussed in the section below). Consistent with its findings for other venues, the NSWEC is a price taker in relation to counting centre hire costs. Therefore, the high premiums expected to be applied to the short-term leases of these venues are considered to be outside the NSWEC's control.<sup>123</sup>

In submissions to the Draft Report, stakeholder views were mixed on the NSWEC's 'top-down' costs for this item. While Penrith City Council thought the increase in venue procurement costs was reasonable, Cessnock City Council considered it was difficult to justify.<sup>124</sup>

Additionally, some stakeholders indicated the NSWEC should retain greater flexibility when reviewing its options for venues.

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<sup>118</sup> Email from the NSWEC to IPART dated 31 May 2019.

<sup>119</sup> The 'top-down' estimates reviewed for the Draft Report included the operating costs of counting centres

<sup>120</sup> EY Final Report, pp 22-23.

<sup>121</sup> Cessnock City Council's submission suggested that IPART was recommending schools charge councils a commercial (rather than 'not-for-profit') rate when the NSWEC is hiring halls for polling venue (Cessnock City Council submission to IPART Draft Report, July 2019, p 4). We can confirm that IPART has not been involved in determining the hire rates in the Memorandum of Understanding.

<sup>122</sup> IPART Draft Report, p 29.

<sup>123</sup> EY Final Report, p 22.

<sup>124</sup> Cessnock City Council submission to IPART Draft Report, July 2019, p 4; Penrith City Council submission to IPART Draft Report, July 2019, p 4.

- ▼ While familiarity with polling places (ie, schools) was important, Penrith City Council thought the NSWEC should examine other facilities. It had found this approach could save money and provide voting options for electors where they were most convenient.<sup>125</sup>
- ▼ Penrith City Council also noted that, while there are critical considerations for polling place venues (eg, access, flow), the NSWEC's criteria for pre-polling and RO offices should be explored. More flexibility with these requirements would open up further venue options.<sup>126</sup> Similarly, Shoalhaven City Council considered that councils own facilities that would be suitable election polling and office venues.<sup>127</sup>

In response, the NSWEC indicated its preference is to use council facilities. However, it has venue hire criteria (eg, space, security, WHS, access) which mean some council facilities will not be suitable. That said, it still tries to 'make it work' even if a venue does not meet its criteria.<sup>128</sup>

### Count centres

The 'count centres' project covers batching and data entry staff costs, security costs and the expenses incurred by head office staff to set up and manage the count centres (eg, airfares and accommodation). The NSWEC is proposing a 54.2% nominal increase in these counting costs (compared to 2016 and 2017 costs).<sup>129</sup> Looking at the 'top-down' proposal we reviewed in the Draft Report, these 'bottom-up' costs are 32.7% higher. Much of this increase is attributable to a rise in batching and data entry staff costs.

The NSWEC derived its count centre costs using ballot KPIs. That is, it set targets around the number of ballots that could be batched or processed by each person in a given timeframe.<sup>130</sup> It then used these targets to determine its batching and data entry staffing numbers. However, EY found the NSWEC had not demonstrated that these selected KPIs were the most efficient needed to manage the count.<sup>131</sup>

The NSWEC introduced count centres for the 2017 elections, in response to the increasing complexity of the counting process.<sup>132</sup> It enabled some counting to be conducted at a shared location, with the main objective of improving the efficiency of this process. However, EY noted that the count centres had not resulted in cost savings, either to the counting process or elsewhere in the NSWEC's operations.<sup>133</sup>

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<sup>125</sup> Penrith City Council submission to IPART Draft Report, July 2019, p 4. Penrith City Council also considers the Department of Education should treat NSWEC and private providers equally. That is, they should have the same opportunities to hire school venues, and be charged the same price, regardless of who is responsible for administering the election.

<sup>126</sup> Penrith City Council submission to IPART Draft Report, July 2019, p 4.

<sup>127</sup> Shoalhaven City Council submission to IPART Draft Report, July 2019, p 2.

<sup>128</sup> NSWEC submission to IPART Draft Report, July 2019, p 9.

<sup>129</sup> This item also includes project management costs.

<sup>130</sup> For example, it set a target that 100 ordinary ballot papers would be batched per person, per hour. EY Final Report, p 25.

<sup>131</sup> EY Final Report, p 25.

<sup>132</sup> By having count centres, the NSWEC can concentrate skilled head office staff in these locations to support the batching and counting process. Email from the NSWEC to IPART dated 29 May 2019.

<sup>133</sup> EY Final Report, pp 24-25.

EY applied an efficiency adjustment to the NSWEC's count centre costs. It started with the 2016 and 2017 costs, and then escalated them for roll growth and CPI-1%.<sup>134</sup> As a result, it recommended count centre costs of \$1.7 million for the 2020 local government elections.<sup>135</sup> While this represents a nominal increase of \$0.2 million (or 13.5%) for count centre costs, compared to the previous elections in 2016-2017, it is 26.4% lower than the NSWEC's proposal.

### Project costs

The NSWEC's 'project costs' are mainly its costs of hiring temporary staff to assist with the elections (eg, managing IT, logistics and communications). As many project costs are aggregated within the NSWEC's main projects (ie, they are included as sub-costs in projects such as counting and results and postal voting), it can be difficult to isolate them and observe how they are changing over the election cycles.

EY's review of project management office (PMO) costs – one type of project cost – for the Draft Report found they were not unreasonable. The NSWEC was only proposing a 10% nominal increase for the 2020 elections, which was in line with CPI.<sup>136</sup>

Since then, the NSWEC has substantially revised its project costs. When compared to the 'top-down' estimates, it is proposing:

- ▼ New aggregated project management (AP) costs and on-costs of \$2.9 million
- ▼ An increase of \$4.3 million in project resource costs
- ▼ A decrease of \$1.0 million in PMO costs.<sup>137</sup>

EY found that the NSWEC did not demonstrate that these project costs were set at the optimal cost level.

- ▼ The new expenditure - AP and on-costs – relates to managing election activities which are largely unchanged from the 2016 and 2017 elections. Further, these cost items appear to be duplicative.
- ▼ The NSWEC did not explain how it was efficient for the PMO cost savings to be outweighed by the new expenditure on AP and on-costs.
- ▼ The increase in project resource costs did not lead to material cost savings for other activities.<sup>138</sup>

Since the AP and on-costs are new expenditure, EY made a 10% efficiency adjustment to bring these costs closer to the efficient frontier. In relation to project resource costs, it calculated the efficient costs by starting with the 2016 and 2017 costs, and then escalating them for roll growth and CPI-1%.

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<sup>134</sup> EY Final Report, p 24.

<sup>135</sup> EY Final Report, p 2.

<sup>136</sup> IPART Draft Report, p 30.

<sup>137</sup> EY Final Report, pp 23-24.

<sup>138</sup> EY Final Report, pp 23-24.

## Technology

The 'technology' project comprises software and hardware costs (eg, IT equipment for returning officers), as well as temporary IT staff costs. The NSWEC is proposing a 125.0% nominal increase in these technology costs (compared to 2016-2017 costs). Similarly, these 'bottom-up' cost estimates of the NSWEC are 91.1% higher than its 'top-down' proposal we reviewed in the Draft Report.

In the Draft Report, we accepted EY's recommendation to reduce some of the NSWEC's technology costs by up to 10%. EY has subsequently considered new information provided by the NSWEC. While it still considers an efficiency adjustment is warranted, EY has used the 2016-2017 costs as its starting base and escalated them for CPI-1%.<sup>139</sup>

EY did not recommend any efficiency adjustments to the IT equipment for returning officers. This was because the NSWEC's 'bottom-up' estimates showed that the cost increase was arising from a competitive procurement process. The option selected – leasing or renting IT equipment – was the least cost option, compared to purchasing new equipment or renting second hand equipment.

Therefore, EY recommended technology costs of \$4.9 million for the 2020 local government elections.<sup>140</sup> While this represents a nominal increase of \$1.8 million (or 60.5%) for technology costs, compared to the previous elections in 2016-2017, it is 28.7% lower than the NSWEC's proposal.

## Logistics

The NSWEC is proposing a 7.5% nominal decrease in its logistics costs (compared to 2016-2017 costs). This is different from its 'top-down' proposal we reviewed in the Draft Report, where it was proposing a relatively small, trend-only (ie, CPI and roll growth) increase in logistics costs.

In its Initial Report, EY noted that logistics costs increased substantially in nominal terms between the 2012 and 2016-17 elections. This was a result of the NSWEC transforming its logistics operations to create cost savings and improve service levels. However, it was unclear if the changes had led to savings in other cost items. Therefore, EY found that the rationale for increasing logistics costs in 2016-17 was not justified, and it recommended using 2012 as the starting base for calculating efficient costs.<sup>141</sup>

EY reconsidered this finding for its Final Report, based on information provided by the NSWEC. It notes that some of the unjustified cost increases have, in part, been addressed by the NSWEC's proposed reduction in logistics costs. That said, EY found that further adjustments were required to return logistics costs to a more efficient level.

Starting with the 2016 and 2017 logistics costs, EY made a 10% efficiency adjustment to bring these costs closer to the efficient frontier. It then escalated them for roll growth and CPI-1%, and thereby recommended logistics costs of \$3.0 million for the 2020 local government

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<sup>139</sup> EY Final Report, p 29.

<sup>140</sup> EY Final Report, p 3.

<sup>141</sup> IPART Draft Report, pp 29-30.

elections. This represents a nominal decrease of \$0.6 million (or 16.8%) for logistics, compared to the previous elections in 2016-2017, and is 10.0% lower than the NSWEC's proposal.

### **3.3.3 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 Office costs
- ▼ Joint Roll Agreement costs.

We consider that a portion of these costs should be included in the NSWEC's NRR. This is consistent with our position in the Draft Report.

Penrith City Council supported including these costs on transparency grounds.<sup>142</sup> However, Randwick City Council thought the NSWEC should not recover any of its corporate overheads from councils.<sup>143</sup> We note that the NSWEC uses a portion of its overheads when administering the local government elections. Therefore, part of these common costs should be included in the NSWEC's NRR.

#### **Executive Office 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>144</sup>

The EMF currently excludes the NSWEC's Executive Office costs.<sup>145</sup> The reason stated for excluding these costs is that they are incurred for other services the NSWEC performs, and so should be entirely funded by the NSW Government.<sup>146</sup>

The Executive Office costs include salaries for the three members of the NSW Electoral Commission,<sup>147</sup> as well as costs for HR, communications and reception staff.<sup>148</sup>

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<sup>142</sup> Penrith City Council submission to IPART Draft Report, July 2019, p 5.

<sup>143</sup> Randwick City Council submission to IPART Draft Report, July 2019, p 2.

<sup>144</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 dated 28 May 2019).

<sup>145</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>146</sup> PWC Report, p 7.

<sup>147</sup> NSWEC submission to IPART Draft Report, July 2019, p 27.

<sup>148</sup> Email from the NSWEC to IPART dated 5 August 2019.

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In the Draft Report, we included a portion (27.7%) of the NSWEC's Executive Office costs in the EMF. Providing election services to councils is one of the NSWEC's core functions. We consider its executives – such as HR and communications staff – are likely to spend a portion of their time involved with the 2020 local government elections.

Therefore, we have recommended the same approach for the Final Report, and adopted the same allocation method used by the NSWEC to include other head office costs in this fee.<sup>149</sup> We have also applied the same efficiency saving to the Executive Office costs as the one used to adjust the EMF. That is, we have accepted EY's recommendation to use 2016 and 2017 election costs as the starting base and escalated these for CPI-1%.

### 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>150</sup> We have allocated 16.9% of the Joint Roll Agreement costs to the 2020 local government elections.<sup>151</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.

### 3.4 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 – or 'WIGM' – and a countback option to fill casual vacancies).<sup>152</sup> In addition, it is proposing to invest in cybersecurity initiatives.<sup>153</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

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<sup>149</sup> Randwick City Council did not consider the method for determining the proportion was supported by robust analysis (Randwick City Council submission to IPART Draft Report, July 2019, p 2). We consider the method outlined in the PWC report to be an appropriate way share overhead costs. However, we have undertaken further analysis since the Draft Report, and understand that the NSWEC currently allocates 15.7% of most of its overheads to councils through the EMF, rather than 27.7% referred to in the Draft Report (IPART analysis based on the PWC Report). Therefore, for our Final Report, we have also allocated 15.7% of its Executive Office costs to councils (after adjusting these costs for the same efficiency saving applied to the EMF).

<sup>150</sup> Email from the NSWEC to IPART dated 16 April 2019.

<sup>151</sup> This is the same allocation as we applied to the NSWEC's roll management capital expenditure (see section 3.4). From our discussions with the NSWEC, we understand it takes data generated by the Joint Roll Agreement and manipulates it using the roll management system. As such, it is appropriate to apply the same allocation to these costs.

<sup>152</sup> NSWEC submission to IPART Issues Paper, May 2019, 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).

<sup>153</sup> The NSWEC did not include any capital expenditure in its 'bottom-up' estimates. However, it has separately proposed capital expenditure on projects relevant to local government elections. We have therefore included these projects in our assessment of the NSWEC's efficient election costs.

that any capital costs incurred in providing election services to councils should be included in our assessment of efficient costs.

### Proposed capital expenditure

In its Initial Report, EY recommended a 5% to 10% reduction in the WIGM project costs. This was based on the NSWEC not engaging in any competitive tendering for the project, and instead using its existing IT supplier.

While the NSWEC disagreed with EY's findings, Penrith City Council supported them.<sup>154</sup> Further, Shoalhaven noted the incentive for 'gold plating' needed to be addressed. That is, whether proposed election systems upgrades were appropriate to, and commensurate with, the provision of the NSWEC's services to local government.<sup>155</sup>

The NSWEC has subsequently advised that there was insufficient time to undertake market testing.<sup>156</sup> However, EY has maintained its recommended 5% to 10% reduction.<sup>157</sup> Even in the absence of market testing, it found there did not appear to be any 'stress testing' to demonstrate the level of capital expenditure was reasonable. Further, the NSWEC had not identified any offsetting savings in operating expenditure which may result from greater automation of the counting process.

As flagged in our Draft Report, we considered whether to recommend a greater percentage reduction in the NSWEC's capital expenditure. Based on EY's findings of systemic inefficiencies in the NSWEC's current activities, we looked at whether to apply a 20% reduction. This would be broadly consistent with EY's proposed overall reduction in operating expenditure. However, as this overall reduction was comprised of a mix of savings measures (rather than a blanket 20% efficiency saving across its operations), we thought it was not appropriate to extrapolate it to the NSWEC's capital expenditure.

As such, we have accepted EY's recommendation and continued to apply a 10% reduction to the NSWEC's proposed capital expenditure (see Table 3.6).

**Table 3.6 IPART's final recommendation on proposed capital expenditure (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
NSWEC proposed (election systems upgrade and cybersecurity)	–	5,941	280
<b>Final recommendation</b>	–	<b>5,347</b>	<b>252</b>
Difference	–	-594	-28
Difference (%)	–	-10.0%	-10.0%

Source: IPART analysis.

<sup>154</sup> NSWEC submission to IPART Draft Report, July 2019, p 20; Penrith City Council submission to IPART Draft Report, July 2019, p 5.

<sup>155</sup> Shoalhaven City Council submission to IPART Draft Report, July 2019, p 2.

<sup>156</sup> NSW Treasury approved funding for the WIGM project in June 2019, and it needs to be in place for the elections in September 2020.

<sup>157</sup> EY Final Report, pp 32-33.

## Historical capital expenditure

Compared to the Draft Report, we have revised our recommendation on the NSWEC's existing asset base for several items.

- ▼ **Efficiency adjustment:** EY made no recommendations regarding the efficiency of the NSWEC's existing asset base. Given EY's findings on proposed capital expenditure, we recommend applying a 10% efficiency adjustment to historical expenditure (ie, the value of existing assets).
- ▼ **Roll Management System:** In the Draft Report, we excluded the \$5.5 million Roll Management System (RMS), since the NSWEC advised it did not draw on it for local government elections. However, it has since clarified that it uses this system in these elections,<sup>158</sup> so we have included a proportion of its costs in the regulatory asset base.<sup>159</sup>
- ▼ **Re-allocation of assets:** Since the Draft Report, we have considered more detailed information on the assets included in the NSWEC's existing asset base, and the proportion used for local government elections. Accordingly, we have changed the allocation of assets to local government elections.

Table 3.7 shows the book value of the NSWEC's non-zero assets as at 30 June 2018.

**Table 3.7** IPART's final 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	15.2%	842
iVote and iRoll assets	204	0.0%	-
Other assets	1,976	13.5%	266
<b>Total</b>	<b>7,720</b>		<b>1,107</b>

Source: IPART analysis.

We did not include iVote and iRoll assets, since they are specific to the administration of NSW Government elections, and hence these assets have also been excluded from the Regulatory Asset Base (RAB) for local council election service. The 'other assets' category includes all relevant assets that are required to deliver services to councils.

## 3.5 Return on assets

We calculated the allowance for a return on assets - \$0.4 million - by multiplying the value of the RAB by the rate of return (ie, the Weighted Average Cost of Capital or WACC). Both of these items are discussed below.

<sup>158</sup> NSWEC submission to IPART's Draft Report, July 2019, pp 4, 21; and Email from the NSWEC to IPART dated 2 August 2019.

<sup>159</sup> Based on the use of the RMS, we consider that 16.9% of its regulatory asset value should be allocated to local government elections. However, we have also reduced the book value by 10%, which is in line with our efficiency factor for capital expenditure. This results in an allocation of 15.2%, as shown in Table 3.7.



### 3.5.1 RAB

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

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 \$1.1 million of the NSWEC's existing asset values, as outlined above. We then rolled forward the RAB to 2020-21 by:

- ▼ Adding \$5.3 million of proposed capital expenditure (mainly on the WIGM election systems upgrade)
- ▼ Adding \$0.1 million for CPI
- ▼ Deducting \$1.6 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 3.8.

**Table 3.8 IPART's final decision on the value of the RAB (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
Opening RAB	1,116	945	5,977
Plus capex net of capital contributions	0	5,480	259
Less disposals	-	-	-
Less depreciation	189	540	908
Plus indexation	18	92	32
Plus holding costs	-	-	-
<b>Closing RAB</b>	<b>945</b>	<b>5,977</b>	<b>5,360</b>

Source: IPART analysis.

### 3.5.2 WACC

We consider it is appropriate to apply our standard WACC methodology<sup>160</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 final 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.

<sup>160</sup> It is based on our *Review of our WACC method – Final Report* published in February 2018.

### 3.6 Return of assets (regulatory depreciation)

We include an allowance for regulatory depreciation in the NSWEC's NRR (and also 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 3.9 sets out our recommended asset lives. They are based on the NSWEC's forecast asset lives in its Annual Report.<sup>161</sup>

**Table 3.9 IPART's final 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 2020.

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.

### 3.7 Tax allowance

We have calculated the tax allowance by applying the relevant tax rate (30%), adjusted for gamma,<sup>162</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>163</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.

<sup>161</sup> Lake Macquarie wanted clarification around how capital assets used across multiple elections – such as WIGM – are allocated to the cost of a particular election (Lake Macquarie submission to IPART Draft Report, July 2019, p 3). We have accepted the asset life proposed by the NSWEC for WIGM (8 years), since we consider it is reasonable. We use this asset life to allocate the NSWEC's capital costs. For example, using a straight line depreciation method, this means that the WIGM asset will be depreciated evenly over 8 years. Therefore, its capital costs will be across the 2020 and 2024 elections.

<sup>162</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>163</sup> LGNSW submission to IPART Issues Paper, May 2019 p 10 and Anonymous submission to IPART Issues Paper, May 2019, p 1.

### 3.7.1 Working capital

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 (see Table 3.10) and then multiplying it by the WACC.

**Table 3.10 IPART's final recommendation on working capital (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
Working capital <sup>a</sup>	-4	-1,190	11,627

<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.

### 3.7.2 Tax Asset Base

The NSWEC does not currently pay tax or tax equivalents and therefore does not have an established Tax Asset Base. In order to calculate the NSWEC's regulatory tax allowance for the 2020 local government elections, we created a regulatory Tax Asset Base and calculated a tax depreciation forecast (see Table 3.11).

**Table 3.11 IPART's final decision on tax depreciation (\$'000, \$nominal)**

	2018-19	2019-20	2020-21
Tax depreciation	186	528	888

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 Terms of Reference also require 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
- ▼ Consider whether it is appropriate for the amount to be 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.

Our approach is to first identify the efficient cost of the NSWEC providing local government election services (see Chapter 3). We then use our funding hierarchy – based on the impactor-pays principle – to allocate these costs between the NSW Government and councils, and amongst councils (as presented in this chapter). Finally, we address affordability concerns separately from the cost allocation process, by proposing a government subsidy payable directly to councils (see Chapter 5).

Using the impactor-pays principle allows information about cost-reflective prices to be included in council bills. This highlights to councils the full efficient costs of the NSWEC's services. It also facilitates competition, by not unduly advantaging or disadvantaging the NSWEC compared to other potential suppliers of election services, and allowing councils to compare the efficient costs of the NSWEC's services against other potential providers of these services.

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

#### Final recommendations

- 6 The NSWEC allocate its efficient costs of managing local government elections using a methodology based on the impactor-pays funding hierarchy. That is, where possible, costs are allocated to the parties that create the need for those costs. Where it is impractical to allocate costs in this way, they are funded by the NSW Government (ie, taxpayers).
- 7 Applying the impactor-pays funding hierarchy means the NSWEC allocates 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 the electoral roll preparation 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, communications – such as state-wide advertising and community education materials - as well as maintaining the electoral roll).
- 8 The indirect costs the NSWEC allocates to client councils (and, in relation to electoral roll services, client and non-client councils) 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 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 resource costs) should be allocated by the number of ballots for each client council.
  - Local government boundaries costs (part of electoral roll preparation 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.

Our recommended approach to allocating the NSWEC’s efficient costs is based the impactor-pays principle. Although several stakeholders do not agree, we maintain our view as expressed in our Draft Report that councils are the ‘impactors’ with regard to the NSWEC’s costs of providing services for local government elections.

#### 4.1.1 We recommend using the impactor-pays principle to allocate costs

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 local government 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 these 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 understand 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, we view councils as the 'impactors'. Through holding elections, they create the need for the NSWEC to incur expenditure. Therefore, the efficient costs of the NSWEC providing local government election services (where practical) should be allocated to them.

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

- ▼ Ensure its costs are transparent and subject to appropriate scrutiny.
- ▼ Promote efficient decisions over time by the councils about the level of election services they require.
- ▼ 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).

#### 4.1.2 While stakeholders queried aspects of the impactor-pays principle, we consider it remains a sound basis for allocating costs

Many stakeholders did not agree with our view that councils were the impactors for local government election costs.<sup>164</sup> Rather, several thought the NSW Government should be viewed as the impactor (or co-impactor). For example, through enacting legislation, the NSW Government:

- ▼ Regulates councils and mandates them to hold elections.<sup>165</sup>
- ▼ Controls key aspects of the election process and the conditions under which elections are conducted.<sup>166</sup>

In contrast, Eurobodalla Shire Council supported our cost breakdown based on the impactor-pays funding hierarchy.<sup>167</sup> Kiama City Council and an anonymous submission also generally agreed with the impactor-pays philosophy, but were concerned about the substantial increase in costs it imposed on councils.<sup>168</sup> Similarly, Camden thought the impactor-pays approach was sound, but that the NSW Government should fund the infrastructure that supports the election process (eg, executive costs).<sup>169</sup>

We have considered these views, and concluded that councils should be viewed as ‘impactors’ for the following reasons:

- ▼ If there were no councils, the NSWEC would not be providing local government election services. That is, it would not incur any incremental costs relating to these elections, and even its common costs would presumably be scaled back to reflect the smaller scope of its operations.
- ▼ The NSW Government should not be treated as an impactor simply because it establishes legislative or regulatory requirements for local government elections. Rather, any costs associated with meeting these requirements should rest with those whose activities necessitate the requirements to be established (ie, councils).<sup>170</sup>

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<sup>164</sup> City of Canada Bay submission to IPART Draft Report, July 2019, pp 1-2; City of Sydney Council submission to IPART Draft Report, July 2019, p 3; Penrith City Council submission to IPART Draft Report, July 2019, p 2.

<sup>165</sup> Lachlan Shire Council submission to IPART Draft Report, July 2019, pp 1-2; Northern Beaches Council submission to IPART Draft Report, July 2019, pp 1-2; NSWEC submission to IPART Draft Report, July 2019, p 22; Riverina Joint Organisation submission to IPART Draft Report, July 2019, p 3; Woollahra Municipal Council submission to IPART Draft Report, July 2019, p1.

<sup>166</sup> See City of Sydney Council submission to IPART Draft Report, July 2019, p 2; Lane Cove Council submission to IPART Draft Report, July 2019, p 2; Riverina Joint Organisation submission to IPART Draft Report, July 2019, p 4; Shoalhaven City Council submission to IPART Draft Report, July 2019, p 1. For example, the NSW Government determines the timing for elections (Lachlan Shire Council submission to IPART Draft Report, July 2019, pp 1-2; Northern Beaches Council submission to IPART Draft Report, July 2019, pp 1-2), sets the pre-poll voting period (Blacktown City Council submission to IPART Draft Report, July 2019, p 3) and precludes councils from running their own elections (Brewarrina Shire Council submission to IPART Draft Report, July 2019, p 2). Further, councils cannot change their terms of office or introduce iVote as an option to reduce costs (LG NSW submission to IPART Draft Report, July 2019, pp 5-6). In addition, the NSW Government introduced the WIGM counting process changes (City of Sydney Council submission to IPART Draft Report, July 2019, p 2).

<sup>167</sup> Eurobodalla Shire Council submission to IPART Draft Report, July 2019, p 1.

<sup>168</sup> Kiama Municipal Council submission to IPART Draft Report, p 1 and Anonymous submission to IPART Draft Report, p 1.

<sup>169</sup> Camden Council submission to IPART Draft Report, July 2019, p 2.

<sup>170</sup> Similar issues were examined in the consultant's report to our review of WaterNSW in 2016 (Frontier Economics, *A review of WaterNSW Cost Shares*, December 2016, p 26).

Other stakeholders raised equity concerns with the impactor-pays approach. The NSWEC thought it was inequitable, as many councils did not have the capacity to pay cost-reflective prices. Instead, election services provide a social good, so the NSW Government should partly fund them.<sup>171</sup> Riverina Joint Organisation also considered there should be greater government funding, since providing election is akin to a Community Service Obligation. It argued:

- ▼ The NSW Government should pay the 'base costs' of an election. Only where a council wants a higher level of service from the NSWEC, it would pay for that.
- ▼ Further, costs should be allocated to the NSW Government to ensure per elector costs are the same for all councils. This ensures remote rural councils are not disadvantaged by their location and number of voters.<sup>172</sup>

We have addressed stakeholders' concerns about bill impacts and the affordability of the NSWEC's election services through a direct government subsidy to councils. This is discussed in more detail in Chapter 5.

#### **4.1.3 We applied the impactor-pays principle to the NSWEC's incremental and common costs**

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

- ▼ 'Direct costs' – which comprise the incremental costs directly traceable to an individual client council – are allocated to those client councils.
- ▼ 'Indirect costs' – which comprise the common costs and remaining incremental costs – are mostly allocated between client councils. The only exceptions are:
  - The cost of electoral roll preparation services,<sup>173</sup> 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 the 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: communications (eg, state-wide advertising and community education materials) and maintaining the electoral roll.<sup>174</sup>

We have summarised our overall approach to cost allocations in Figure 4.1. We also provide an overview of our recommended allocation for the NSWEC's specific cost items in Table 4.1, and compare it to the NSWEC's existing and proposed allocations.

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<sup>171</sup> NSWEC submission to IPART Draft Report, July 2019, pp 21-22.

<sup>172</sup> Riverina Joint Organisation submission to IPART Draft Report, July 2019, pp 3-4.

<sup>173</sup> The NSWEC's cost proposal uses the term 'event roll' rather than 'electoral roll'. For ease of understanding, we have used the term 'electoral roll', which is consistent with how we described this service in the Draft Report.

<sup>174</sup> In the Draft Report, we also recommended the NSWEC's funding disclosure services should be allocated to the NSW Government. However, it did not include this service in its revised cost proposal, which we have examined in Chapter 3 of this report.



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Our recommended allocation of election costs between the NSW Government and councils remains largely unchanged from the Draft Report (as it is still based on the impactor-pays principle). The main difference is the allocation of the communication cost item:

- ▼ In the Draft Report, we assumed there was a 50/50 split between state-wide and local advertising. We allocated state-wide advertising to the NSW Government, on the basis that the NSWEC provides this election awareness services to client and non-client councils, and there is no mechanism to charge the latter. We then allocated the remaining communications costs to client councils.
- ▼ The NSWEC subsequently advised that all of these communication costs relate to state-wide advertising. It invoices councils directly for their local advertising (so these costs do not appear in its proposed costs).<sup>175</sup> Therefore, we have now allocated all of the communication costs to the NSW Government.<sup>176</sup>

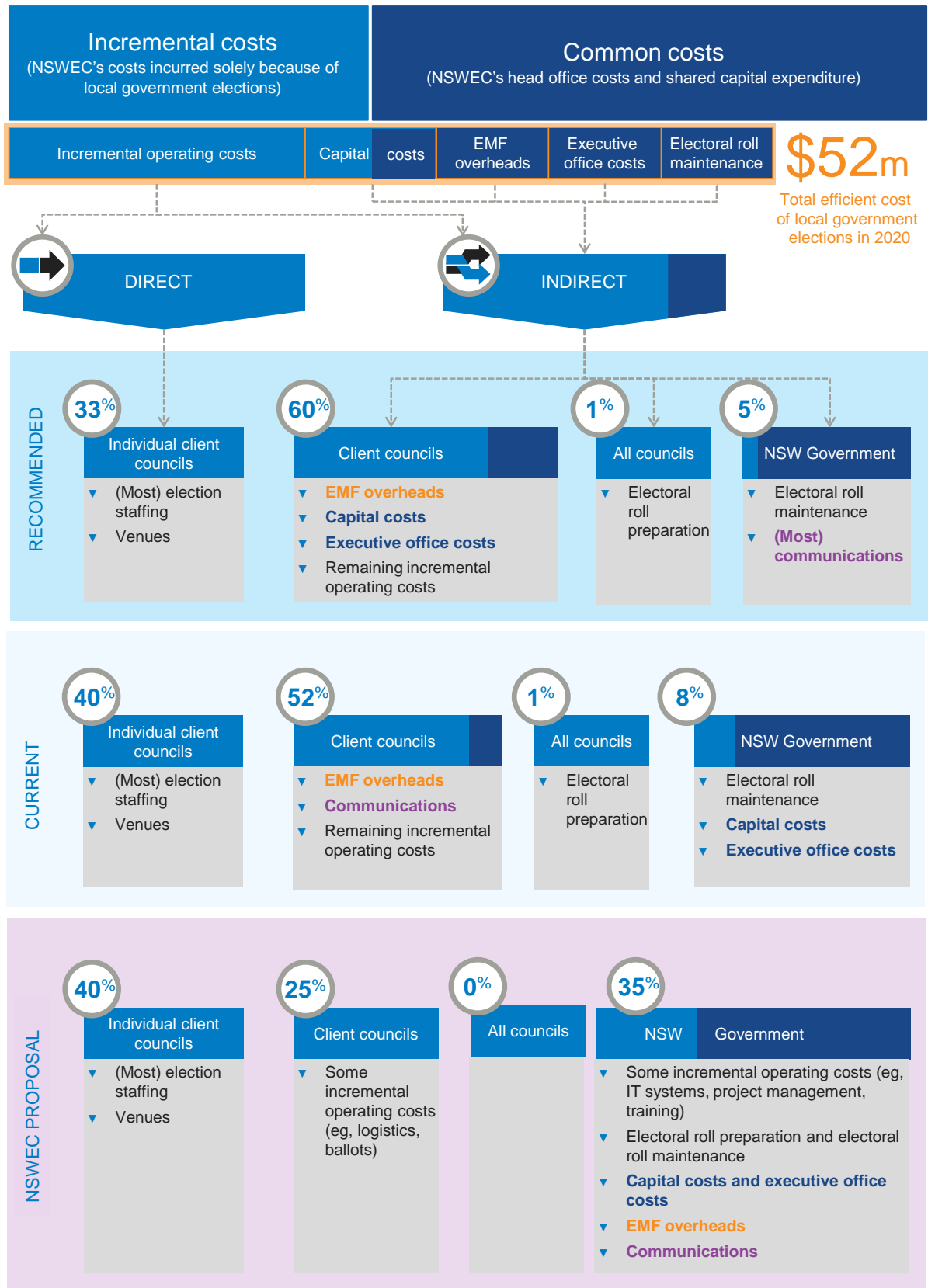
We note that some of the allocation percentages in Figure 4.1 are different from the Draft Report. For example, before we recommended allocating 41% of the NSWEC's costs directly to councils, and now we are recommending 33%. This is not a result of us changing the cost allocations. Rather, it reflects the NSWEC proposing a smaller proportion of direct costs in its revised cost proposal we considered for the Final Report. We consider the efficiency of this cost proposal in Chapter 3.

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<sup>175</sup> Email from NSWEC to IPART dated 12 July 2019.

<sup>176</sup> The only exception is for the post-election survey costs, which remain allocated to client councils. We understand they involve client councils being surveyed about their election experience, and so the costs are not applicable to non-client councils.

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



**Note:** Numbers may not add to 100% due to rounding.

**Source:** IPART analysis.

**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>				
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
ROSO support centre	Indirect	Across client councils	Across client councils	Across client councils
Office assistants	Direct	Across client councils	Across client councils	Individual client councils
Employment 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
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
Centralised office space	Indirect	Across client councils	Across client councils	Across client councils
Procedures, forms and training	Indirect	Across client councils	NSW Govt	Across client councils
Logistics	Indirect	Across client councils	Across client councils	Across client councils
Ballot papers	Indirect	Across client councils	Across client councils	Across client councils
Project management	Indirect	Across client councils	NSW Govt	Across client councils
Electoral roll preparation	Indirect	Across client and non-client councils	NSW Govt	Across client and non-client councils
Council liaison	Indirect	Across client councils	NSW Govt	Across client councils
Call centre	Indirect	Across client councils	Across client councils	Across client councils
Nominations	Indirect	Across client councils	NSW Govt	Across client councils
Counting and results	Indirect	Across client councils	Across client councils	Across client councils
Postal voting	Indirect	Across client councils	Across client councils	Across client councils
Technology	Indirect	Across client councils	NSW Govt	Across client councils
<i>Activity exception:</i>				
RO office equipment <sup>b</sup>	Direct	Across client councils	Across client councils	Individual client councils
Communications	Indirect	Across client councils	Across client councils	NSW Govt
<i>Activity exception:</i>				
Post election surveys <sup>c</sup>	Indirect	Across client councils	Across client councils	Across client councils
Event readiness	Indirect	Across client councils	NSW Govt	Across client councils
Event financial mgt	Indirect	Across client councils	NSW Govt	Across client councils
Data management	Indirect	Across client councils	NSW Govt	Across client councils
Overtime	Indirect	Across client councils	Across client councils	Across client councils
Sydney Town Hall	Indirect	Across client councils	Across client councils	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 Office costs	Indirect	NSW Govt	NSW Govt	Across client councils
Maintenance of the electoral roll	Indirect	NSW Govt	NSW Govt	NSW Govt
<b>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

**a** 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.

**b** We consider RO office security and RO office equipment should be classified as direct costs. However, the NSWEC does not collect this information on a per council basis, and so it was unable to provide us with the data to model the impact of allocating these costs directly to councils.

**c** We have allocated post-election surveys to client councils, since the NSWEC provides this service to those councils.

**Note:** The NSWEC has included project resource costs as sub-costs throughout the main cost items. For this reason, we have not separately identified them in the table. The NSWEC proposes allocating them to the NSW Government, whereas we have allocated them to client councils.

**Source:** IPART analysis based on information provided by the NSWEC.

## 4.2 We have addressed limitations with the 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>177</sup> Our proposed cost allocation methodology addresses several limitations with this methodology.

- ▼ The NSWEC **does not allocate to councils any capital costs, executive office 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 (eg, Returning Officer security 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 and election awareness (eg, state-wide advertising and community education materials) 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:

- ▼ The NSWEC's executive office costs (eg, costs of its head office HR and communications staff)
- ▼ Electoral roll maintenance
- ▼ Capital costs (eg, the depreciation of, and return on, its existing and forecast capital expenditure).

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<sup>177</sup> A copy of our Terms of Reference is in Appendix B.

These costs are common to several of its functions, including managing the local government elections. Our estimate of the NSWEC's cost of running the 2020 local government elections, explained in Chapter 3, 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 office 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.

Bathurst Regional Council indicated that our methodology does not appear to include the costs of referendums.<sup>178</sup> This is because we have been asked to review the NSWEC's methodology, and recommend the amount it should charge councils which use it to administer their ordinary elections.

#### **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, though none commented on this in response to our Draft Report.<sup>179</sup>

The NSWEC recognises most 'elections staffing' and 'venue procurement' as direct costs (see Table 4.1). In addition, we consider the following cost items should also be classified as direct costs:

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

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>180</sup> Further, they are unlikely to be closely correlated to the size of a council, so allocating them on a per elector basis under the existing methodology is unlikely to be cost-reflective.<sup>181</sup>

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<sup>178</sup> Bathurst Regional Council submission to IPART Draft Report, July 2019, p 1.

<sup>179</sup> Blacktown City Council submission to IPART Issues Paper, May 2019, p 2; Bogan Shire Council submission to IPART Issues Paper, May 2019, p 2; Central Coast Council submission to IPART Issues Paper, May 2019, p 2; City of Sydney Council submission to IPART Issues Paper, May 2019, p 3, LG NSW submission to IPART Issues Paper, May 2019, p 11; NSWEC submission to IPART Issues Paper, May 2019, p 35; Penrith City Council submission to IPART Issues Paper, May 2019, p 5.

<sup>180</sup> Some councils share a Returning Officer. In these cases, the office security and equipment costs for each shared Returning Officer should be allocated to the councils it services.

<sup>181</sup> For example, the NSWEC noted that there were similar security requirements across all Returning Officers' premises (Email from NSWEC to IPART dated 29 May 2019). Therefore, Returning Officer security costs are unlikely to vary across large and small councils.

However, the NSWEC has indicated it does not have data available to breakdown these Returning Officer costs so they can be allocated to individual councils.<sup>182</sup> 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 have changed our approach to allocating Returning Officer logistics from what we recommended in the Draft Report. Previously, we considered this cost item should also be allocated directly. However, the NSWEC has explained that it cannot be easily allocated to individual councils.<sup>183</sup> Further, these costs generally increase in line with the size of the council. A larger council, with more electors and polling places, would require more cardboard than a smaller council.<sup>184</sup> Therefore, we agree that continuing to allocate this cost indirectly – on a per elector basis – is appropriate.

#### **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.

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

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

- ▼ ‘Communications’ (eg, state-wide advertising) to client councils only.
- ▼ ‘Electoral roll preparation’ to client and non-client councils.<sup>185</sup>
- ▼ ‘Electoral roll maintenance’ to the NSW Government.

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

To ensure these costs are allocated in a way that puts NSWEC on an even footing with private providers of election services, we recommend they be allocated to the NSW Government. This is because there is currently no mechanism for the NSWEC to recover these costs from non-client councils. This approach is consistent with our funding hierarchy in which taxpayers

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<sup>182</sup> The NSWEC has advised that the required data does not exist until councils nominate that they want to share a Returning Officer (NSWEC submission to IPART Draft Report, July 2019, p 22). However, we note that the NSWEC’s cost proposal contains estimates for other cost items (eg, Returning Officer salaries) which are based on assumptions it has made about the number of shared Returning Officers nominated by councils. Also, our recommendation about allocating Returning Officer security and equipment costs directly to councils is not limited to those using Shared Returning Officers.

<sup>183</sup> For example, bulk cardboard is purchased at the NSWEC’s head office, and then later distributed at various times to councils.

<sup>184</sup> Email from NSWEC to IPART dated 12 July 2019.

<sup>185</sup> Under 298(8) of the *Local Government Act 1978*, the NSWEC 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 NSWEC.

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 its existing allocation for 'electoral roll preparation' and 'electoral roll maintenance'.

The stakeholders that commented on these recommendations were supportive of them. Blacktown City Council and Eurobodalla Shire Council agreed that the cost of 'electoral roll preparation' services should be allocated to both client and non-client councils.<sup>186</sup> Warrumbungle Shire Council supported our recommendation to allocate election awareness campaign costs to the NSW Government.<sup>187</sup>

#### **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>188</sup> Penrith City Council considered this would ensure a transparent and competitive process, likely to result in better outcomes for the community.<sup>189</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>190</sup> Similarly, the Central Coast Council and LGNSW noted that the NSW Government should pay a portion of NSWEC's indirect costs.<sup>191</sup>
- ▼ 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>192</sup>

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<sup>186</sup> Blacktown City Council submission to IPART Draft Report, July 2019, p 3; Eurobodalla Shire Council submission to IPART Draft Report, July 2019, p 2.

<sup>187</sup> Warrumbungle Shire Council submission to IPART Draft Report, July 2019, p 2.

<sup>188</sup> Bogan Shire Council, submission to IPART Issues Paper, May 2019, p 2; Central Coast Council, submission to IPART Issues Paper, May 2019, p 3; Penrith City Council submission to IPART Issues Paper, May 2019, p 5.

<sup>189</sup> Penrith City Council submission to IPART Issues Paper, May 2019, p 5.

<sup>190</sup> Inner West Council submission to IPART Issues Paper, May 2019, p 2.

<sup>191</sup> Central Coast Council submission to IPART Issues Paper, May 2019, p 3, LG NSW submission to IPART Issues Paper, May 2019, p 12.

<sup>192</sup> NSWEC submission to IPART Issues Paper, May 2019, p 36.

- ▼ City of Sydney Council and Penrith City Council supported the NSWEC's proposal that its 'core costs' (eg, IT systems, data management) be allocated to the NSW Government.<sup>193</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 4.3.3 below.

#### **4.2.5 We have revised some of the cost drivers the NSWEC currently uses 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.

The 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>194</sup>
- ▼ Count centre venue costs – number of ballots for each client council in the count centre grouping<sup>195</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>196</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>197</sup> Therefore, we do not think a per-electoral allocation is appropriate. Rather, we consider costs should be allocated evenly between all client councils.
- ▼ Counting and results costs that are venue-specific (eg, venue procurement and labour costs for counting venues)<sup>198</sup> should be allocated by the number of ballots for each client council in the venue. Other counting and results costs (eg, project resource costs) should be allocated by the number of ballots for each client council.
  - The NSWEC currently allocates the venue costs of hiring regional counting centres according to the number of ballots for each client council counted at those venues.

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<sup>193</sup> City of Sydney Council submission to IPART Draft Report, July 2019, p 5; Penrith City Council submission to IPART Draft Report, July 2019, p 2.

<sup>194</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>195</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. In its revised cost proposal, the NSWEC now refers to these facilities as 'count centres' and is planning to expand them to more regional areas.

<sup>196</sup> This is a sub-component of the 'electoral roll preparation' cost item shown in Table 4.1.

<sup>197</sup> Email from the NSWEC to IPART dated 29 May 2019.

<sup>198</sup> In 2016, the NSWEC managed the counting of ballots for several Sydney metropolitan councils at a counting centre at Riverwood.



- 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.

The changes to counting and results costs are consistent with suggestions made by City of Sydney Council and Penrith City Council in response to our Issue Paper.<sup>199</sup>

While Eurobodalla Shire Council supported our recommendations in the Draft Report, the NSWEC thought that allocating additional indirect costs by the number of ballots would introduce greater administrative complexity.<sup>200</sup> The NSWEC already allocates several indirect costs using this method (eg, count centre venue costs, Sydney Town Hall costs). We asked it to provide more detail on the difficulties of expanding this per ballot allocation to other related items (eg, labour costs for count centres). The response it provided did not address this issue.<sup>201</sup> We have therefore maintained our recommendations for allocating the NSWEC's indirect costs.

### **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.

#### **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>202</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.

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<sup>199</sup> City of Sydney submission to IPART Issues Paper, May 2019, p 3; Penrith City Council submission to IPART Issues Paper, May 2019, p 6.

<sup>200</sup> Eurobodalla Shire Council submission to IPART Draft Report, July 2019, p 2; NSWEC submission to IPART Draft Report, July 2019, p 22.

<sup>201</sup> Email from NSWEC to IPART dated 5 August 2019.

<sup>202</sup> NSWEC submission to IPART Issues Paper, May 2019, p 34.

- ▼ **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-elector basis, rather than directly to individual councils.<sup>203</sup> However, the NSWEC was unable to provide more detailed information on the specific cost items causing the cross-subsidies.<sup>204</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 the 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, as well as providing price signals that promote contestability in the provision of election services (which, in turn, can enhance innovation and efficiency in the provision of these services).

We have dealt with affordability issues separately from the cost allocation process (see Chapter 5).

#### **4.3.2 Some stakeholders focused on the interaction between increased competition and potential cross-subsidies in the NSWEC's existing methodology**

Several stakeholders noted in their submissions to our Draft Report that the allocation of the NSWEC's fixed costs, as well as enhanced competition, may lead to 'cherry-picking' by private providers. They said that it would reduce the pool of councils to pay for the NSWEC's fixed costs and, as such, increase the prices and bills of councils who remain with the NSWEC.<sup>205</sup>

Opportunities for inefficient cherry picking by new entrants can occur when there is a difference between an incumbent service provider's costs of supplying its customers and the

<sup>203</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>204</sup> Email from IPART to the NSWEC dated 6 June 2019.

<sup>205</sup> Cessnock City Council submission to IPART Draft Report, July 2019, pp 2-3; NSWEC submission to IPART Draft Report, July 2019, p 5; Riverina Joint Organisation submission to IPART Draft Report, July 2019, p 3.

prices that it charges those customers (eg, due to 'postage stamp' pricing). However, as discussed below, the perception of a structural cross-subsidy from large metropolitan to smaller rural and regional councils under the NSWEC's current allocation approach is largely unfounded based on the information provided by the NSWEC.<sup>206</sup>

In its submission to our Draft Report, the NSWEC advised it provided us with detailed information on cross subsidies, including a report prepared by PWC addressing this issue.<sup>207</sup> However, in our discussions with the NSWEC, it indicated it was unable to:

- ▼ Identify the direct costs which it considers are being allocated indirectly across all councils, and so creating potential cross-subsidies.
- ▼ Provide us with access to the data underpinning the cross-subsidy analysis referred to in the PWC report, so we could understand the source of any cross-subsidies in its existing allocation methodology.<sup>208</sup>

The NSWEC did not provide any additional information in its submission to the Draft Report about cross-subsidies. Therefore, we could not find evidence to assess the extent of this problem.

In any case, our recommended costing methodology would further reduce the existence of any potential cross-subsidies, since we are recommending some direct costs be attributed to individual councils, rather than spread across all of them. Further, in seeking to allocate costs so they are as cost-reflective as possible, this should put the NSWEC and private providers on an equal footing and minimise the potential for inefficient cherry-picking.

To the extent that private providers 'out compete' the NSWEC, and it is left with a smaller number of client councils, this does not necessarily mean that its fixed costs should be spread over that smaller number of customers. Rather, either through price regulation or the pressures of competition, it should only charge those client councils the efficient costs of servicing them. This may mean that some of the NSWEC's assets are 'stranded' or written down – as can occur in competitive markets when incumbents lose market share to new entrants.

### **4.3.3 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 incurs in maintaining its capacity to conduct local government elections, and so they should be allocated to the NSW Government.<sup>209</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 unavoidable costs" of managing


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<sup>206</sup> We found that the way the NSWEC applied \$7.4 million in non-specific NSW Government funding in 2016 and 2017 was skewed towards regional councils which obscured the cost of delivering services in these areas. This is mentioned further in Chapter 5.

<sup>207</sup> NSWEC submission to IPART Draft Report, July 2019, p 23.

<sup>208</sup> Email from IPART to the NSWEC dated 6 June 2019.

<sup>209</sup> NSWEC IPART Issues Paper, May 2019, p 13.



the local government elections.<sup>210</sup> We understand this to refer to the NSWEC's proposed cost allocation. In our view, moving away from the impactor-pays principle as the reference point for cost allocation would reduce the level of transparency (and hence scrutiny) around these costs. Further, allocating costs in this way would create an additional barrier to competition in the supply of election services to councils, and thus significantly reduce the scope for efficiency gains.

#### **4.4 Allocation of the NSWEC's total efficient costs**

Compared to the NSWEC's proposal, we are recommending:

- ▼ lower costs overall (as set out in Chapter 3)
- ▼ a greater share of costs be allocated to councils
- ▼ a lower share of costs be allocated the NSW Government.

With the addition of the direct government subsidy – discussed in Chapter 5 – our recommendations lead to both councils and the NSW Government paying lower costs for the NSWEC's election services, compared to the NSWEC's proposal.

Table 4.2 shows the differences between our cost allocation methodology and the NSWEC's existing and proposed methodologies, assuming the same total costs and without the direct government subsidy.

The NSWEC's proposed 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.<sup>211</sup>

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<sup>210</sup> Terms of Reference (Appendix B of this report).

<sup>211</sup> 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).

**Table 4.2 Comparison of cost shares under different allocation methods (\$'000, \$2020-21)**

<b>Building blocks</b>	<b>NSWEC existing allocation</b>	<b>NSWEC proposed allocation</b>	<b>IPART final recommendation allocation</b>
<b><i>Councils' share</i></b>			
Operating expenditure	48,512	32,863	47,289
Return of assets (depreciation)	0	0	1,316
Return on assets	0	0	270
Return on working capital	0	0	562
Regulatory tax allowance	0	0	250
<b>Total councils' share (\$)</b>	<b>48,512</b>	<b>32,863</b>	<b>49,687</b>
<i>Total councils' share (%)</i>	92.4%	62.6%	94.7%
<b>NSW Govt share (\$)</b>	<b>3,967</b>	<b>19,615</b>	<b>2,792</b>
<i>NSW Govt share (%)</i>	7.6%	37.4%	5.3%
<b>Total</b>	<b>52,479</b>	<b>52,479</b>	<b>52,479</b>

Source: IPART analysis.

We have recommended this cost allocation approach because it promotes cost-reflective prices. The NSWEC's costs are transparent, providing councils with information about the full efficient costs of using its election services. This approach also 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 (and the efficiency gains over time that accompany competition).<sup>212</sup>

<sup>212</sup> The NSWEC may still retain some competitive advantage relative to private providers due to it having a degree of economies of scale in providing these services. We discuss economies of scale in more detail in Chapter 2.

## 5 Impact on councils' election bills

In this chapter we examine the impact of our recommendations on councils' estimated bills for the 2020 local government elections, and on the NSW Government. 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.

Since our Draft Report, we have included a recommendation that the NSW Government provide \$15.0 million in direct funding (a 'subsidy') to councils to offset bill increases. This change would mean that councils should face no net increase in bills, after adjusting for inflation and electoral roll growth since 2016-17.

We recommend that this 'subsidy' be provided:

- ▼ Directly to councils, rather than to the NSWEC – to allow councils to choose between the NSWEC and other potential election service providers and therefore promote competition and efficiency gains over time
- ▼ To all councils, regardless of which election services provider they engage.

Our recommendation that the NSW Government subsidise council bills for the 2020 elections recognises that the relative increase in councils' cost-reflective bills, the short time-frame until the 2020 elections and the current low participation of alternative service providers, means that many councils have little option than to use the NSWEC.

We consider it important that this subsidy be paid directly to councils, and to all councils, regardless of which election services provider they engage. This has two benefits:

- ▼ Councils would still receive a cost-reflective bill from their election service provider, and as such the full costs of that provider would be made transparent to the council.
- ▼ Direct payment of the subsidy to councils enhances competition and gives councils greater control and choice.

Appendix E sets out the estimated cost-reflective bills for each council, which excludes our recommended Government subsidy. Appendix F shows our recommended Government funding (or subsidy) for each council, as well as each council's net bill.<sup>213</sup>

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<sup>213</sup> A council's net bill is its cost-reflective bill, less the government subsidy.

## 5.1 Cost-reflective bills for 2020 local government elections

### Final recommendation

- 9 The prices charged by the NSWEC for administering local government elections in 2020 be no more than the cost-reflective amount for each council that we have listed in Table E.1 at Attachment E.

Cost-reflective bills send a signal to councils about the true efficient costs of the NSWEC's services, and to potential election services providers about entering and participating in the market as a supplier. Cost-reflective bills are higher than what councils paid in 2016-17. Without government subsidies to councils, the average cost-reflective council bill from the NSWEC would be around 51%<sup>214</sup> higher than for the 2016-17 elections.<sup>215</sup> This includes the effects of inflation.<sup>216</sup> This increase is lower than the 62% in our Draft Report due to a lower notional revenue requirement, a higher proportion of costs being allocated to the government and revised elector numbers.

### 5.1.1 On average, cost-reflective bills are 51% higher than for the 2016-17 elections

Cost-reflective bills for each council are set out in Appendix E, and are compared to 2016-17 bills and the NSWEC's proposed bills for 2020.

This increase in councils' cost-reflective bills since 2016-17 is due to a number of factors including:

- ▼ Removal of the government subsidy paid to the NSWEC
- ▼ Inflation
- ▼ Growth in the number of electors
- ▼ Higher efficient costs for some activities, over and above the rate of inflation and roll growth.

Although the NSWEC indicated that the State Government does not provide direct funding for local government elections,<sup>217</sup> this was not the case for the 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>218</sup> This had the effect of reducing council bills.

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<sup>214</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>215</sup> They are 42% higher excluding inflation (ie, in real terms). Council bills would also be around 13% higher under our recommendations than under the NSWEC's proposal.

<sup>216</sup> Inflation was around 7% for councils that held elections in 2016 and 5% for councils that held elections in 2017.

<sup>217</sup> NSWEC submission to IPART Issues Paper, May 2019, p 8.

<sup>218</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.

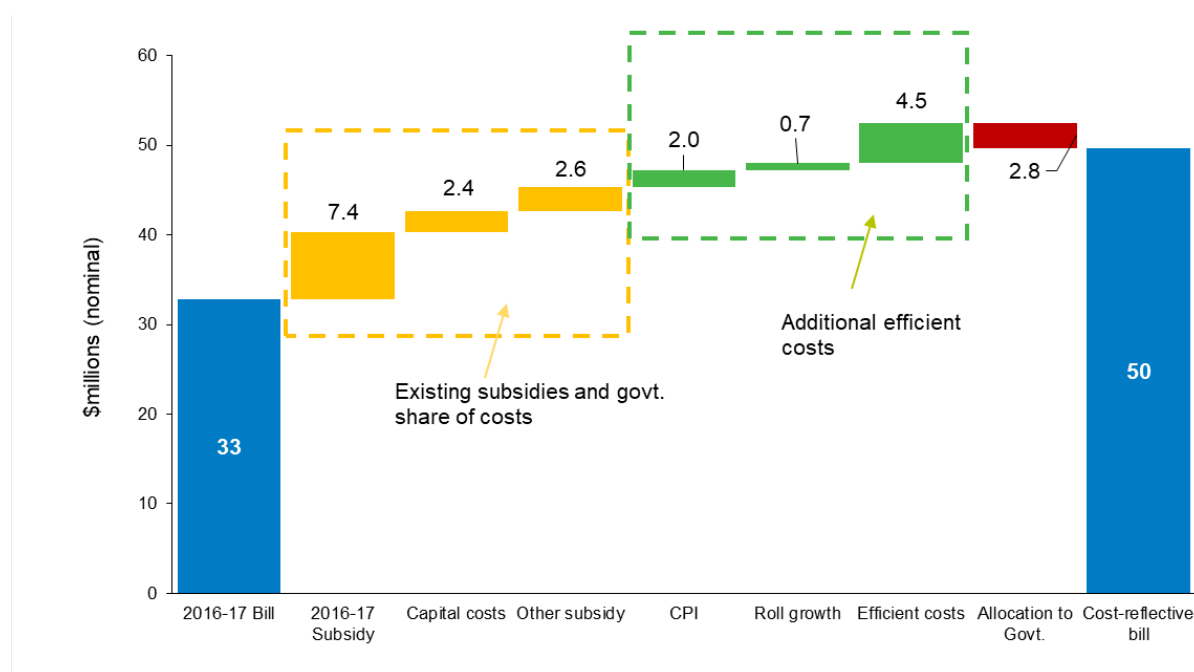
While the NSWEC has proposed a higher operating cost base (\$62.4 million) than what we have recommended (\$49.7 million),<sup>219</sup> it proposes to allocate most indirect costs (\$22.0 million) to the State Government for the 2020 elections.

As explained in Chapter 4, consistent with the impactor-pays principle, we recommend councils, in aggregate, be allocated a larger share of the efficient costs of providing local government elections compared to what they have been 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-electoral basis. We have identified some cases where the per-electoral basis should be changed to reflect a more accurate or appropriate 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-electoral basis to a per-council basis for some cost items will benefit larger councils.

Figure 5.1 below sets out the drivers of change in councils' aggregate cost-reflective bills since the 2016-17 elections. The key drivers are the removal of the \$7.4 million subsidy the government provided in 2016-17 and an increase in the NSWEC's efficient costs.

**Figure 5.1 Drivers of change in aggregate council cost-reflective bills between 2016-17 and 2020 - before recommended direct government subsidies to councils (\$million, nominal)**



**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.

**Data source:** NSW Electoral Commission; *Report on the Local Government Elections, 2016 and 2017 – Supplementary Reports – Individual Councils*, and IPART analysis.

<sup>219</sup> Excluding the \$1.2 million in operating costs we have added for costs associated with the NSWEC's executive office, and for the joint roll agreement.



## 5.1.2 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>220</sup>

Table 5.1 below sets out the average nominal increases in council cost-reflective bills for each of six council groupings. The data in this table reflects the indicative cost-reflective bills councils would receive from the NSWEC. It is based on our recommendations on the NSWEC's efficient costs and allocations. It does not include any reduction from our recommendation for a NSW Government subsidy paid directly to councils, which is addressed in section 5.2 below.

**Table 5.1 Average cost-reflective bills for 2020 elections by council type compared to 2016 - 17 bills – (nominal)**

Council type	2016-17 bills		IPART recommendation		Difference			
	Bill (\$'000)	\$ per elector	Bill (\$'000)	\$ per elector	Bill (\$'000)	Bill %	\$ per elector	Per elector %
Metropolitan - Large	944	6.44	1,443	9.50	499	53%	3.05	47%
Metropolitan - Small	325	7.30	490	10.60	165	51%	3.29	45%
Regional - Large	425	7.20	643	10.29	218	51%	3.09	43%
Regional - Small	177	8.17	259	11.41	82	46%	3.24	40%
Rural - Large	76	8.68	112	12.39	35	46%	3.71	43%
Rural – Small <sup>a</sup>	29	9.34	46	14.96	17	59%	5.61	60%

<sup>a</sup> Includes Carrathool and Coolamon Shire Councils, which had uncontested elections in 2016. As such, the average bill increase for Rural-Small councils is unrepresentatively high. If Carrathool and Coolamon are excluded, the average bill increase for Small-Rural councils is 55%.

**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. IPART's recommendations are in \$2020-21.

**Source:** IPART analysis.

The table shows the average cost-reflective 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' 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-elector basis.

<sup>220</sup> The Office of Local Government 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.

- ▼ 'Rural – Small' councils, on average, would experience a greater increase than Rural–Large councils under our recommended costing methodology. This reflects the removal of the 2016-17 subsidy, which was allocated disproportionately to smaller councils and our decision to use more cost-reflective allocators of some indirect costs, as discussed in Chapter 4.

It also shows that for both the 2016-17 bills and our recommended cost-reflective bills for 2020, 'Metropolitan – Large' councils incur the lowest cost on a per-electoral 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>221</sup>

## 5.2 Council subsidy for 2020 local government elections

### Final recommendation

- 10 The NSW Government provide funding of the amount listed in Table F.1 at Attachment F to each council (rather than the NSWEC), regardless of whether the council engages the NSWEC or a private electoral services provider. This would mean the maximum real increase per elector, for the 2020 elections, for councils that held contested elections in 2016-17 would be 0%.

In response to our Draft Report, stakeholders expressed concerns at the increase in council bills. All 39 council submissions as well as submissions from two anonymous organisations, the Riverina Joint Organisation, LGNSW and the NSWEC argued strongly that the increases in council bills were excessive.

Blacktown City Council's submission is typical of council submissions and states:

The 62% price increase proposed by IPART in direct costs to NSWEC client councils for election services is manifestly excessive and is not in accordance with IPART's terms of reference from the Premier, to minimise the financial burden on councils and ratepayers. This proposal is based on a formula which appears to be partly driven by an aim to create a contestable market for election services and reduce the role of the NSWEC.

The cost formula proposed by IPART therefore constitutes a further cost-shifting from the State to local government. In the case of Blacktown City Council, the additional costs proposed would equate to additional annual rate increase of 0.1%, to provide existing election services.

If increased election costs do result from IPART's final recommendations, these additional costs should be met by the NSW Government until such time as effective competition has driven costs below the level of the 2016/17 elections.<sup>222</sup>

Similarly, Forbes Shire Council submits:

The draft report notes [the bill] increase to Forbes will be 63% or \$36,000; now whilst this might seem a paltry amount, for Forbes that \$36,000 is half of the per annum wage of an administration officer or 36km of grading on unsealed rural roads, noting Council's unsealed rural road network comprises 1,065kms. This review further contributes to, and reinforces, the paradigm that cost-

<sup>221</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>222</sup> Blacktown City Council submission to IPART's Draft Report, July 2019, p 1.

shifting to councils is part of the solution, whilst in reality councils' constrained financial environment means a reduction in delivery of others services and functions.<sup>223</sup>

Given the significant increase in cost-reflective bills, we recommend that bill increases be capped, and the difference between each council's capped bill and its cost reflective bill from the NSWEC be funded by the NSW Government.

### **Paying subsidies to councils increases transparency and encourages competition**

In 2016-17, the NSW Government provided \$7.4 million of funding to the NSWEC to partially fund the local government elections. This has potential flow-on impacts to competition, as third party providers and potential market entrants are not provided with a similar subsidy.

Our recommendation is that any NSW Government subsidy to moderate bill impacts be paid directly to councils. This has two benefits:

- ▼ First, it allows the full cost-reflective bill to be made transparent.
- ▼ Second, it puts the NSWEC and other potential suppliers of election services on a more equal footing, which promotes competition in the supply of election services. Over time, this allows councils greater choice and control over their election services provider, and promotes efficiency gains.

### **5.2.2 There would be no real increase in per elector bills since 2016-17**

We recommend that the increase in each council's bill per elector since 2016-17 be capped at 0%. This would mean that the net cost to councils of undertaking full elections would only increase with:

- ▼ Inflation
- ▼ The rate of growth in each council's electoral roll growth.

As such, councils with higher growth in elector numbers show a proportionately higher increase in their total net bills<sup>224</sup> (above the rate of inflation); councils with negative growth in elector numbers show a total bill increase **below** the rate of inflation; and councils with stable elector numbers will show a bill increase at the rate of inflation.

As the 2016-17 local government elections were held over two years, the 76 councils<sup>225</sup> that held their elections in 2016 will show a relatively higher nominal increase in bills compared to the 45 councils which held elections in 2017.<sup>226</sup> This is due to the extra year of inflation, and the cap in **real** bills.<sup>227</sup>

<sup>223</sup> Forbes Shire Council submission to IPART's Draft Report, July 2019, p 1.

<sup>224</sup> A council's net bill is its cost-reflective bill minus its government subsidy.

<sup>225</sup> Includes Carrathool and Coolamon Shire Councils which had uncontested elections in 2016-17.

<sup>226</sup> Includes councils that engaged the NSWEC to administer their elections in 2016-17. Six councils did not engage the NSWEC to administer their elections, and Central Darling Shire Council did not hold an election in 2016-17.

<sup>227</sup> As bills are capped in **real** terms, the nominal increase will be relatively higher for elections held in the earlier year (where the rate of inflation is positive).

Total bill increases from 2016-17 to 2020 would range from 3% in Walgett Shire Council<sup>228</sup> to 34% in Camden Council.<sup>229</sup> Each council's net bills and our recommended government subsidy for each council is shown in Appendix F.

Table 5.2 sets out the average nominal **net** bills under the 0% per elector bill cap, for each of six council groupings. It shows that net bills (ie, the NSWEC's cost-reflective bills less the direct government subsidy) for typical councils would increase by between 8% and 11% in nominal terms, while the net bills per elector would increase by between 5% and 7%.<sup>230</sup> We note that over the same period the rate peg has been between 8.6% (2016 to 2020) and 6.6% (2017 to 2020).<sup>231</sup>

**Table 5.2 Average net bills for 2020 elections by council type compared to 2016 - 17 bills – (nominal)**

Council type	2016-17 bills		IPART recommendation		Difference			
	Bill (\$'000)	\$ per elector	Net bill (\$'000)	\$ per elector	Net bill (\$'000)	Net bill %	\$ per elector	Per elector %
Metropolitan - Large	944	6.44	1,034	6.79	90	10%	0.35	5%
Metropolitan - Small	325	7.30	356	7.68	31	10%	0.38	5%
Regional - Large	425	7.20	471	7.63	46	11%	0.43	6%
Regional - Small	177	8.17	196	8.69	19	11%	0.52	6%
Rural - Large	76	8.68	83	9.21	7	9%	0.53	6%
Rural – Small <sup>a</sup>	29	9.34	31	9.97	2	8%	0.63	7%

<sup>a</sup> Includes Carrathool and Coolamon Shire Councils, which had uncontested elections in 2016.

**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 calculations.

Figure 5.2 shows the impact on the aggregate of all council net bills, and the drivers of the change in bills from 2016-17 to our recommendations for 2020.

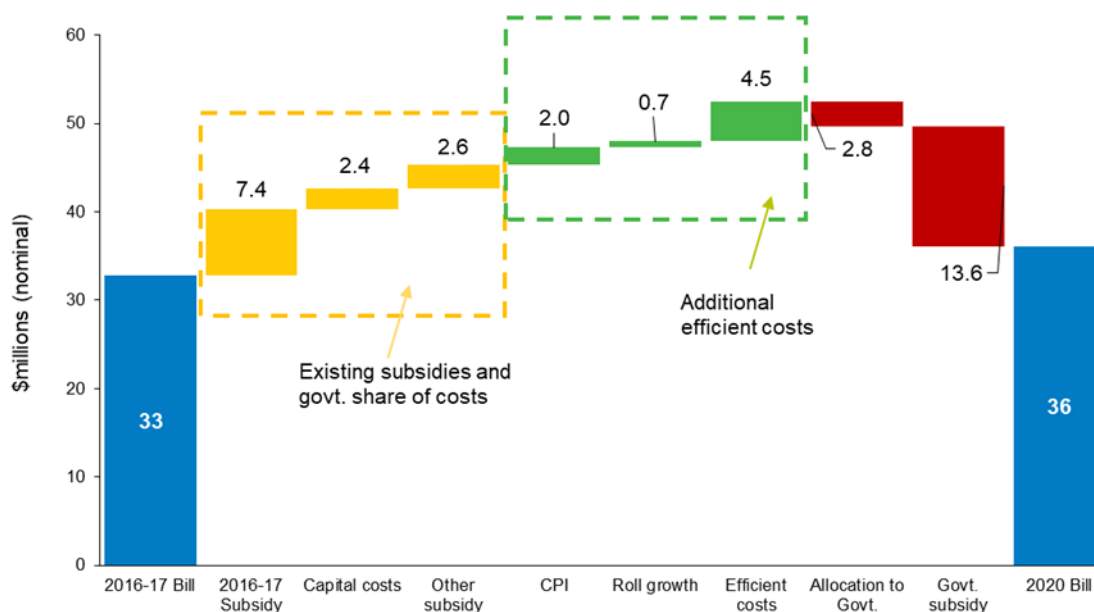
<sup>228</sup> The NSWEC projects that the number of electors in Walgett Shire Council will fall from 3,940 at the 2016 election to 3,793 in 2020.

<sup>229</sup> The NSWEC projects that the number of electors in Camden Council will increase from 51,990 at the 2016 election to 65,142 in 2020.

<sup>230</sup> Per elector bills are capped in *real* terms (ie, after adjusting for inflation). This means that councils that held their elections in 2016 will show a higher *nominal* percentage increase in their per elector bills than councils that held their elections in 2017. This is due to the additional year of inflation needed to convert bills into real terms. 93% (25 of the 27) 'Small-Rural' councils which held elections in 2016-17 did so in 2016. As such, the average percentage per elector increase in nominal bills is greatest in this category.

<sup>231</sup> Rate pegs since 2016 were: 1.8% (2016-17), 1.5% (2017-18); 2.3% (2018-19); and 2.7% (2019-20).

**Figure 5.2 Drivers of change in aggregated council net bills between 2016-17 and 2020 – Including government subsidy (\$million, nominal)**



**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.

**Note:** "Other subsidy" includes: Executive office costs, and the difference between the costs of the 2016-17 elections (net of NSW Government subsidies) and the aggregate bills issued to councils.

**Data source:** Report on the Local Government Elections, 2016 and 2017 – Supplementary Reports – Individual Councils, NSW Electoral Commission and IPART analysis.

### Subsidies for councils that did not hold fully contested elections in 2016-17

Of the 128 councils in NSW, for the 2016-17 local government elections:

- ▼ Six councils did not engage the NSWEC to administer their elections<sup>232</sup>
- ▼ Central Darling Shire Council did not hold an election
- ▼ Two councils held uncontested elections.<sup>233</sup>

The NSWEC's proposal was based on data and information from the 2016-17 elections. As such, there was no costs included in its proposal to provide full election services to these councils. As we need to ensure that all councils undertaking fully contested elections receive a representative subsidy from the NSW government (regardless of their election provider), we have estimated the subsidy for these nine councils by:

1. Using the average per elector subsidy for the relevant council type<sup>234</sup>

<sup>232</sup> These councils are Fairfield Council, Gunnedah Shire Council, Kempsey Shire Council, Lake Macquarie City Council, Maitland City Council and Penrith City Council.

<sup>233</sup> Carrathool and Coolamon Shire councils held uncontested elections. These elections do not require the same level of efficient expenditure as full elections. As such, the 2016-17 bills and costs for these councils are not representative of fully contested elections likely to occur in 2020.

<sup>234</sup> Council types we have used are: Metropolitan – Large, Metropolitan – Small, Regional – Large, Regional – Small, Rural – Large, Rural – Small.

2. Multiplying the per elector subsidy by the number of electors in each of the nine councils.

Table 5.3 below sets out our derived subsidies for these nine councils.

**Table 5.3 Subsidies for councils that did not engage the NSWEC for fully contested elections in 2016-17 (\$2020-21)**

Council	Council Type	Average subsidy (\$/elector)	No. Electors	Total subsidy (\$'000)
Carrathool	Rural- Small	4.99	1,883	9
Central Darling	Rural- Small	4.99	1,031	5
Coolamon	Rural- Small	4.99	3,297	16
Fairfield	Metropolitan - Large	2.71	133,688	362
Gunnedah	Rural – Large	3.19	9,261	30
Kempsey	Regional – Small	2.72	22,602	62
Lake Macquarie	Regional – Large	2.66	159,963	425
Maitland	Regional – Large	2.66	61,769	164
Penrith	Metropolitan - Large	2.71	142,613	386
<b>Total</b>				<b>1,460</b>

Source: Email from the NSWEC to IPART dated 12 July 2019 and IPART analysis.

### 5.3 Total government funding of 2020 local government elections

Under the NSWEC’s proposal, the total NSW Government contribution towards the 2020 local government elections would be \$22.0 million. This is based on its allocation of “core” activity costs to government, with “non-core” activity costs allocated to councils.

Under our final recommendations, the total NSW Government contribution would be \$17.8 million, made up of:

- ▼ \$2.8 million of efficient costs allocated to government for services that are non-contestable
- ▼ \$15.0 million in direct government subsidies to councils.

A number of stakeholders argued that revenue raised from penalties on electors who failed to vote should be provided directly to councils to recover some of the election costs.<sup>235</sup>

All revenue raised by Revenue NSW through failure-to-vote penalties goes to the NSW Government’s consolidated revenue. The allocation and distribution of that revenue is a matter for the Government. Moreover, if a council were to receive the penalty revenue raised through its electors, it may create a perceived financial disincentive for councils to endeavour to maximise voter turnout.

<sup>235</sup> Central Coast Council submission to IPART Draft Report, July 2019, p 2; Forbes Shire Council submission to IPART Draft Report, July 2019, p 2; LGNSW submission to IPART Draft Report, July 2019, pp 6-7; Central Coast Council submission to IPART Draft Report, July 2019, p 2; Northern Beaches Council submission to IPART Draft Report, July 2019, p 4; City of Parramatta submission to IPART Draft Report, July 2019, p 2; Penrith City Council submission to IPART Draft Report, July 2019, p 7.



## A 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).
Contestable services	Services related to delivering local government elections that are able to be performed by third party providers.
CPI	Consumer Price Index.
Direct costs	Incremental costs traceable to an individual client council.
Full cost-recovery bill	A council's bill set to recover the full efficient costs allocated to that council
Electoral services provider	A service provider engaged by a council for the purposes of providing the electoral services contemplated by the <i>Local Government Act 1993</i> .
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.
Indirect costs	Cost incurred by the NSWEC that are not directly attributable to a specific council.
IPART	The Independent Pricing and Regulatory Tribunal of NSW.
LGCI	Local Government Cost Index.



Net bill	A council's full cost-recovery bill, minus the NSW Government's subsidy.
Non-contestable services	Services that are monopoly services and should only be delivered by the NSWEC.
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 Commissioner.
RAB	Regulatory asset base.
Returning Officer	The returning officer plays a key role in the administration of elections. For example, the returning officer is to nominate candidates whose nomination papers the returning officer believes to be valid; determine the validity of some ballot-papers and notify the election manager of the result. In addition, in the context of an election administered by an 'electoral services provider', the returning officer may determine any matter not provided for by the Act or regulations.
RO	Returning officer
ROSO	Returning office support officer
WACC	Weighted average cost of capital.
WIGM	Weighted Inclusive Gregory Method.

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## B 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.

---

## C EY review of efficient expenditure

# Further review of efficient costs of the NSW Electoral Commission's conduct of local government elections

August 2019

## NOTICE

Ernst & Young was engaged on the instructions of the Independent Pricing and Regulatory Tribunal (IPART) to undertake a further expenditure review to assess the total efficient costs of the NSW Electoral Commission (NSWEC) in providing local government election services ("**Project**"), in accordance with the engagement agreement dated 5 July 2019, including the General Terms and Conditions.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated August 2019 ("**Report**"). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report. No further work has been undertaken by Ernst & Young since the date of the Report to update it.

Ernst & Young has prepared the Report for the benefit of IPART and has considered only the interests of IPART. Ernst & Young has not been engaged to act, and has not acted, as advisor to any other party. Accordingly, Ernst & Young makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes.

No reliance may be placed upon the Report or any of its contents by any party other than the Department ("Third Parties"). Any Third Party receiving a copy of the Report must make and rely on their own enquiries in relation to the issues to which the Report relates, the contents of the Report and all matters arising from or relating to or in any way connected with the Report or its contents.

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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 (LGE 2020) developed using its 'bottom-up' estimates which will underpin the prices charged to councils.

## Operating expenditure

The NSWEC has proposed bottom-up operating costs of \$62.35m for LGE 2020. This represents an increase in nominal terms of:

- ▶ 51% (or +\$21.0m) compared to LGE 2016-17<sup>1</sup>
- ▶ 10% compared to the NSWEC's top-down estimates for LGE 2020 provided earlier (\$56.5m).

The proposed bottom-up operating costs for LGE 2020 also represent a substantial increase on a per elector basis from LGE 2016-17 (i.e. based on the actual or expected total number of electors enrolled in NSW). This was estimated to be \$8.78 per elector costs in LGE 2016-17<sup>2</sup> and has been proposed to increase in nominal terms by 31% to \$11.54 per elector<sup>3</sup> in LGE 2020.

Based on the number of electors in councils that are expected to choose the NSWEC to conduct LGE 2020, the estimated cost is \$12.79 per elector.<sup>4</sup>

It is also worth noting that the NSWEC's actual LGE 2016-17 costs were 97% higher compared to LGE 2012 (in nominal terms). As a result, based on the NSWEC's proposals, over the period of two local council elections, costs will have increased by 197% in nominal terms.

Based on EY's review of the evidence provided, the proposed efficient costs are shown in EY's proposed efficient operating costs for LGE 2020 imply costs on a per elector basis of:

- ▶ \$9.03 per elector, based on the total number of electors expected to be enrolled in NSW
- ▶ \$10.01 per elector, based on the number of electors in councils that are expected to choose the NSWEC to conduct LGE 2020.

It results in total operating costs for LGE 2020 of \$48.8m, which represents:

- ▶ A reduction of 22% compared to the NSWEC's bottom-up operating cost estimates
- ▶ An increase of 18% in nominal terms compared to the NSWEC's actual costs for LGE 2016-17.

EY's proposed efficient operating costs for LGE 2020 imply costs on a per elector basis of:

- ▶ \$9.03 per elector, based on the total number of electors expected to be enrolled in NSW
- ▶ \$10.01 per elector, based on the number of electors in councils that are expected to choose the NSWEC to conduct LGE 2020.

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<sup>1</sup> All references to actual costs for LGE 2016-17 in this report include adjustments to remove duplicate cost items which were a result of LGE 2016-17 being run in two tranches due to Council amalgamations.

<sup>2</sup> Based on LGE 2016-17 base costs of \$41.35m and total number of electors enrolled in NSW of 4.71m

<sup>3</sup> Based on LGE 2020 bottom-up forecast costs of \$62.35m and total number of electors expected to be enrolled in NSW for LGE 2020 of 5.40m

<sup>4</sup> Assumes all councils that chose the NSWEC to conduct LGE 2016-17 will also conduct LGE 2020, which covers an expected 4.87m (i.e. 531k electors are expected to be in councils that will engage a commercial electoral services provider to conduct LGE 2020)

Table 1: Proposed efficient operating costs for NSWEC's administering of LGE 2020

Aggregated project	LGE 2020 operating costs		Change	
	NSWEC bottom-up	EY recommended	\$	%
AP01: Election Support Services	33,457,113	27,312,998	-6,144,114	-18%
AP02: Customer Service	3,278,203	1,927,939	-1,350,264	-41%
AP03: Candidates and Parties	1,482,185	747,292	-734,893	-50%
AP04: Counting, Results & Declaration Votes	2,318,293	1,720,318	-597,975	-26%
AP05: Attendance & Non-Attendance Voting	2,176,580	1,439,157	-737,423	-34%
AP06: Technology	6,861,727	4,919,351	-1,942,376	-28%
AP07: Communications	3,604,596	2,296,236	-1,308,360	-36%
AP08: Event Readiness	1,895,999	1,687,274	-208,726	-11%
AP09: Event Financial Management	1,663,993	1,263,395	-400,598	-24%
AP10: Data Management	136,944	66,810	-70,134	-51%
AP20: Overtime	800,000	800,000	0	0%
AP99: Election Programme	899,900	899,900	0	0%
Election Management Fee - \$0.70 per elector	3,560,931	3,483,114	-77,817	-2%
Sydney Town Hall (District 254)	215,863	215,863	0	0%
Discontinued Election Activities	0	0	0	0%
<b>Total</b>	<b>62,352,327</b>	<b>48,779,645</b>	<b>-13,572,682</b>	<b>-22%</b>

Source: EY analysis of NSWEC data

The evidence provided by the NSWEC to support the prudence and efficiency of its proposed bottom-up operating costs for LGE 2020:

- ▶ Appeared to prioritise risk management in the delivery of elections and was consistent with the majority of the success factors in its 2017-20 Strategic Plan
- ▶ Did not appear to focus on the success factor of 'reducing costs per elector' however and did not identify the trade-offs between meeting or maximising other success factors and cost
- ▶ Suggested a gap between current operations and the efficient frontier, as evidenced by the fact that little justification has been provided to demonstrate that the costs incurred in undertaking LGEs are the most efficient in delivering election services
- ▶ Its proposed costs of undertaking LGE 2020 are at costs above what would be expected by an entity operating at the efficient frontier. This is consistent with costs generally observed in businesses that are subject to economic or price regulation for the first time, which often have significant scope for driving efficiencies and delivering cost savings in their provision of services.

### Capital expenditure

The NSWEC intends to spend \$5.661m on capex for LGE 2020 to deliver the mandated Weighted Inclusive Gregory Method (WIGM), Countback and UPV upgrades (hereafter referred to as 'the WIGM upgrades').

The NSWEC has provided adequate evidence and justification to demonstrate that the decision to invest in the WIGM upgrades was necessary to deliver the outcomes required of the JSCEM's recommendations in the conduct of LGE 2020 given:

- ▶ The capex has been driven by the requirement to implement the recommendations of the Joint Standing Committee on Electoral Matters (JSCEM) on the use of preference counting in local government elections in NSW,<sup>5</sup> which were ultimately accepted by the NSW Government
- ▶ It will enable an activity that meets new standards of service as a result of a new legislative or regulatory instrument, given the NSW Government accepted (or accepted in principle) all recommendations made by the Committee
- ▶ It is likely to be more cost effective and reasonable approach to achieve this new standard of service compared to manual counting of preferences
- ▶ It will, in principle, also likely deliver benefits elsewhere through reduced costs outside the election period because it will assist the NSWEC in using the countback method to fill casual vacancies in accordance with new legislative requirements.<sup>6</sup>

However, based on the evidence provided, there are concerns about whether the \$5.661m represents an efficient level of capex that a prudent operator would incur in the absence of any constraints because:

- ▶ It was not adequately demonstrated that the lack of sufficient time was unavoidable. e.g. EY was not provided with any internal decision document explaining the decision not to go to competitive tender. While the NSWEC is not obliged to go to competitive tender, it would be prudent to consider this option unless there were strong reasons not to do so
- ▶ Even in the absence of market testing, there did not appear to be any form of assessment of the efficiency or 'stress testing' of the \$5.661m to demonstrate that this is a reasonable approximation of the efficient expenditure required (e.g. evidence of any savings or efficiency obtained from the preferred provider)

In the circumstances, the \$5.661m is a reasonable level of capex for the NSW Government to fund the implementation of WIGM, as evidenced by the full funding amount that the NSWEC received in the 2019-20 State Budget.<sup>7</sup> However, this may not necessarily represent the efficient level of capex that should be passed on to Councils.

It is often challenging to determine what the efficient cost of a particular capital project might be given that this can be significantly influenced by the specific nature and timing of capital investments.

One possible approach could be to infer the expected efficiencies through greater value for money based on the average cost of undertaking a competitive tendering process.

- ▶ Many organisations use competitive tendering and it is often recognised as good practice when procuring capital assets and other goods and services
- ▶ Information on expected value for money or net cost savings from competitive tendering is difficult to obtain and can vary between sector and market, but the typical costs of running a competitive tender process are not insignificant, and can amount to up to 10% of total project costs in some instances<sup>8</sup>
- ▶ This implies that the benefit of competitive tendering should be at least a 10% cost saving to cover the costs of running the tender process
- ▶ Cost savings would then be expected to exceed the costs of running the tender process, otherwise competitive tendering would not be in such common use by organisations.

<sup>5</sup> Parliament of NSW, Government response regarding inquiry into preference counting in local government elections in NSW. The NSW Government accepted the Committee's recommendation in May 2018. Details are available online at <<https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2458>>.

<sup>6</sup> *Local Government Act 1993* (NSW) s 291A.

<sup>7</sup> NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

<sup>8</sup> Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies - Overview*, 1996, Page 567

In other words, competitive tenders are only likely to be of value if they can deliver greater efficiencies and value for money relative to the alternative of at least this amount and most likely considerably in excess of this, given the risks involved.

It would therefore not be unreasonable to expect that the appropriate efficient level of capex for WIGM would be 5-10% lower in the WIGM business case for a prudent operator acting efficiently in the absence of any constraints.

## 2. Introduction

### 2.1 Background

Between April and May 2019, EY assisted the Independent Pricing and Regulatory Tribunal (IPART) with a review of the NSWEC's proposed costs of administering the forthcoming NSW Local Government Elections in 2020 (LGE 2020). On 4 June 2019, EY provided its final report to IPART (EY's initial report).<sup>9</sup> This was subsequently included as an Appendix to IPART's Draft report on the Review of local government election costs.<sup>10</sup>

EY's initial report assessed the NSWEC's top-down estimates of the LGE 2020 operating costs, as its bottom-up budget costs were not complete at the time to be included in EY's report.

On 31 May 2019, the NSWEC provided its more detailed 'bottom-up' forecasts to IPART.

As a result, in July 2019, IPART engaged EY to assess the efficiency of the NSWEC's bottom-up cost estimates for LGE 2020.

This report should be read in conjunction with EY's initial report.

All changes in costs over time are presented in nominal terms in this report, unless otherwise stated.

### 2.2 EY's scope

To undertake this work, EY has:

- ▶ Undertaken a reconciliation of the top-down and bottom-up forecast operating expenditure provided by the NSWEC for LGE 2020 to identify the cost categories with material changes
- ▶ Reviewed the NSWEC's proposed changes to the bottom-up operating expenses for LGE 2020 compared to LGE 2016-17
- ▶ Reviewed cost items that had a significant increase in costs from LGE 2012 to LGE 2016-17
- ▶ Assessed the reasonableness of the NSWEC's forecast capital expenditure for all capital projects by:
  - ▶ Determining whether the procurement process involved adequate market testing
  - ▶ Determining whether the proposed capital expenditure for LGE 2020 will lead to reductions in some items of operating expenditure
- ▶ Reviewed the efficiency dividend applied to specific cost items
- ▶ Redetermined the efficient level of costs, where appropriate.

### 2.3 Acknowledgments

We would like to acknowledge the support and assistance provided by the NSWEC 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.

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<sup>9</sup> EY, Review of efficient costs of the NSW Electoral Commission's conduct of local government elections, June 2019

<sup>10</sup> IPART, *Review of Local Government Election Costs Draft Report*, 25 June 2019,

<<https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-section-9-review-of-costs-of-conducting-local-government-elections/legislative-requirements-and-publications/draft-report-including-consultant-report-review-of-local-government-election-costs-25-june-2019.pdf>>.

## 3. Assessing prudence and efficiency

### 3.1 Understanding how the NSWEC conducts an election

#### 3.1.1 Election activities

The NSWEC has the power to administer a Local Government election, however, it is not required to do so.<sup>11</sup> Under Section 296 of the *Local Government Act 1993*, Councils can resolve to either:

- ▶ Engage the NSWEC to administer the election<sup>12</sup>
- ▶ Engage a commercial electoral services provider to administer the election, such as the Australian Election Company.<sup>13</sup>

The NSWEC administers elections for the overwhelming majority of councils. In LGE 2016-17, the NSWEC conducted elections for over 95% of councils.

If the NSWEC enters into an election arrangement with a Council,<sup>14</sup> the current legislative framework imposes a limited set of service obligations. Under s 296B of the *Local Government Act 1993* (NSW), an election arrangement will require the Electoral Commissioner to:

- ▶ Appoint a Returning Officer and Substitute Returning Officer, who is then required to appoint one or more electoral officials
- ▶ Appoint polling places
- ▶ Determine the fees payable to the returning officer, substitute returning officer and electoral officials.

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)).

Outside of the above list, the Electoral Commissioner has a wide degree of discretion in the delivery of an election. This is evident from section 296B which states that 'for the purpose of conducting an election, the Electoral Commissioner is to determine any matter not provided for by this Act or the regulations.'<sup>15</sup> Therefore, the majority of the election activities delivered by the NSWEC are discretionary, based on the Commission's judgment of what is needed to properly administer an election.

#### 3.1.2 Service standards

The costs for LGE 2020 are expected to rise significantly when compared to LGE 2016-17, even if the recommendations outlined in this report were adopted. This is despite considerable increases in the cost of running LGEs in 2016-17, compared to 2012.

While the NSWEC has a Service Commitment Charter,<sup>16</sup> the NSWEC does not have explicit and measurable levels of service standards or performance indicators in relation to the conduct of LGEs. This creates some challenges in assessing both the value that additional expenditure is providing to local councils and thus the prudence and efficiency of that expenditure. The NSWEC's current set of service standards appear to be limited to the following 'success factors' outlined in the 2017-20 Strategic Plan:<sup>17</sup>

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<sup>11</sup> Under Section 296AA(1)(b) of the *Local Government Act 1993*, Councils can also resolve for elections to be administered by other electoral service providers.

<sup>12</sup> *Local Government Act* (NSW) s 296AA(1)(a).

<sup>13</sup> *Ibid* s 296AA(1)(b).

<sup>14</sup> *Ibid* s 296(2).

<sup>15</sup> *Ibid* s 296B(6)(c).

<sup>16</sup> Electoral Commission NSW, *Local Government elections 2016-17 Service Commitments Charter*.

<sup>17</sup> NSWEC, *Strategic Plan 2017-20 Democracy Delivered*, Page 17.

- ▶ Increased voter turnout
- ▶ Increased stakeholder satisfaction
- ▶ Increase in valid registration, nomination and disclosures
- ▶ Reduction in costs per elector
- ▶ Improved timeliness of count
- ▶ Improved employee engagement
- ▶ Increased portfolio and project management maturity
- ▶ Improved risk maturity.

Future assessments of 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. For example, the following service standards would be useful to monitor the success of the significant increase in election costs:

- ▶ Setting a target increase for voter participation compared to LGE 2016-17, noting that the NSWEC has an overall objective to maximise voter participation
- ▶ Establishing an average wait time target for electors that represents a material reduction compared to LGE 2016-17
- ▶ Setting a time target for LGE results to be finalised for candidates and electors while ensuring targeted level of accuracy to maintain the integrity of the democratic process.<sup>18</sup> This could be enhanced with the implementation of WIGM, which can be expected to allow for greater speed and accuracy in the election count, as the random sampling of ballot for allocating preferences will be replaced by an automated process
- ▶ Strengthening the commitment to reducing costs per elector, which is an objective outlined in the NSWEC's Strategic Plan for 2017-2020, by reporting on this in annual reports and tracking performance over time. This can be achieved by delivering services in more efficient and cost-effective ways<sup>19</sup>
- ▶ Documenting outcomes and results of the council liaison process (e.g. through the use of surveys) to track improvements in service delivery experienced by Councils.

### 3.1.3 Appetite for risk

The NSWEC has publicly indicated that risk management is a 'fundamental component' of its governance framework'.<sup>20</sup> For example, the priority that the NSWEC places on risk management in the delivery of elections can be inferred through:

- ▶ The 2017-20 Strategic Plan, which lists improved risk maturity as a success KPI and appears to prioritise factors related to integrity in the delivery of elections<sup>21</sup>
- ▶ The 2017-18 NSWEC Annual Report, which notes that the NSWEC's 'four organisational divisions agreed on their risk appetite, risk ratings and the method for risk assessment'. This resulted in a revised risk management policy and the drafting of a new risk management procedure<sup>22</sup>
- ▶ The Election Fraud and Corruption Risk Assessment conducted by Walter Partners in 2014<sup>23</sup>

<sup>18</sup> The NSWEC's Strategic Plan for 2017-2020 commits to 'improved timeliness of count' but does not appear to indicate any specific time targets.

<sup>19</sup> NSW Electoral Commission, *Strategic Plan 2017-2020 Democracy Delivered*, page 17.

<sup>20</sup> NSW Electoral Commission, *Annual Report 2017-18*, p 68.

<sup>21</sup> NSW Electoral Commission, *Strategic Plan 2017-2020: Democracy Delivered*, page 17.

<sup>22</sup> NSW Electoral Commission, *Annual Report 2017-18*, p 68.

<sup>23</sup> Walter Partners, *Election Fraud and Corruption Risk Assessment*, June 2014.



The justification and evidence that the NSWEC has provided to support its costs is consistent with this and the majority of the success factors in the NSWEC's 2017-20 Strategic Plan.

The only exception would appear to be in respect of reducing costs per elector. The justification and evidence provided by the NSWEC did not really focus on this success factor or identify the trade-offs between meeting or maximising other success factors and cost.

This indicates that it has been difficult to reconcile the focus on risk management with managing the cost per elector.

Based on the evidence provided, it is also difficult to conclude that the NSWEC's focus on risk management has been supported by:

- ▶ Clearly defined service standards that would allow for the trade-off between different success factors to be made more transparent
- ▶ Close consultation with Councils on the NSWEC's preferred risk level to ensure that it aligns with their service needs and willingness to pay.

## 3.2 Prudency

### 3.2.1 Defining prudency

Prudency is about demonstrating that the activity or the proposed activity, and thus associated expenditure, was or is necessary to deliver the required outputs and outcomes.

Therefore, in respect of prudency, the focus is on whether adequate justification has been provided on whether the underlying activity is required to be undertaken in the circumstances existing at the time, and therefore whether the resources need to be utilised or consumed.

Table 2 lists some examples of drivers that can typically be used to explain the underlying reason that activities are undertaken by government entities, such as the NSWEC.

Table 2: Drivers for activities

Driver	Definition
Increased Demand	Activities that are introduced or escalated to account for growth in demand
Existing Mandatory Standards	Activities that must be undertaken as required by existing legislation and/or regulations to meet existing standards of service
New Mandatory Standards	Activities that must now be undertaken as required by new legislative or regulatory instruments to meet new standards of service
Government Policy or Strategy	Activities that are undertaken as required by NSW Government Policy or Strategy, which may not be reflected in service standards
Business Efficiency	Activities that are introduced or escalated to drive cost savings or other efficiencies in related activities
Discretionary Standards	Activities that are solely a business decision, unrelated to any mandatory standards or internal agency guidelines
Other Drivers	Any other drivers not covered above

Source: EY

## 3.3 Efficiency

### 3.3.1 Defining efficiency

Efficiency is about demonstrating that the activity, and thus the associated expenditure, was undertaken in the most cost-effective way. It is about ensuring 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.

Efficiency is a related but distinct concept to prudence. In other words, it is possible for an activity to be deemed prudent (e.g. a specific activity is required to be undertaken and not doing so will result in a government agency not being able to meet its obligations) but not necessarily be efficient (e.g. the activity is not undertaken at the optimal cost given a more cost-effective alternative exists).

Therefore, the focus is on whether the NSWEC has demonstrated that the proposed expenditure represents the best and most cost-effective way of undertaking the activity based on the amount of resources utilised and the unit price paid.

### **3.3.2 Relationship between prudence and efficiency**

As outlined above, activities can be judged as prudent if they are necessary in the delivery of an election. The question of necessity turns to mandatory legislative, regulatory or government policy requirements. Necessity also extends to the NSWEC's view on whether the delivery of the election would be at risk without the activity being delivered in a certain way.

Therefore, the determination of efficiency is not a question of ignoring activities that are non-mandatory. Rather, efficiency is the next step to assessing costs once the election activities have been found to be prudent. In this context, efficiency could be evident where:

- ▶ Prudent election activities are delivered in the most cost-effective way, taking into account all other reasonable alternatives
- ▶ Expenditure increases for certain election activities result in cost savings or other efficiencies in other election activities
- ▶ There is some evidence of stress testing of the reasonableness of the costs, such as the consideration of other service delivery options or conduct of market testing of alternative services providers.

The assessment of costs for LGE 2020 is focused on maximising outcomes with the most optimal and cost-effective level of resources.

This suggests that where material costs increases are proposed to continue to provide a service, it would be reasonable to be able to observe:

- ▶ Material problems with the level and quality of services delivered previously
- ▶ An objective need to provide a high level of service in the future; and / or
- ▶ Unavoidable increases in the cost of delivery the existing or proposed level of service

## 4. NSWEC's proposed expenditure for LGE 2020

### 4.1 Operating expenditure

#### 4.1.1 Summary of operating expenditure

The NSWEC forecasts operating costs of \$62.4m for LGE 2020, based on its bottom-up cost estimates. As Table 3 shows, the NSWEC's proposed operating costs for LGE 2020 represent an increase of 51% or \$21.0m compared to actual costs for LGE 2016-17 (equal to \$41.5m less duplicate costs).

The proposed bottom-up operating costs for LGE 2020 also represent a substantial increase on a per elector basis from LGE 2016-17 (i.e. based on the actual or expected total number of electors enrolled in NSW). This was estimated to be \$8.78 per elector costs in LGE 2016-17<sup>24</sup> and has been proposed to increase in nominal terms by 31% to \$11.54 per elector<sup>25</sup> in LGE 2020.

Based on the number of electors in councils that are expected to choose the NSWEC to conduct LGE 2020, the estimated cost is \$12.79 per elector.<sup>26</sup>

The NSWEC's bottom-up cost estimates for LGE 2020 outline the assumptions and calculations that underpin the estimated operating costs for each election activity, which are then summed up into the following 14 'aggregated projects'.

Table 3: Comparison of LGE 2016-17 and LGE 2020 operating costs by aggregated project (\$)

Aggregated project	Operating costs		Change from LGE 2016-17 to LGE 2020	
	LGE 2016-17	LGE 2020	\$	%
AP01: Election Support Services	23,801,204	33,457,113	9,655,909	41%
AP02: Customer Service	1,360,223	3,278,203	1,917,980	141%
AP03: Candidates and Parties	290,990	1,482,185	1,191,195	409%
AP04: Counting, Results & Declaration Votes	1,315,968	2,318,293	1,002,325	76%
AP05: Attendance & Non-Attendance Voting	786,557	2,176,580	1,390,023	177%
AP06: Technology	2,900,836	6,861,727	3,960,891	137%
AP07: Communications	1,764,892	3,604,596	1,839,704	104%
AP08: Event Readiness	286,614	1,895,999	1,609,385	562%
AP09: Event Financial Management	892,637	1,663,993	771,356	86%
AP10: Data Management	63,243	136,944	73,701	117%
AP20: Overtime	865,009	800,000	-65,009	-8%
AP99: Election Programme	1,887,954	899,900	-988,054	-52%
Election Management Fee - \$0.70 per elector	3,297,158	3,560,931	263,773	8%
Sydney Town Hall (District 254)	196,239	215,863	19,624	10%
Other items <sup>a</sup>	1,641,085	N/A	N/A	N/A
<b>Total</b>	<b>41,350,609</b>	<b>62,352,327</b>	<b>21,001,718</b>	<b>51%</b>

Source: EY analysis of NSWEC Data. a. Note that other items for LGE 2016-17 costs include election activities that have been discontinued and were not found in the LGE 2020 cost categories. Refer to Appendix A for a full reconciliation of LGE 2016-17, LGE 2020 top-down and LGE 2020 bottom-up costs and activities.

<sup>24</sup> Based on LGE 2016-17 base costs of \$41.35m and total number of electors enrolled in NSW of 4.71m

<sup>25</sup> Based on LGE 2020 bottom-up forecast costs of \$62.35m and total number of electors expected to be enrolled in NSW for LGE 2020 of 5.40m

<sup>26</sup> Assumes all councils that chose the NSWEC to conduct LGE 2016-17 will also conduct LGE 2020, which covers an expected 4.87m (i.e. 531k electors are expected to be in councils that will engage a commercial electoral services provider to conduct LGE 2020)

This also represents a \$6.1m increase in operating costs compared to the NSWEC's top-down estimates of \$56.5m, which was previously provided to IPART and was the subject of the analysis in EY's initial report. A reconciliation of the bottom-up and top-down cost estimates found that the main drivers of the cost increase are:

- ▶ \$2.9m in new Aggregated Project (AP) Management Costs and AP On-Costs
- ▶ \$4.3m in additional Project Resources costs
- ▶ \$1.09m in additional costs for RO Equipment and \$0.8m for IT systems costs, incurred due to renting of computer and printer hardware at Returning Offices, Pre-poll locations and count centres
- ▶ \$0.5m in additional cost for the operation of counting centres
- ▶ \$0.82m in additional Project 11 Communications costs, over and above increases to Project Resources and Portfolio On-costs
- ▶ Several new cost items including:
  - ▶ the Business Continuity Plan (BCP), established to respond to an 'outage or disruption incident'<sup>27</sup>
  - ▶ Licencing Costs and Performance Management - HCMS.

The derived bottom-up cost estimates also resulted in the reduction of some cost items compared to the top-down estimates for LGE 2020. The most material reductions in costs included:

- ▶ \$1.22m in estimated PMO costs
- ▶ \$0.97m in estimated Call Centre Personnel costs
- ▶ \$0.78m in estimates PP Staffing costs
- ▶ \$0.75m in RO Recruitment & Wages
- ▶ \$0.54m in estimates Logistics Systems, Admin & Process Support costs
- ▶ \$0.44m in RO Office Security
- ▶ Several other minor reductions in costs including Polling Place Venue Procurement, Nominations costs and Employment Support Desk costs.

A full reconciliation of the NSWEC's forecast top-down and bottom-up operating costs by aggregated project for LGE 2020 election activities is contained in Appendix A.

#### 4.1.2 Material changes in operating expenditure

The expected increase in operating costs between LGE 2016-17 and LGE 2020 has been driven by material changes in the line items highlighted in Table 4.

The sum of the cost increases of the material items shown in Table 4 is \$18.29m, which comprises 87% of the total increase between LGE 2016-17 and LGE 2020. This is offset by material cost reductions totalling \$4.1m.

Table 4: Material changes in operating expenditure

LGE 2020 Cost Item	LGE 2016-17 base cost (\$)	LGE 2020 Bottom-up cost (\$)	Cost change (\$)
<b>Material cost increases</b>			
Polling Place Staffing	6.03m	9.78m	3.75m
Venue Procurement	3.16m	4.96m	1.8m
Aggregated Project Management Costs	0	1.73m	1.73m
Aggregated Project On-costs	0	1.2m	1.2m

<sup>27</sup> NSWEC, Programme Business Continuity Plan LGE 2016-17: AP& Project 16 Event Readiness of the LGE 2017, p 2.

Project Resources Costs (Total)	1.94m	7.06m	5.1m
RO Recruitment & Wages	2.44m	3.04m	0.6m
Counting Centres	1.05m	1.75m	0.7m
RO Equipment	0.6m	1.77m	1.17m
9173 - IT Systems	1.83m	2.81m	0.98m
9184 - Core Infrastructure	0.20m	0.85m	0.65m
Project 13 Call Centre Costs	0.38m	0.99m	0.61m
Material cost reductions			
9306 - Logistics Systems, Admin & Process Support	0.94m	0.50m	0.44m
PMO	1.89m	0.86m	1.03m
Project 8 Resources	0.26m	0.11m	0.15m

Source: EY analysis of NSWEC data. Note that this does not include costs for LGE 2016-17 related to activities that are not contained in the LGE 2020 bottom-up estimates.

## 4.2 Capital expenditure

The NSWEC's projected capital expenditure for LGE 2020, including expenditure incurred in 2018-19, is shown in Table 5.

Table 5: NSWEC's top-down projected capital costs for LGE 2020

	2019-20	Notes
1 - WIGM, Countback & UPV	5,661,000	A business case has been submitted to NSW Treasury for funding approval. This was in response to the NSW Government accepting the recommendation of the Joint Standing Committee on Electoral Matters.
Total	5,661,000	

Source: EY analysis of NSWEC data

On 22 May 2018, the NSW Government tabled its response to the *Report of the Joint Standing Committee on Electoral Matters - Preference Counting in Local Government Elections in NSW* in the NSW Parliament.<sup>28</sup>

The NSW Government accepted the Report's recommendations, in principle, and recommended that the Weighted Inclusive Gregory Method (WIGM) be introduced for the LGE 2020 election. Evidence provided by the NSWEC indicates:<sup>29</sup>

- ▶ A total of \$5.661m in capex to deliver the IT system changes needed to implement WIGM, UPV and Countback
- ▶ An associated \$1.98m in opex over the four-year forward estimates deliver the IT system changes needed to implement WIGM, UPV and Countback.<sup>30</sup>

<sup>28</sup> Report of the Joint Standing Committee on Electoral Matters - Preference Counting in Local Government Elections In NSW (Report 3/56 - November 2017) Government Response <<https://www.parliament.nsw.gov.au/ladocs/inquiries/2458/Government%20Response%20regarding%20inquiry%20into%20preference%20counting%20in%20local%20government%20elections%20in%20NSW.pdf>>.

<sup>29</sup> LGR Consolidated Financial Model SK 20190602\_Final LG - Ref for P17.xlsx.

<sup>30</sup> The operating expenditure costs associated with the implementation of WIGM do not appear to be included in the LGE 2020 provided by the NSWEC.

## 5. Review of NSWEC's projected operating expenditure for LGE 2020

### 5.1 Approach

To review the NSWEC's proposed bottom-up estimates of operating costs for LGE 2020, we assessed whether the evidence provided demonstrated that:

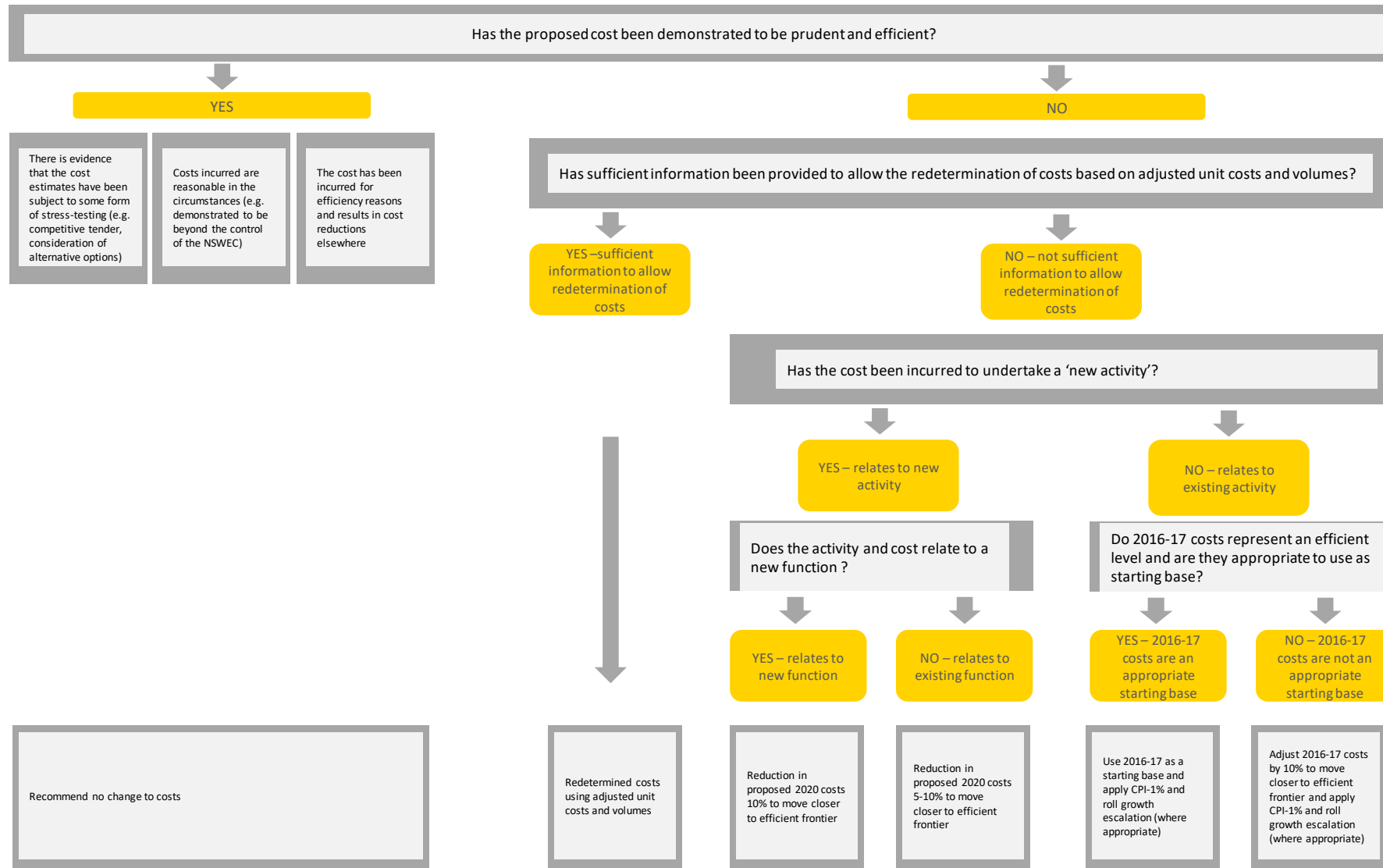
- ▶ The costs related to an activity undertaken by the NSWEC that is prudent in the circumstances existing at the time
- ▶ The activity and the associated costs were undertaken in the most cost-effective way that resulted in the optimal quantity of resources is used to undertake the activity and to deliver the necessary outputs, and that those resources are procured at optimal cost.

In doing so, the conduct of LGEs has been considered in the context of:

- ▶ Overarching purpose - the conduct of LGEs in accordance with the *Local Government Act 1993* (noting that there is no obligation for the NSWEC to undertake LGEs)
- ▶ Function - in undertaking an LGE, there are a number of functions which are required to support the delivery of the election (e.g. information technology requirements)
- ▶ Activity - activities are undertaken to meet each function (noting that there may be a number of different activities that could be undertaken to meet each function, e.g. IT infrastructure can be owned or rented)
- ▶ Costs - the cost associated with undertaking the activity, which will be a function of:
  - ▶ Quantum of resources - how much or many 'units' of different types of resources are required to undertake each activity (either explicitly or implicitly), e.g. labour, systems and processes, IT
  - ▶ Unit costs - how much is being spent per relevant unit
- ▶ If there was insufficient evidence to justify that the LGE 2020 cost represented the most cost-effective form of delivery, EY has directly redetermined the cost for LGE 2020 at the efficient level based on the circumstances where there was sufficient information to do so.

This approach is shown in Figure 1.

Figure 1: Approach to estimating efficient costs



Source: EY

As shown in the figure above, EY has assessed the efficient costs of LGE 2020 based on the following approach:

- ▶ If the evidence provided to EY demonstrated the prudence and efficiency of the proposed cost increases for LGE 2020, no change has been recommended. The prudence and efficiency of a proposed cost increase could be adequately justified by evidence that:
  - ▶ The cost estimates have been subject to some form of stress-testing to assess the reasonableness of the costs (e.g. competitive tender, consideration of alternative options) and that the proposed cost is based on the most optimal quantity of resources and that the resources were procured at the optimal cost
  - ▶ The costs incurred are reasonable in the circumstances (e.g. the costs have been adequately demonstrated to be beyond the control of the NSWEC)
  - ▶ The costs have been incurred for business efficiency reasons (e.g. to produce cost savings or increased value for money in other areas)
- ▶ If the evidence provided to EY has not demonstrated the prudence and efficiency of the proposed cost increases for LGE 2020, EY has redetermined the efficient costs by:
  - ▶ If sufficient information has been provided, recalculating costs based on adjusted efficient unit costs and volume inputs
  - ▶ If sufficient information has not been provided, adjusting the proposed costs to move them closer to the efficient frontier and reflect expected ongoing efficiency improvements
    - ▶ If the costs relate to a new activity that was not undertaken in previous LGEs, reducing proposed LGE 2020 costs by 10% to move closer to efficient frontier
    - ▶ If the costs relate to an existing activity:
      - ▶ Use 2016-17 as a starting base and apply CPI-1% and roll growth escalation (where appropriate)
      - ▶ Adjust 2016-17 costs by 10% to move closer to efficient frontier and apply CPI-1% and roll growth escalation (where appropriate).

Refer to Section 5.10 for more details of the efficient frontier and ongoing efficiency adjustments.

## 5.2 Reconciliation of approach compared to initial report

EY's initial report assessed the efficiency of top-down estimates provided by the NSWEC for LGE 2020. However, these cost estimates were a high-level estimate provided by the NSWEC, and do not form part of the budget process that is conducted to provide cost estimates to Councils.

The efficiency assessment conducted in this Report is with respect to the bottom-up costs provided by the NSWEC. The methodology used to re-determine costs differs to that used in EY's initial report as:

- ▶ Bottom-up cost estimates were \$6.1m (10%) higher than top-down estimates
- ▶ Information regarding the volumes and unit costs for each project was provided in the bottom-up costs detailed in the Budget for LGE 2020
- ▶ The cost estimates for some line items in the bottom-up budget are lower when compared to the top-down estimates previously provided for LGE 2020
- ▶ The LGE 2020 Budget introduces new costs, including Aggregated Project (AP) Management Costs and On-costs.

A refined approach to redetermining costs has been developed to account for the more detailed presentation of cost data in the LGE 2020 budget. The data provided allows for greater consideration of the appropriate base year, and the extent to which the NSWEC is operating above



the efficient frontier. Effectively, this has resulted in some additional methods of efficient cost determination being applied.

In some instances, a top-down approach to efficiency improvement has replaced a calculation in EY's Initial Report (which recalculated efficient costs based on substituted quantities or volumes) because:

- ▶ The information provided on LGE 2020 costs was not sufficient to allow for the recalculation of costs using substituted quantities or volumes
- ▶ Redetermining costs based on bottom-up calculations would have required a detailed set of assumptions underpinning the NSWEC's proposed costs that was not provided in sufficient detail to allow EY to develop estimates of quantities or unit pricing.
- ▶ As a result, applying a top-down adjustment for efficiency was considered the best approach given these limitations. The observations we have made of NSWEC as part of this process appear to be consistent with systemic issues with its approach to assessing the efficiency of its proposed costs. A top-down approach also allows the NSWEC to formulate the most appropriate method of achieving the efficiency improvements
- ▶ The recommended efficiency improvement of 10%, applied in the relevant circumstances, is informed by a number of precedents observed in organisations that are subject to economic or price regulation for the first time. Such businesses often have significant scope for driving efficiencies, and delivering greater value for money and cost savings in their provision of services. Refer to Section 5.10 for more details.

### 5.3 Review of prudence

As outlined in 3.1.3, there are a number of potential drivers of election activities which could be indicate prudence, including:

- ▶ Increased Demand
- ▶ Existing Mandatory Standards
- ▶ New Mandatory Standards
- ▶ Government Policy or Strategy
- ▶ Business Efficiency
- ▶ Discretionary Standards
- ▶ Other Drivers.

As outlined in 3.1.1, the absence of objective legislative or regulatory service standards makes it necessary for the Electoral Commissioner to use discretion when determining appropriate election activities and levels of activity for a Local Government Election.

Without making any findings on the efficiency of each project, extensive project planning makes it reasonable to assume that a particular set of election activities are prudent in the overall delivery of an election. Over the course of both reviews, the NSWEC provided a significant number of internal documents, including project plans. This demonstrates a degree of internal planning and decision making for the delivery of each activity.

On this basis, this Report does not recommend that any specific election activities are not prudent. Instead, it makes an assessment of the efficiency of each cost item to ensure that the prudent activity is delivered in the most cost-effective way.

The finding on prudence is made based on the evidence provided by the NSWEC in this Review. The prudence finding for activities could change, thereby requiring continued stress testing to ensure

that each activity is essential to deliver an election. Further, activities will not be prudent to the extent that there is duplication across activities.

## 5.4 Assessment of material cost changes

The following sections outline EY's assessment of the efficiency of key material Aggregated Projects of the NSWEC's proposed costs for LGE 2020. Adjustments were also made to other line items, as outlined in the accompanying spreadsheet.

## 5.5 Staffing costs

This section contains the NSWEC's proposed Staffing costs for LGE 2020 (Project P004).

### 5.5.1 NSWEC projections

Table 6: Staffing costs for LGE 2020 (\$)

Cost Components	LGE 2016-17 Base Costs	LGE 2020 Bottom-Up Estimates	Increase (\$)	Increase (%)
9021 - ROSO Wages	483,821	616,194	132,373	27%
9022 - ROSO Support Centre	48,152	36,375	-11,777	-24%
9023 - SOA Staffing	0	2,888,062	2,888,062	n/a
9175 - Zoho	0	2,500	2,500	n/a
9201 - Performance Management - HCMS	0	2,835	2,835	n/a
9240 - Employment Support Desk	101,934	163,422	61,488	60%
9241 - PP Staffing	6,034,492	9,778,285	3,743,793	62%
9242 - OA Staffing	5,167,073	3,513,969	-1,653,104	-32%
9243 - RO Office Security	349,427	490,244	140,817	40%
9244 - RO Recruitment & Wages	2,441,885	3,040,733	598,848	25%
9245 - RO Postage	80,457	127,500	47,043	58%
9246 - RO Utilities	89,687	420,580	330,893	369%
9247 - RO Office Administration Costs	92,842	121,998	29,156	31%
9249 - Project 4 Resources	28,008	290,537	262,529	937%
9701 - AP1 - Portfolio On-Costs	0	192,000	192,000	n/a
<b>Total Staffing Costs</b>	<b>14,917,778</b>	<b>21,685,233</b>	<b>6,767,455</b>	<b>45%</b>

Source: EY analysis of NSWEC data

### 5.5.2 Pay rates

As outlined in EY's Report contained in Appendix C of IPART's Draft Report, the NSWEC has indicated two main drivers that have led to a 45% (+\$6.8m) increase in staffing costs in LGE 2020 compared to LGE 2016-17:

- ▶ A 20% reduction in table loadings, resulting in an increase in staffing numbers of election day
- ▶ An increase in the pay rates offered to election staff, as shown in the following table. The NSWEC indicated there are a number of reasons, including:
  - ▶ The revision of position descriptions to align with the NSW Government Capability Framework
  - ▶ Better align pay rates offered by the NSWEC with other jurisdictions
  - ▶ Ensure that all staff are paid above the minimum wage.

Table 7: Comparison of pay rates (exclusive of on-costs)

Role	Escalated SGE15 rates <sup>31</sup>	SGE 2019 rates <sup>32</sup>	NSWEC's proposed LGE 2020 rates <sup>33</sup>
Election Official (ballot box guard and ordinary issuing officer)	410.47	436.51	475.48
Declaration Vote Issuing Officer/Information Officer	424.52	522.38	539.71
Deputy Polling Place Manager	660.85	667.14	667.33
Polling Place Manger 1	736.47	788.71	788.89
Polling Place Manager 2-3	766.03	824.13	824.13
Polling Place Manager 4-5	798.61	860.04	860.22
Polling Place Manger 6-7	814.79	866.06	866.24
Polling Place Manager 8-9	832.46	885.72	885.89
Polling Place Manager 10+	851.34	900.12	900.29
Polling Place Manager 12+	870.50	937.19	937.37

Source: EY analysis of NSWEC data

### 5.5.3 Findings

#### 5.5.3.1 Difference between pay rates for LGEs and SGEs

In EY's initial report, a recommendation was made for the NSWEC's preferred rates to be discounted by 6.2% for LGEs. This was intended to allow for a premium for those working in SGE's who engaged in the more complex count of the Legislative Council ballot. The discount also reflected a differential in the pay rates applied to LGEs and SGEs by the Victorian Electoral Commission.<sup>34</sup> Subsequent to the public hearing in July 2019, and the NSWEC's submission to IPART's Draft Report, applying a discount may no longer be appropriate as:

- ▶ It was indicated that LGEs have a similar or even greater complexity due to the number of contests, nominations and registered political parties expected to be greater in LGE 2020 than in SGE 2019
- ▶ The ability for universal postal voting to be applied in Victoria means that it is currently not an appropriate benchmark, as UPV elections do not require polling place venues.<sup>35</sup>

Therefore, it appears to be appropriate for the pay rates offered to staff in LGEs to be consistent with those that would be offered in SGEs.

#### 5.5.3.2 Efficiency of proposed pay rates for LGE 2020

The proposed pay rates for LGE 2020 are broadly consistent with the rates set for SGE 2019 for the majority of roles - except the pay rates for Election Officials and Information Officers / Declaration Vote Issuing Officers have increased above and beyond SGE 2019 rates.

Based on the evidence provided, the rates for SGE 2019 have not been adequately justified as efficient. The reasons were described in EY's initial report and are applicable here. They include:

- ▶ The NSWEC did not provide evidence that indicated difficulty in attracting polling place staff for LGE 2016-17
- ▶ The NSWEC has not indicated any KPIs that are intended to link increases in pay rates to improvements in service delivery.

<sup>31</sup> 'SGE19 - Staffing Rate Matrix - Internal working document.xlsx' provided by the NSWEC on 17 May 2019.

<sup>32</sup> Ibid.

<sup>33</sup> LGE 2020 Budget Submitted to IPART 4 July 2019.xlsx.

<sup>34</sup> Victorian Electoral Commission, 'Employment Guide for Election Casuals and Officials', page 10.

<sup>35</sup> Universal postal voting will be an option for Councils after LGE 2020.

Further, we understand that the NSW Public Sector Capability Framework applies to all public sector employees (including the NSWEC),<sup>36</sup> which resulted in the NSWEC revising position descriptions for election staff prior to SGE2019. This resulted in an increase in pay rates for election staff to align with the *Crown Employees (Public Sector Salaries 2018) Award*.

However, it is not clear why it was necessary for the NSWEC to revise and rewrite the position descriptions for election day staff prior to SGE 2019 to comply with the Capability Framework given that all NSW Government agencies were required to embed the Capability Framework by no later than 9 August 2016, prior to the setting of rates for SGE 2019 (i.e. no evidence was provided that rates prior to SGE 2019 did not explicitly embed the Capability Framework).

As a result, it would therefore not be unreasonable to conclude that the pay rates for SGE 2019 and LGE 2020 may not be at their efficient levels.

### 5.5.3.3 Reasonableness of the proposed pay rates for LGE 2020

Despite the commentary on the questions of whether the proposed pay rates for LGE 2020 are likely to be efficient, we understand that the setting of the pay rates for SGE 2019 has a number of practical implications:

- ▶ Those who worked for SGE 2019 have already received the higher pay rates when working in the recent State Election
- ▶ Election day staff for SGE and LGE are likely to come from the same pool of potential workers
- ▶ Offering a lower pay rate to staff who worked in SGE 2019 may make it difficult for the NSWEC to fill positions on election day.

Therefore, while the rates for SGE 2019 have not been adequately justified as being efficient based on the evidence provided, it is pragmatic that they be accepted as the rates as being reasonable in the circumstances for LGE 2020.

### 5.5.4 Recommended pay rates for LGE 2020

The adoption of SGE 2019 pay rates for LGE 2020 would not materially alter the proposed pay rates for polling place managers. However, the increases in Election Officials, Declaration Vote Issuing Officers and Information Officers that are in excess of the SGE 2019 rates have not been justified as efficient and should therefore not be adopted. The preferred pay rates for LGE 2020 are summarised in Table 8.

Table 8: Recommended efficient pay rates (exclusive of on-costs)

Election Day Role	Proposed LGE 2020 Pay Rates	Recommended LGE Pay Rates
Election Official (including Ballot Box Guard/Ordinary Issuing Officer)	475.48	436.51
Declaration Vote Issuing Officer/Information Officer	539.71	522.38
Deputy Voting Centre Manager	667.33	667.14
Voting Centre Manager (level 1)	788.89	788.71
Voting Centre Manager (level 2 to 3)	824.13	824.13
Voting Centre Manager (level 4 to 5)	860.22	860.04
Voting Centre Manager (level 6 to 7)	866.24	866.06
Voting Centre Manager (level 8 to 9)	885.89	885.72
Voting Centre Manager (level 10 to 11)	900.29	900.12
Voting Centre Manager (level 12+)	937.37	937.19

Source: EY analysis based on NSWEC data

<sup>36</sup> As required by PSCC2013-09 Circular

All proposed pay rates in Table 9 are set above the minimum wage. The analysis is based on the following assumptions:

- ▶ Election Officials, Declaration Vote Issuing Officer and Information Officer engage in a 15-hour working day
  - ▶ Polling places are open from 7am, with the count concluding at 11pm (at the latest)
  - ▶ Staff receive 2 half-hour breaks
- ▶ Polling Place Managers are assumed to work a total of 18 hours
  - ▶ 3 hours are allocated to set up a polling place on the Friday before an election
  - ▶ Polling places are open from 7am, with the count concluding at 11pm (the latest)
  - ▶ Staff receive 2 half-hour breaks.

Table 9: Effective hourly rate of proposed pay rates

Election Day Role	Recommended LGE Pay Rates	Effective Hourly Rates	Minimum Wage + Casual Loading <sup>37</sup>
Election Official (including Ballot Box Guard/Ordinary Issuing Officer)	436.51	29.10	24.36
Declaration Vote Issuing Officer/Information Officer	522.38	34.83	24.36
Deputy Voting Centre Manager	667.14	37.06	24.36
Voting Centre Manager (level 1)	788.71	43.82	24.36
Voting Centre Manager (level 2 to 3)	824.13	45.78	24.36
Voting Centre Manager (level 4 to 5)	860.04	47.78	24.36
Voting Centre Manager (level 6 to 7)	866.06	48.11	24.36
Voting Centre Manager (level 8 to 9)	885.72	49.21	24.36
Voting Centre Manager (level 10 to 11)	900.12	50.01	24.36
Voting Centre Manager (level 12+)	937.19	52.07	24.36

Source: EY analysis based on NSWEC data

Further, given the rates for LGE 2020 will be based on SGE 2019 rates, it is not unreasonable to conclude that they are consistent with the Capability Framework.

## 5.6 Table loadings

### 5.6.1 Basis of findings on table loadings used in top-down cost estimates

As outlined in EY's Report contained in Appendix C of IPART's Draft Report, the NSWEC did not provide evidence that adequately justified the 20% reduction in table loadings applied in the top-down estimates for LGE 2020.

The key findings were as follows:

<sup>37</sup> Fair Work Commission, Annual Wage Review 2019 <<https://www.fwc.gov.au/documents/wage-reviews/2018-19/decisions/2019fwcfb3501.pdf>>.

- ▶ 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:
  - ▶ 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>38</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>39</sup> and at LGE 2016-17 was 15,250<sup>40</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>41</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.

<sup>38</sup> NSWEC, Report on the Conduct of the 2017 Local Government Election, p. 49

<sup>39</sup> NSWEC, Report on the Conduct of the 2015 State Government Election, p.12

<sup>40</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>41</sup> ABC News, 'Sydney news: NSW election counting resumes, Niall Blair steps down' <<https://www.abc.net.au/news/2019-03-25/sydney-news-morning-briefing-monday-march-25/10934676>>.

- ▶ 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>42</sup> only 4% of candidate dissatisfaction was because it 'took too long to get results'<sup>43</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.

### 5.6.2 Findings with respect to the table loadings used in bottom-up cost estimates

In the table loadings provided in the LGE 2020 Bottom-up Cost Estimates, the NSWEC has reduced the table loadings further, by reducing the maximum number of votes per day, as shown in Table 10. There is insufficient evidence adequately justify this further reduction in table loadings. Further, there has been no new or additional evidence that alters the findings made in EY's initial report. Therefore, the preferred table loadings are those used prior to SGE 2019.

Table 10: Mapping changes in table loadings

Election Day Role	SGE 2019 Table Loadings	Proposed LGE 2020 Table Loading	Implied LGE 2020 Preferred Table Loading <sup>44</sup>
<b>Ordinary Voting</b>			
CALD	400-450	400 - 401	500-550
Country	450-500	450 - 451	550-600
Country Metro	450-500	450 - 451	550-600
Metropolitan	450-500	450 - 451	550-600
<b>Declaration Voting</b>			
CALD	80-90	80 - 90	80 - 100
Country	100-120	100 - 101	100 - 120
Country Metro	100-120	100 - 101	100 - 120
Metropolitan	100-120	100 - 101	100 - 120

Source: EY analysis based on NSWEC data

## 5.7 Venue procurement

The NSWEC projects costs for venue procurement in LGE 2020 to increase by 57% in nominal terms compared to LGE 2016-17 base costs, as shown below.

Table 11: NSWEC's bottom-up estimate of venue procurement costs for LGE 2020

Cost Components	LGE 2016-17 Base Cost	LGE 2020 Bottom-up Forecast
9061 - Polling Places	841,140	1,511,829
9062 - RO Offices	1,559,194	1,715,114
9063 - Additional Pre-poll Locations	245,264	291,374
9064 - Declared Institutions	0	0

<sup>42</sup> IPSOS, 2016-17 Local Government Elections Candidates Survey Report (December 2016), p 20.

<sup>43</sup> Ibid, p 18.

<sup>44</sup> Table loadings in SGE19 were reduced by 20%. Source: Fatigue Management Guidelines

9066 - Counting Centres	171,359	823,223
9067 - Rent - Sydney Town Hall	116,904	156,800
9068 - Centralised Office Space	0	308,196
9069 - Project 6 Resources	221,331	156,555
<b>Total Venue Procurement</b>	<b>3,155,192</b>	<b>4,963,091</b>

Source: EY analysis based on NSWEC data

EY's initial report found that the level of expenditure on venue procurement was adequately justified as:

- ▶ The NSWEC is a price taker with respect to venue procurement
- ▶ The Department of Education and Training have negotiated a new MoU with the NSWEC that results in considerably higher rates for room hire due to rates being lifted and charged per hour. For example, bottom-up estimates for LGE 2020 note that the cost of large-hall hire will increase by 334%.

There is no new evidence provided in the bottom-up estimates for LGE 2020 that alters the above conclusion, this is because:

- ▶ The NSWEC indicated that the anticipated increases in venue procurement costs was due to the NSW Department of Education and Training's decision to lift rates in the new MoU
- ▶ The NSWEC has also previously indicated that alternative venues are considered where possible, but that it is practically difficult given the security and accessibility standards that are in place for election venues
- ▶ Short-term leases often result in higher rental costs, which is outside of the NSWEC's control, given that they are a price taker in the market
- ▶ Private venues tested by the NSWEC have previously been found to result in even higher costs
- ▶ Venue procurement costs for counting centres were considered to be reasonable, consistent with findings for other venues required in the delivery of an election. Even though we do not consider the proposed increases in operating costs for count centres have been demonstrated to be efficient, the NSWEC is a price taker in the market for venues. Therefore, the high premium that can be expected to be applied to short-term leases is arguably outside the control of the NSWEC.

## 5.8 Project Costs

### 5.8.1 Aggregated Project (AP) Management and On-Costs

In comparison to the top-down estimates provided by the NSWEC for LGE 2020, the bottom-up estimates identify an additional \$2.9m in total AP management and AP on-costs. The key drivers of this cost increase are as follows:

- ▶ The introduction of APs that group together related election activities
- ▶ On-costs and management costs attached to each of these aggregated projects.

Our initial report found that the PMO costs did not appear to be unreasonable based on the cost items in the top-down estimates for LGE 2020. However, the new cost items indicated in the bottom-up estimates for LGE 2020 require a new assessment of project management costs, as the cost increase in the LGE 2020 bottom-up budget is material when compared to the top-down estimates used in EY's initial report. The NSWEC was asked to provide new or additional evidence that justified Aggregated Project costs, particularly given that the cost items:

- ▶ Represent new items of expenditure relative to the top-down forecasts



- ▶ Relate to the management of election activities from LGE 2016-17, in addition to a relatively small number of new activities
- ▶ Appear to be duplicative, as it is not clear how AP project management costs differ from on-costs.

Evidence provided by the NSWEC:

- ▶ Indicated that the \$192,000 in on-costs for each Aggregated Project were an apportionment of the total AP costs for LGEs. However, the NSWEC did not provide evidence that adequately justified:
  - ▶ The prudence of the costs, given that they appear to be duplicative to the Aggregated Project Management costs
  - ▶ The costs as being set at the most optimal cost level
- ▶ Indicated an anticipated \$1.03m in cost savings for PMO for LGE 2020
- ▶ Did not explain how it was efficient for the \$1.03m in cost savings for PMO to be outweighed by the \$2.9m in new AP on-costs and AP management costs.

Given the proposed cost increases have not been adequately justified and the costs relate to a new activity, it is not unreasonable that the NSWEC's proposed costs for LGE 2020 are 5-10% greater than efficient levels. This is a reasonable adjustment for the costs that are typically incurred by a first-time regulated business, which is unlikely to be close to the efficiency frontier - refer to Section 5.10.

## 5.8.2 Project Resources Costs

The LGE 2020 Bottom-up estimates provided by the NSWEC indicate that total Project Resources costs are expected to rise by \$5.1m compared to LGE 2016-17. This also represents a \$4.3m increase on the top-down estimates provided by the NSWEC.

Based on the evidence provided by the NSWEC, the efficiency of the proposed Project Resources costs for LGE 2020 cannot be justified as it has not been demonstrated that:

- ▶ The increase in Project Resources costs have resulted in material cost reductions for other activities
- ▶ The proposed costs reflect the most optimal use of resources needed to deliver the activity.

Given the proposed cost increases in LGE 2020 have not been adequately justified, it is not unreasonable that the costs for LGE 2020 be calculated as LGE 2016-17 actual costs adjusted for inflation and roll growth.

In addition, it would be reasonable to expect some efficiency improvements in these costs over time (e.g. similar to the NSW Government's annual efficiency dividend for all government agencies in the 2018-19 budget).<sup>45</sup> On this basis, we have applied an ongoing efficiency adjustment of 1% per annum between LGE 2016-17 and LGE 2020. Refer to Section 5.10 for more details.

## 5.9 Count centres

The NSWEC's bottom-up estimates for LGE 2020 indicate a 66% increase in the cost of count centres, rising from \$1.05m in LGE 2016-17 to \$1.75m in LGE 2020. The NSWEC has previously indicated that count centres were established to enable some counting and data entry procedures to be conducted at shared locations, with the main objective being to improve the efficiency of the data entry process. The following count centres will be in operation for LGE 2020:

- ▶ Lismore Count Centre

<sup>45</sup> NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

- ▶ Mid-North Count Centre
- ▶ Newcastle Count Centre
- ▶ Orange Count Centre
- ▶ Queanbeyan Count Centre
- ▶ Sydney Count Centre
- ▶ Tamworth Count Centre
- ▶ Wagga Wagga Count Centre

The NSWEC's projected costs for each count centre was derived using the assumption that:

- ▶ 100 ordinary ballot papers would be batched per person, per hour
- ▶ Data entry would be completed for 45 ballot papers per person, per hour
- ▶ Gate Keepers 1 & 2 would process 300 ordinary ballot papers per hour
- ▶ Gate Keepers 3 & 4 would process 200 ordinary ballot papers per hour.

Based on the evidence provided by the NSWEC:

- ▶ The selected KPIs in the LGE 2020 Budget have not been adequately justified as the most efficient needed to execute the project
- ▶ The cost for count centres does not appear to have resulted in cost savings elsewhere, Project 8 Counting and Results costs are expected to rise by 115% in LGE 2020, despite the increase in costs for counting hubs.

Given the proposed cost increases in LGE 2020 have not been adequately justified, it is not unreasonable that the costs for LGE 2020 be calculated as LGE 2016-17 actual costs adjusted for inflation and roll growth.

In addition, it would be reasonable to expect some efficiency improvements in these costs over time (e.g. similar to the NSW Government's annual efficiency dividend for all government agencies in the 2018-19 budget).<sup>46</sup> On this basis, we have applied an ongoing efficiency adjustment of 1% per annum between LGE 2016-17 and LGE 2020. Refer to Section 5.10 for more details.

## 5.10 Efficiency factor to be applied to other operating cost items

### 5.10.1 Adjustments for efficiency frontier

In economics, the 'efficient frontier' refers to concept whereby an entity is operating at an optimal level of efficiency. In general, entities operating at the efficient frontier are typically characterised by either maximising outputs (i.e. where they are measurable) with a given level of inputs; or producing a given level of outputs at a pre-determined set of standards with a minimum level of inputs.

The evidence provided by the NSWEC to support the prudence and efficiency of its proposed costs for LGE 2020 suggests that there is a gap between current operations and the efficient frontier. This is evidenced by the fact that little justification has been provided to demonstrate that LGEs are overall undertaken in the most cost-effective way.

While there are some cost categories where the efficiency of the proposed cost increases has been adequately justified, the NSWEC has not provided adequate justification to demonstrate that the costs incurred are the most efficient in delivering election services. This is illustrated by the following:

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<sup>46</sup> Ibid.

- ▶ The rationale of costs and investments in LGE 2020 related to achieving election outcomes related to integrity and stakeholder experience (e.g. increasing voter turnout, increasing stakeholder satisfaction, improving timeliness of count) and did not give the same regard to efficiency of costs
- ▶ The NSWEC's Corporate Plan contains a KPI to reduce cost per elector, but other KPIs appear to have been given priority (e.g. the NSWEC's proposed costs per elector for LGE 2020 would not meet this KPI)
- ▶ While documentation provided by the NSWEC showed that the costs related to election activities for LGEs were prudent (refer to Section 5.3), there was not adequate justification to demonstrate that given this activity, the optimal quantity of resources had been used to deliver the necessary outputs, and that those resources had been procured at optimal cost

In other words, the evidence provided by the NSWEC suggests that its proposed costs of undertaking LGE 2020 are at costs above what would be expected by an entity operating at the efficient frontier.

These observations of the NSWEC's proposed costs are consistent with those costs generally observed in businesses that are subject to economic or price regulation for the first time ('first time regulated businesses'). Such first-time regulated businesses often have significant scope for driving efficiencies, and delivering cost savings and greater value for money in their provision of services.

This is best illustrated in IPART's review of prices for the Water Administration Ministerial Corporation's (WAMC) water management services from 1 July 2016 (which is delivered by DPI Water), the first time the WAMC was subject to price regulation by IPART. While the industry context and regulatory oversight is different from the NSWEC, there are some relevant insights to be drawn into first-time regulated businesses. IPART engaged Synergies Economics to undertake an expenditure review of DPI Water's actual and forecast water expenditure,<sup>47</sup> which stated that:

*"First-time reviews of regulated businesses can often identify systemic problems and significant scope for cost savings. Over time, businesses tend to improve their practices, including cost management and reporting, often with the result of more modest (if any) adjustments to proposed operating costs. It is the view of Synergies that DPI Water is more appropriately categorised as a regulated business in the early phase of regulatory review, with significant scope for further cost savings."<sup>48</sup>*

We understand that IPART's review of the proposed expenditure for LGE 2020 is the first time that the NSWEC has been subject to any kind of efficiency review and the information and evidence provided to date suggests that Synergies's findings about DPI Water are relevant to the NSWEC and key insights on first-time regulated businesses can be drawn upon.

The evidence provided by the NSWEC did not appear to demonstrate the following items that were listed as indicators of efficiency in business practices as identified by Synergies in its review into DPI Water Pricing by Synergies:<sup>49</sup>

- ▶ Cost benefit analysis of proposed expenditure
- ▶ Targeted KPIs that measure outputs against defined service levels
- ▶ Stress testing

<sup>47</sup> Synergies Economic Consulting, DPI Water Expenditure Review - Final Report provided for IPART, January 2016. Available online at [https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-legislative-requirements-water-bulk-water-water-administration-ministerial-corporation-nsw-office-of-water-pricing-review-commencing-1-july-2016/consultants\\_report\\_-\\_synergies\\_-\\_dpi\\_water\\_expenditure\\_review.pdf](https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-legislative-requirements-water-bulk-water-water-administration-ministerial-corporation-nsw-office-of-water-pricing-review-commencing-1-july-2016/consultants_report_-_synergies_-_dpi_water_expenditure_review.pdf)

<sup>48</sup> Ibid, page 116

<sup>49</sup> Ibid, page 7.

- ▶ Adequate justification for service levels.

More broadly, Synergies observed that:

- ▶ In reviewing DPI for the 2016 WAMC price determination, Synergies found systemic concerns with its efficiency and cost forecasts
- ▶ DPI had exhibited the traits of a 'first time' regulated business, and used this finding to apply an efficiency factor to those cost items that had not specifically examine
- ▶ For 'immature' regulated businesses, first time regulatory reviews often identify significant efficiency adjustments. For example:
  - ▶ IPART's 2001 review of the Department of Land and Water Conservation, which determined a 9.35% reduction to operating costs;
  - ▶ IPART's 1999 review of AGL Gas Networks, which found a cumulative saving of 10.43% in operating costs; and
  - ▶ the 2012 Queensland Competition Authority's review of SunWater, which applied annual savings of between 5.22% and 8.03%.

Based on this evidence, it is not unreasonable to conclude that first-time regulated businesses are typically found to propose operating expenditure that can be up to 5-10% above efficient costs.

### 5.10.2 Ongoing efficiency factors in a CPI-X regime

The adoption of an efficiency factor is standard practice for regulated businesses operating under a CPI-X regime. The efficiency factor is intended to require a frontier company to continue to improve internal processes to deliver ongoing cost efficiencies and is applied for businesses across all aspects of the efficiency frontier.

In EY's initial report:

- ▶ It was found to 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>50</sup>
- ▶ On this basis, we 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 where we did not otherwise form a view on the cost base.

Given that the bottom-up estimates for LGE 2020 indicate \$6.1m in additional costs compared to the top-down estimates, it is not unreasonable to assume that the estimated level of operating costs is further beyond an efficiency frontier. This is further supported by the fact that the NSWEC had costs for elections reviewed to determine efficiency.

On this basis, it would not be unreasonable to assume that the efficient operating costs for LGE 2020 incorporate a higher per annum efficiency reduction of 1% between LGE 2016-17 and LGE 2020<sup>51</sup> where the information provided does not demonstrate that the costs anticipated for LGE 2020 were:

- ▶ Subject to a sufficient level of stress testing, evidenced by activities such as a competitive tender
- ▶ Outside of the control of the NSWEC

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<sup>50</sup> NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

<sup>51</sup> The CPI-X adjustment uses actual June-to-June CPI figures from June 2016 to June 2018, with 2.5% CPI used for June 2019. It is noted that in late July, the ABS released actual CPI figures for June 2019 which have not been incorporated in this analysis. If applied, this can be expected to result in some modest changes in the cost items that have an efficiency factor applied.

- ▶ The result of the NSWEC being a price taker for particular resources
- ▶ Indicative of efficiency, due to operating expenditure in one area delivering value for money or generating cost savings elsewhere.

Any findings in this Report that recommend the application of an efficiency factor do not outline the specific organisational change that would deliver the cost saving. This is because there are various ways that the efficiency savings could be realised, allowing for the appropriate method to be applied in the circumstances. Methods that could be used to achieve savings in line with the recommended efficiency factor include, but are not limited to:

- ▶ Implementing or sourcing a lower unit price through a greater use of activities such as market testing and competitive tender
- ▶ Increasing productivity in project delivery to reduce the quantity of resources that are required.
- ▶ Stopping activities when they are found to be no longer necessary in the delivery of an election
- ▶ Modifying activities to ensure that each serves its own purpose and does not result in duplication in the election activities being delivered by the NSWEC.

## 5.11 Items with material changes from LGE 2012

Several election activities underwent significant cost increases between LGE 2012 and LGE 2016-17. The increases in the relevant items across the three LGEs are summarised in Table 12.

Table 12: Material cost changes in LGE 2016-17 and LGE 2012

	LGE 2012	LGE 2016-17 (\$)	LGE 2020 (\$)
Communications & Advertising	1.39m	1.76m	2.67m
Logistics	1.70m	3.59m	3.32m
Supporting Staff <sup>52</sup>	5.39m	8.34m	10.38m
IT Systems	0.22m	2.81m	1.83m

Source: EY analysis based on NSWEC data. Based on the above, and the evidence provided to date, it would not be unreasonable to apply an efficiency factor as the increase in the items between LGE 2012 and LGE 2016-17 has not been adequately justified. Therefore, it is not unreasonable to conclude that the items are operating above an efficient cost level for LGE 2020.

Based on the evidence provided with respect to these cost items, the increases in costs in LGE 2020 have not been adequately justified. The evidence also did not adequately justify the efficiency of the increases in actual cost in LGE 2016-17.

Given the proposed cost increases in LGE 2020 and LGE 2016-17 have not been adequately justified, it is not unreasonable that the costs for LGE 2020 be calculated as:

- ▶ LGE 2016-17 actual costs
- ▶ Application of a 10% efficiency factor on the basis that the NSWEC is a first-time regulated business operating above the efficient frontier for these items
- ▶ Escalated for CPI-1%, to reflect expected ongoing efficiency improvements
- ▶ Adjusted for roll growth (where relevant).

The reductions in costs for supporting staff is not intended to result in a reduction in wages paid where this would be inconsistent with the Capability Framework. The proposed efficiency factor can instead be achieved through measures such as:

<sup>52</sup> Includes OA Staffing, SOA Staffing, ROSO Wages, RO Recruitment & Wages, ROSO Support Centre, RO Office Administration Costs, Employment Support Desk, Performance Management HCMS.

- ▶ Requiring increased productivity of a higher paid workforce, thereby reducing the required number of hours for support staff
- ▶ Greater use of shared Returning Officers
- ▶ Ceasing or modifying any support staff activities to the extent that they become duplicative or no longer essential in the delivery of an election.

### 5.11.1 Logistics

The initial report redetermined logistics costs by applying LGE 2012 as a base year and applying CPI and roll growth. Bottom-up costs provided in the LGE 2020 Budget are more precise than those provided in the top-down estimates. Further, in comparison to costs for LGE 2016-17, logistics costs for some items are anticipated to fall.

While the evidence provided to date makes it difficult to confirm that the increase in costs for LGE 2016-17 was efficiency compared to LGE 2012, the NSWEC provided evidence that indicated some material increases in costs and processes since 2012. Therefore, it is evident that the use of 2012 as a base year for redetermination may no longer be appropriate.

The unjustified increase in costs in LGE 2016-17 has, in part, been addressed by some anticipated reductions in logistics items for LGE 2020. However, further adjustments are required to return to a more efficient cost level. As a result, logistics costs have been redetermined by:

- ▶ Taking LGE 2016-17 costs as the base costs
- ▶ Adjusting base costs by 10% to move logistics costs closer to the efficient frontier
- ▶ Applying an ongoing efficiency adjustment when escalating to LGE 2020.

### 5.11.2 IT systems

EY's initial report recommended changes to IT Business Systems costs by applying an efficiency factor of 5-10%. This finding was based on the information available at the time. The NSWEC has since provided new information that the growth in IT systems costs since 2012 relates to the operating expenditure required to reconfigure existing assets. Funding constraints restrict the degree to which new capital equipment can be purchased for each election.

Therefore, operating expenditure can be expected to have risen substantially due to assets ageing between LGE 2012 and LGE 2016-17. As a result, the cost for LGE 2016-17 are an appropriate starting point to determine costs. It is not unreasonable to then apply an efficiency factor of CPI-1%, as productivity gains in the FTE applied to the reconfiguration of IT systems should be an ongoing focus.

### 5.11.3 Supporting Staff

EY's initial report recommended changes to the pay rates and volumes for supporting roles, for example, Returning Officers and Office Administration Staff. Subsequently, the NSWEC has provided additional clarifications on the Capability Framework that applies to all public sector employees.

The extent to which the Capability Framework requires pay rates to be increased on the scale determined by the NSWEC is unclear. Therefore, it would be more appropriate to apply a broader efficiency adjustment that would allow the NSWEC to generate efficiencies in accordance with the Capability Framework. That is, pay rates could be left unchanged, and efficiencies could be generated through the increased productivity supporting staff.

## 6. Review of NSWEC's projected capital expenditure for LGE 2020

### 6.1 WIGM, Countback and UPV upgrades

The NSWEC intends to spend \$5.661m on capex for LGE 2020 to deliver the mandated Weighted Inclusive Gregory Method (WIGM), Countback and UPV upgrades (hereafter referred to as 'the WIGM upgrades')

#### 6.1.1 Assessment of prudence

The prudence of the proposed WIGM upgrades is justified by the following factors:

- ▶ The capex has been driven by the requirement to implement the recommendations of the Joint Standing Committee on Electoral Matters (JSCEM) on the use of preference counting in local government elections in NSW,<sup>53</sup> which were ultimately accepted by the NSW Government
- ▶ The JSCEM made 10 recommendations in total.
  1. *That the Government removes random sampling of ballots when transferring preferences when a candidate receives more than a required quota to be elected*
  2. *That the Government introduce WIGM [a new fractional transfer system] to conduct future local government elections*
  3. *That the NSWEC works with relevant stakeholders to develop a policy that makes it easier for scrutineers to examine paper ballots, electronic records and data entry records*
  4. *That the Office of Local Government ensures that councils which administer their own elections be required to adhere to any scrutineering policy developed by the NSWEC*
  5. *That an audit process be introduced to ensure that data entry of ballots is accurate in every local government election count that uses electronic counting. The JSCEM also recommends that scrutineers be allowed to observe this audit process and the results*
  6. *That the Government outlines minimum levels of data, including full preference data, which is to be released following a local government election regardless of whether the election is run by the NSW Electoral Commission, a private provider, or a council themselves*
  7. *That the source code of counting software used in local government elections, whether those elections are conducted by the NSWEC or a private provider, be subject to an external audit at least once every five years, subject to reasonable restrictions which protect the Intellectual Property of the organisations involved*
  8. *That the Government remove the provision whereby a candidate can pay for a recount in an election in which they were involved*
  9. *That the NSWEC maintain the authority to conduct a recount at the request of any candidates in the election or on their own initiative*
  10. *That the cap of four digits for a decimal fraction when calculating transfer values involved in preference counting in local government elections be removed.*
- ▶ In relation to the WIGM upgrades, the relevant recommendations are numbers 1 and 2, with the key aspects being:
  - ▶ There was previously no requirement of restrictions about how preferences were transferred when a candidate receives more than a required quote to be elected

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<sup>53</sup> Parliament of NSW, Government response regarding inquiry into preference counting in local government elections in NSW. The NSW Government accepted the Committee's recommendation in May 2018. Details are available online at <https://www.parliament.nsw.gov.au/committees/inquiries/Pages/inquiry-details.aspx?pk=2458>.

- ▶ Random sampling had previously been adopted in LGEs as it is likely the lowest cost option because it reduces the manual workload of having to distribute every ballot at a different value and instead only requires electoral staff to count a partial sample of the ballots<sup>54</sup>
- ▶ In the JSCem's inquiry, there was almost unanimous agreement from submissions and stakeholders that random sampling should be removed from the preference counting process in LGEs because it creates issues of reproducibility because a random sample that uses a different sample of votes may distribute preferences in a different way. This reduces certainty and integrity of the result and undermines public confidence in the electoral system
- ▶ The JSCem therefore recommended replacing random sampling with the requirement that all preferences to be counted when a candidate receives more than a required quote to be elected
- ▶ The JSCem did not recommend that the manual counting of preferences be removed nor that computerised counting be necessarily introduced. However, manual counting is likely to be cost-effective when using random sampling, the use of computer technology is a more cost-effective option if the NSWEC is required to count all preferences
- ▶ As a result, some investment was required to upgrade the NSWEC's software to facilitate the counting of all preferences.

In summary, the scope of the WIGM upgrades appear to be prudent given:

- ▶ It will enable an activity that meets new standards of service as a result of a new legislative or regulatory instrument, given the NSW Government accepted (or accepted in principle) all recommendations made by the Committee
- ▶ It is likely to be more cost effective and reasonable approach to achieve this new standard of service compared to manual counting of preferences
- ▶ It will, in principle, also likely deliver benefits elsewhere through reduced costs outside the election period because it will assist the NSWEC in using the countback method to fill casual vacancies in accordance with new legislative requirements.<sup>55</sup>

In other words, sufficient evidence has been provided to demonstrate that the decision to invest in the WIGM upgrades was necessary to deliver the outcomes required of the JSCem's recommendations in the conduct of LGE 2020.

### 6.1.2 Assessment of efficiency

We understand that there was not sufficient time for the NSWEC to conduct any market testing to assess whether the price for implementing the WIGM upgrades was competitive.

Based on the evidence provided, there are some concerns about whether the \$5.661m is a reasonable level of capex because:

- ▶ It was not adequately demonstrated that the lack of sufficient time was unavoidable. e.g. EY was not provided with any internal decision document explaining the decision not to go to competitive tender. While the NSWEC is not obliged to go to competitive tender, it would be prudent to consider this option unless there were strong reasons not to do so. Moreover, the reason why the NSWEC decided not to utilise this option was due to inadequate time, not because it made the assessment that a competitive tender would not deliver value in this instance.
- ▶ Even in the absence of market testing, there did not appear to be any form of assessment of the efficiency or 'stress testing' of the \$5.661m to demonstrate that this is a reasonable

<sup>54</sup> JSCem, Report - preference counting in local government elections in NSW, November 2017.

<sup>55</sup> *Local Government Act 1993* (NSW) s 291A.



approximation of the efficient expenditure required (e.g. evidence of any savings or efficiency obtained from the preferred provider)

- ▶ In addition, the NSWEC has not provided any evidence that demonstrates any efficiencies that may result from savings in operating expenditure:
  - ▶ Rather, the NSWEC's Consolidated Financial Model for LGE 2020 indicates a total opex spend of \$1.198m to implement the \$5.661m in capex over the forward estimates to 2022/23
  - ▶ The NSWEC's financial appraisal does not indicate any benefits in terms of efficiency improvements after the four year forward estimates
  - ▶ Several benefit calculations were outlined in the NSWEC's consolidated financial model, however the Commission conceded that these were not tangible to the NSWEC or Local Councils.

It is not clear therefore that the proposed capex spend represents the efficient level of capex that a prudent operator would incur in the absence of any constraints. It is worth noting that:

- ▶ In the circumstances, the \$5.661m appeared to be a reasonable level of capex for the NSW Government to fund the implementation of WIGM, as evidenced by the full funding amount that the NSWEC received in the 2019-20 State Budget<sup>56</sup>
- ▶ The criteria and decision-making process used to determine capex funded by government serves a somewhat different purpose and may not necessarily represent the efficient level of capex that should be passed on to Councils (i.e. what a prudent operator acting efficiently in the absence of any constraints would incur)
- ▶ As a result, it would not be unreasonable to conclude that the \$5.661m in projected capex is above an efficient level that is appropriate for Councils to incur.

It is often challenging to determine what the efficient cost of a particular capital project might be given that this can be significantly influenced by the specific nature and timing of capital investments. However, there is evidence to suggest that:

- ▶ Efficient procurement practices such as competitive tendering for the delivery of capital projects are generally expected to provide benefits through greater value for money, which can include lower costs for a given level of service delivery<sup>57</sup>
- ▶ The scope for competitive tendering and other efficient procurement practices to deliver greater value for money can vary significantly but they can be material. For example, in 2016, Ausgrid (an electricity distribution network business in NSW), undertook a major review to compare the delivery of capital projects in-house with what the market could provide and now adopts a blended delivery model which has resulted in savings in capital expenditure of 25-30%<sup>58</sup>
- ▶ While the NSWEC engaged a specialist external provider to undertake the WIGM upgrades which would be reasonable to expect to deliver greater value for money compared to undertaking the upgrades in-house, it is not unreasonable to expect in the circumstances that a more competitive process may have delivered improved value for money

The question then comes down to how to estimate the efficiencies through greater value for money that the NSWEC could potentially achieve by adopting a competitive market tender process compared to a sole sourced quote from a single provider.

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<sup>56</sup> NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

<sup>57</sup> For example, refer to National Commission of Audit, Towards Responsible Government: The Report of the National Commission of Audit, February 2014, Appendix Volume 2

<sup>58</sup> Ausgrid, Regulatory Proposal 1 July 2019 to 30 June 2024, page 86

One possible approach could be to infer the expected efficiencies through greater value for money based on the average cost of undertaking a competitive tendering process.

- ▶ Many organisations use competitive tendering and it is often recognised as good practice when procuring capital assets and other goods and services
- ▶ Information on expected value for money or net cost savings from competitive tendering is difficult to obtain and can vary between sector and market, but the typical costs of running a competitive tender process are not insignificant, and can amount to up to 10% of total project costs in some instances<sup>59</sup>
- ▶ This implies that the benefit of competitive tendering should be at least a 10% cost saving to cover the costs of running the tender process
- ▶ Cost savings would then be expected to exceed the costs of running the tender process, otherwise competitive tendering would not be in such common use by organisations.

In other words, competitive tenders are only likely to be of value if they can deliver greater efficiencies and value for money relative to the alternative of at least this amount and most likely considerably in excess of this, given the risks involved.

It would therefore not be unreasonable to expect that the appropriate efficient level of capex for WIGM would be 5-10% lower in the WIGM business case for a prudent operator acting efficiently in the absence of any constraints.

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<sup>59</sup> Industry Commission, *Competitive Tendering and Contracting by Public Sector Agencies - Overview*, 1996, Page 567

## Appendix A Cost reconciliation

Table 13: Reconciliation of NSWEC operating costs for LGE 2020 activities

Aggregated Project	Election Activity	LGE 2016-17 Base Cost	LGE 2020 Top-Down Estimate	LGE 2020 Bottom-Up Estimate
AP01: Election Support Services	9021 - ROSO Wages	483,821	532,203	616,194
	9022 - ROSO Support Centre	48,152	52,967	36,375
	9023 - SOA Staffing	0	0	2,888,062
	9175 - Zoho	0	0	2,500
	9201 - Performance Management - HCMS	0	0	2,835
	9240 - Employment Support Desk	101,934	121,098	163,422
	9241 - PP Staffing	6,034,492	10,554,777	9,778,285
	9242 - OA Staffing	5,167,073	7,504,682	3,513,969
	9243 - RO Office Security	349,427	934,370	490,244
	9244 - RO Recruitment & Wages	2,441,885	3,786,074	3,040,733
	9245 - RO Postage	80,457	176,502	127,500
	9246 - RO Utilities	89,687	186,656	420,580
	9247 - RO Office Administration Costs	92,842	102,127	121,998
	9249 - Project 4 Resources	28,008	30,809	290,537
	9701 - AP1 - Portfolio On-Costs	0	0	192,000
	9061 - Polling Places	841,140	1,593,274	1,511,829
	9062 - RO Offices	1,559,194	1,715,114	1,715,114
	9063 - Additional Pre-poll Locations	245,264	291,374	291,374
	9064 - Declared Institutions	0	0	0
	9066 - Counting Centres	171,359	463,495	823,223
	9067 - Rent - Sydney Town Hall	116,904	128,594	156,800
	9068 - Centralised Office Space	0	0	308,196
	9069 - Project 6 Resources	221,331	243,465	156,555
9092 - Development & Delivery of Training	205,514	226,066	404,398	
9093 - SOP's & Forms - Design	119,168	131,085	64,000	

Aggregated Project	Election Activity	LGE 2016-17 Base Cost	LGE 2020 Top-Down Estimate	LGE 2020 Bottom-Up Estimate
	9094 - SOP's & Forms - Printing	430,824	473,907	521,676
	9099 - Project 9 Resources	57,601	63,361	127,180
	9301 - Logistics Support - RO's	2,016,557	2,218,213	2,201,727
	9302 - Logistics Support - Count Centres	21,572	25,627	23,397
	9303 - Logistics Support - LCCC	268,254	318,686	232,489
	9304 - Logistics Support - Call Centre	48,893	58,085	35,712
	9305 - Logistics Support - Sydney Town Hall	17,933	19,726	24,665
	9306 - Logistics Systems, Admin & Process Support	939,906	1,033,897	497,233
	9309 - Project 10 Resources	275,508	303,059	304,385
	9141 - Ballot Paper Production, Allocation & Distribution	1,303,660	1,548,748	1,947,746
	9143 - Braille Ballot Papers	14,884	16,372	28,320
	9144 - Project 14 Event Readiness	0	0	8,260
	9149 - Project 14 Resources	7,960	8,756	3,300
	9651 - AP1 - Project Management	0	0	384,300
	AP02: Customer Service	9211 - LG Boundaries - LG Areas	121,476	133,623
9212 - LG Boundaries - LG Wards		50,564	55,621	12,873
9213 - Roll Products - Printed Rolls		276,116	328,025	239,592
9214 - Roll Products - Other		223,159	265,113	418,967
9219 - Project 1 Resources		110,764	121,840	137,063
9029 - Project 2 Resources		1,207	1,327	278,318
9131 - Elector Enquiry Centre		0	0	328,000
9132 - Call Centre Personnel		379,904	1,639,326	666,999
9139 - Project 13 Resources		197,033	216,736	977,788
9702 - AP2 - Portfolio On-Costs		0	0	192,000
AP03: Candidates & Parties	9151 - Nominations	96,341	105,975	2,000
	9152 - Candidate Seminars/ Webinar	1,408	1,549	3,500
	9153 - Candidate Enquiry Centre	43,713	48,084	112,000
	9156 - Project 15 Event Readiness	14,504	15,954	41,007

Aggregated Project	Election Activity	LGE 2016-17 Base Cost	LGE 2020 Top-Down Estimate	LGE 2020 Bottom-Up Estimate
	9159 - Project 15 Resources	134,248	147,673	761,511
	9173 - IT Systems	0	0	87,000
	9175 - Zoho	776	853	1,500
	9653 - AP3 - Project Management	0	0	281,667
	9703 - AP3 - Portfolio On-Costs	0	0	192,000
<b>AP04: Counting, Results &amp; Declaration Votes</b>	9089 - Project 8 Resources	263,231	289,555	114,628
	9658 - AP8 - Project Management	0	0	260,000
	9704 - AP4 - Portfolio On-Costs	0	0	192,000
	9066 - Counting Centres	1,052,737	1,250,661	1,751,665
<b>AP05: Attendance &amp; Non-Attendance Voting</b>	9075 - Project 7 Event Readiness	0	0	6,202
	9079 - Project 7 Resources	0	0	362,741
	9705 - AP5 - Portfolio On-Costs	0	0	192,000
	9191 - CPVC - PV Application	173,154	263,322	342,334
	9192 - CPVC - PV Fulfilment	611,869	958,005	1,069,033
	9194 - Project 26 Event Readiness - PVote	1,474	1,622	6,202
	9269 - Project 26 Resources	60	66	60,917
	9655 - AP5 - Project Management	0	0	137,150
<b>AP06: Technology</b>	9121 - RO Equipment	612,794	674,073	1,767,000
	9129 - Project 12 Resources	112,088	123,297	732,600
	9706 - AP6 - Portfolio On-Costs	0	0	192,000
	9173 - IT Systems	1,825,944	2,008,538	2,805,877
	9174 - PRCC Certification	47,000	51,700	60,000
	9184 - Core Infrastructure	201,518	221,670	850,000
	9189 - Project 18 Resources	101,492	111,641	454,250
<b>AP07: Communications</b>	9032 - Licensing costs	0	0	20,000
	9248 - Post Election Surveys	0	0	200,000
	9311 - Targeted Audiences	19,795	21,775	235,000

Aggregated Project	Election Activity	LGE 2016-17 Base Cost	LGE 2020 Top-Down Estimate	LGE 2020 Bottom-Up Estimate
	9313 - Digital Transformation	182,120	200,332	231,397
	9315 - Campaign - Media	1,269,000	1,395,900	1,687,500
	9316 - Campaign - Creative	216,772	238,450	300,000
	9319 - Project 11 Resources	77,205	84,925	738,699
	9707 - AP7 - Portfolio On-Costs	0	0	192,000
AP08: Event Readiness	9032 - Licensing costs	0	0	27,000
	9169 - Project 16 Resources	0	0	1,080,214
	9708 - AP8 - Portfolio On-Costs	0	0	192,000
	9162 - BCP	0	0	151,071
	9164 - Security Risk Assessment	0	0	100,714
	9169 - Project 16 Resources	286,614	315,276	345,000
AP09: Event Financial Management	9051 - Budgets	183,312	201,643	261,250
	9052 - Payroll	293,312	348,454	495,614
	9053 - Payables	182,278	200,506	218,842
	9055 - Procurement	111,499	122,649	202,400
	9056 - Resource Time Capture System	122,236	134,460	156,737
	9659 - AP9 - Project Management	0	0	137,150
	9709 - AP9 - Portfolio On-Costs	0	0	192,000
AP10: Data Management	9039 - Project 3 Resources	63,243	289,567	136,944
AP20: Overtime	9200 - Overtime	865,009	1,020,711	800,000
AP99: Election Programme	9032 - Licensing costs	0	0	41,250
	9992 - PMO	1,887,954	2,076,749	858,650
Election Management Fee - \$0.70 per elector	EMF	3,297,158	3,560,931	3,560,931
Sydney Town Hall (District 254)	9190 - Sydney Town Hall - Operations	196,239	215,863	215,863
Other items <sup>a</sup>		1,641,085	2,209,492	N/A
<b>Grand Total</b>		<b>41,350,609</b>	<b>56,536,701</b>	<b>62,352,327</b>

Source: EY analysis of NSWEC Data. a. Note that other items for LGE 2016-17 and LGE 2020 top-down costs include election activities that have been discontinued and were not found in the LGE 2020 bottom-up cost categories.

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## D Weighted average cost of capital

We use a building block approach to determine the 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 Report**

	Step 1		Step 2 - Final WACC range		
	Current market data	Long term averages	Lower	Midpoint	Upper
Nominal risk free rate	2.10%	3.20%			
Inflation	2.30%	2.30%			
Implied Debt Margin	2.30%	2.70%			
Market Risk premium	8.8%	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)	6.1%	5.9%			
Cost of equity (real-post tax)	3.7%	3.5%			
Cost of debt (nominal pre-tax)	4.4%	5.9%			
Cost of debt (real pre-tax)	2.1%	3.5%			
Nominal Vanilla (post-tax nominal) WACC	5.3%	5.9%	5.3%	5.6%	5.9%
<b>Post-tax real WACC</b>	<b>2.9%</b>	<b>3.5%</b>	<b>2.9%</b>	<b>3.2%</b>	<b>3.5%</b>
Pre-tax nominal WACC	6.3%	6.8%	6.3%	6.6%	6.8%
pre-tax real WACC point estimate	3.9%	4.4%	3.9%	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 July 2019, which is the last available whole month.<sup>236</sup> For earlier years in the trailing average calculation of the cost of debt, we sampled to the end of July in each year.

### **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.

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<sup>236</sup> For the Draft Report, we sampled market observations to the end of May 2019.

## D.2 Minimal change since Draft Report

Five submissions on the Draft Report commented on the WACC. City of Canada Bay Council supported our WACC estimate and the inputs.<sup>237</sup> The NSWEC supported it in principle.<sup>238</sup> Cessnock City Council and Shoalhaven City Council challenged the applicability of the WACC framework to election costs, but did not specifically comment on the WACC value or the detail of the WACC calculation.<sup>239</sup>

Randwick City Council did not support the WACC value, arguing that the government to government nature of the service created a risk-free environment.<sup>240</sup> On this issue we note that our estimation of the WACC for the Draft Report incorporated the lowest observed equity beta in equity markets in order to reflect the low-risk nature of the service. We consider that a beta lower than that would not reflect the observed realities of equity markets.

Therefore, we have made no changes to the WACC inputs, apart from updating the sampling dates from end of May 2019 to end of July 2019.

## D.3 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, this also remains 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.

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<sup>237</sup> City of Canada Bay Council submission to IPART Draft Report, July 2019, p 3.

<sup>238</sup> NSWEC submission to IPART Draft Report, July 2019, p 29.

<sup>239</sup> Cessnock City Council submission to IPART Draft Report, July 2019, pp 4-5; Shoalhaven City Council submission to IPART Draft Report, July 2019, p 2.

<sup>240</sup> Randwick City Council submission to IPART Draft Report, July 2019, p 2.

## Lowest observed betas

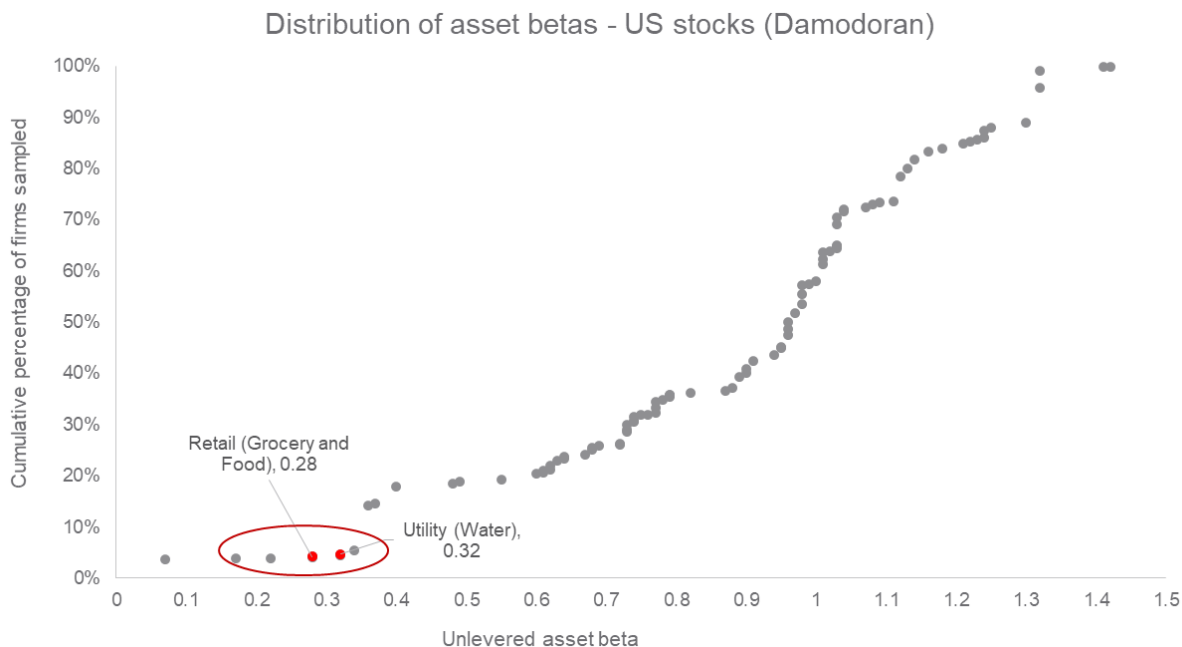
In order to make an empirical assessment of the minimum return an equity investor would require for a very low-risk investment, we considered the range of asset betas observed across the universe of listed firms in the United States. We chose the United States because it is a large, diversified economy 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>241</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 structures. For the remaining seven industries,<sup>242</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.

<sup>241</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).

<sup>242</sup> These seven industries are: Utility (general), Rubber & Tires, Retail (Grocery and Food), Bank (Money Center), Utility (Water), Auto & Truck, Power.

## 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.

**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.

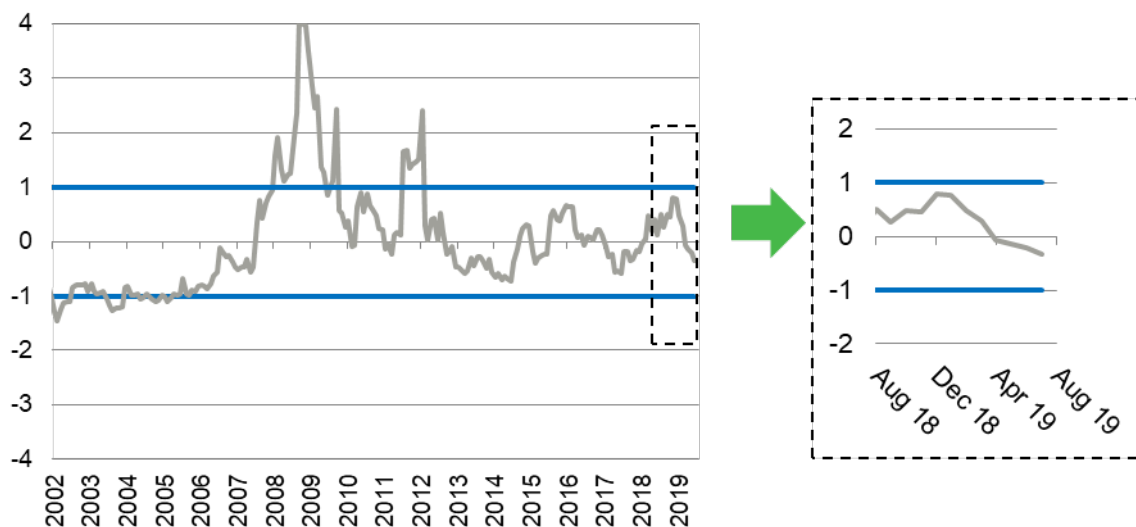
## Gearing ratio

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 July 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.4 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 Council bills – Cost-recovery (no subsidy)

**Table E.1 Comparison of council bills – excluding proposed government subsidy (nominal)**

Council	2016-17 bill	NSWEC Proposed bill, 2020 – 21	IPART – Full cost- recovery bill, 2020 – 21	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Albury	236	290	376	139	59%	85	29%
Armidale	169	212	235	66	39%	23	11%
Ballina	227	263	348	121	53%	84	32%
Balranald	19	34	31	12	59%	-3	-8%
Bathurst	236	284	336	100	43%	51	18%
Bayside	636	760	969	333	52%	209	28%
Bega Valley	212	268	301	89	42%	33	12%
Bellingen	80	106	119	39	49%	13	12%
Berrigan	55	72	78	23	41%	6	8%
Blacktown	1,306	1,486	2,032	727	56%	546	37%
Bland	44	68	65	21	48%	-4	-6%
Blayney	45	69	70	24	53%	1	1%
Blue Mountains	384	453	582	198	52%	129	29%
Bogan	25	44	37	11	45%	-8	-18%
Bourke	26	49	40	14	52%	-10	-20%
Brewarrina	17	33	27	10	58%	-6	-18%
Broken Hill	131	160	186	54	41%	26	16%
Burwood	157	195	237	80	51%	42	21%
Byron	178	216	270	93	52%	55	25%
Cabonne	93	146	145	53	57%	-1	-1%
Camden	329	396	575	246	75%	179	45%
Campbelltown	605	699	965	361	60%	266	38%
Canada Bay	435	513	643	208	48%	129	25%
Canterbury-Bankstown	1,447	1,694	2,191	744	51%	497	29%
Carrathool <sup>a</sup>	4	25	19	14	336%	-6	-25%
Central Coast	1,599	2,249	2,404	805	50%	155	7%
Central Darling	0	0	0				
Cessnock	288	348	446	158	55%	98	28%
Clarence Valley	272	322	404	132	48%	82	26%

Council	2016-17 bill	NSWEC Proposed bill, 2020 – 21	IPART – Full cost- recovery bill, 2020 – 21	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Cobar	30	44	45	15	52%	2	4%
Coffs Harbour	421	462	604	183	43%	142	31%
Coolamon <sup>a</sup>	9	25	29	20	228%	4	17%
Coonamble	27	46	41	14	50%	-5	-11%
Cootamundra- Gundagai	73	105	108	34	47%	2	2%
Cowra	87	114	126	38	44%	11	10%
Cumberland	799	938	1,246	447	56%	308	33%
Dubbo	291	356	417	126	43%	61	17%
Dungog	59	90	90	31	52%	0	0%
Edward River	61	81	87	25	42%	6	7%
Eurobodalla	245	289	360	115	47%	71	24%
Fairfield - CAE	0	0	0				
Federation	78	110	114	36	47%	4	4%
Forbes	58	74	84	26	46%	10	13%
Georges River	620	747	927	307	50%	179	24%
Gilgandra	32	50	51	19	59%	1	1%
Glen Innes Severn	55	70	79	24	44%	9	12%
Goulburn Mulwaree	161	189	231	70	44%	42	22%
Greater Hume	58	103	92	34	58%	-11	-11%
Griffith	146	181	211	64	44%	30	16%
Gunnedah	0	0	0				
Gwydir	38	60	56	19	50%	-4	-6%
Hawkesbury	348	412	528	180	52%	116	28%
Hay	24	40	37	13	56%	-2	-5%
Hilltops	143	194	191	48	34%	-3	-2%
Hornsby	685	805	1,052	367	54%	247	31%
Hunters Hill	74	101	118	44	60%	17	17%
Inner West	899	1,071	1,339	440	49%	268	25%
Inverell	96	118	135	39	41%	18	15%
Junee	33	46	50	17	53%	3	7%
Kempsey	0	0	0				
Kiama	171	207	233	62	36%	27	13%
Ku-ring-gai	558	656	829	271	49%	174	26%
Kyogle	54	76	82	28	53%	6	8%
Lachlan	35	53	52	18	51%	0	-1%



Council	2016-17 bill	NSWEC Proposed bill, 2020 – 21	IPART – Full cost-recovery bill, 2020 – 21	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Lake Macquarie	0	0	0				
Lane Cove	192	230	271	79	41%	41	18%
Leeton	54	85	89	35	64%	4	5%
Lismore	229	282	358	128	56%	75	27%
Lithgow	106	147	171	65	61%	24	16%
Liverpool	866	1,009	1,380	514	59%	371	37%
Liverpool Plains	49	76	74	25	50%	-3	-4%
Lockhart	18	38	33	15	82%	-5	-13%
Maitland	0	0	0				
Mid-Coast	528	746	762	235	45%	17	2%
Mid-Western	146	181	201	56	38%	21	11%
Moree Plains	91	127	127	35	39%	0	0%
Mosman	171	211	257	85	50%	45	21%
Murray River	87	135	120	33	38%	-15	-11%
Murrumbidgee	20	43	37	18	91%	-6	-14%
Muswellbrook	86	107	126	40	47%	19	18%
Nambucca	119	152	176	57	48%	24	16%
Narrabri	82	110	115	33	41%	5	5%
Narrandera	42	60	61	19	46%	1	2%
Narromine	38	53	59	21	55%	6	10%
Newcastle	755	1,074	1,193	439	58%	120	11%
North Sydney	371	442	564	192	52%	122	28%
Northern Beaches	1,122	1,297	1,721	599	53%	423	33%
Oberon	37	62	59	22	60%	-3	-5%
Orange	238	320	374	136	57%	54	17%
Parkes	95	118	130	35	37%	12	10%
Parramatta	873	1,013	1,310	437	50%	296	29%
Penrith	0	0	0				
Port Macquarie-Hastings	447	527	695	248	56%	168	32%
Port Stephens	402	557	598	196	49%	41	7%
Queanbeyan	324	390	462	137	42%	71	18%
Randwick	644	752	940	296	46%	188	25%
Richmond Valley	131	168	197	67	51%	29	17%
Ryde	449	532	692	243	54%	160	30%

Council	2016-17 bill	NSWEC Proposed bill, 2020 – 21	IPART – Full cost-recovery bill, 2020 – 21	Difference – IPART vs 2016-17		Difference – IPART vs NSWEC proposed	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Shellharbour	362	421	553	191	53%	132	31%
Shoalhaven	516	575	798	282	55%	223	39%
Singleton	121	148	181	61	50%	34	23%
Snowy Monaro	158	206	204	47	30%	-2	-1%
Snowy Valleys	75	107	118	42	56%	10	9%
Strathfield	175	218	254	79	45%	36	17%
Sutherland	984	1,100	1,502	518	53%	402	36%
Sydney City	986	1,114	1,451	466	47%	337	30%
Tamworth	317	385	467	150	47%	82	21%
Temora	39	54	59	20	51%	5	10%
Tenterfield	52	83	77	26	49%	-6	-7%
The Hills	732	860	1,158	426	58%	298	35%
Tweed	514	584	757	244	47%	173	30%
Upper Hunter	86	127	129	42	49%	2	1%
Upper Lachlan	53	81	79	26	50%	-2	-2%
Uralla	38	60	61	23	59%	1	1%
Wagga Wagga	319	373	475	156	49%	103	28%
Walcha	18	36	31	14	77%	-4	-12%
Walgett	36	57	53	17	47%	-4	-7%
Warren	14	33	28	13	92%	-5	-16%
Warrumbungle	72	108	99	27	38%	-9	-8%
Waverley	309	371	457	149	48%	86	23%
Weddin	27	49	44	17	62%	-5	-10%
Wentworth	43	59	61	18	43%	2	4%
Willoughby	349	426	530	181	52%	104	24%
Wingecarribee	263	313	389	126	48%	76	24%
Wollondilly	249	305	387	139	56%	82	27%
Wollongong	966	1,134	1,538	572	59%	404	36%
Woollahra	337	408	475	138	41%	66	16%
Yass Valley	95	132	147	53	56%	15	12%
<b>Average</b>	<b>257</b>	<b>315</b>	<b>388</b>	<b>139</b>	<b>51%</b>	<b>77</b>	<b>13%</b>

<sup>b</sup> Carrathool and Coolamon Shire Councils held uncontested elections in 2016 and as such the 2016-17 bills do not reflect the costs of fully contested elections. As such, the increases shown above are disproportionately large.

**Note:** Fairfield City, Gunnedah Shire, Kempsey Shire, Lake Macquarie City, Maitland City and Penrith City Councils administered their own elections and Central Darling Shire Council did not hold an election in 2016 and 2017.

**Source:** IPART Analysis.

## F Council net bills - Subsidised

**Table F.1 Comparison of net bills under IPART's proposal – including proposed government subsidy (nominal)**

	2016-17 bill	2020 Cost-reflective bill	2020 Subsidy	2020 Net bill – including subsidy	Difference – 2020 net bill vs 2016-17		Difference – Net bill vs Full cost-recovery bill	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Albury	236	376	107	268	32	13%	-107	-29%
Armidale	169	235	56	179	10	6%	-56	-24%
Ballina	227	348	90	257	30	13%	-90	-26%
Balranald	19	31	10	21	1	6%	-10	-33%
Bathurst	236	336	80	256	20	9%	-80	-24%
Bayside	636	969	283	686	50	8%	-283	-29%
Bega Valley	212	301	64	237	26	12%	-64	-21%
Bellingen	80	119	30	89	9	11%	-30	-26%
Berrigan	55	78	17	61	6	10%	-17	-22%
Blacktown	1,306	2,032	550	1,482	176	13%	-550	-27%
Bland	44	65	18	47	3	7%	-18	-28%
Blayney	45	70	21	49	4	8%	-21	-30%
Blue Mountains	384	582	159	423	39	10%	-159	-27%
Bogan	25	37	9	27	2	8%	-9	-25%
Bourke	26	40	12	28	2	7%	-12	-30%
Brewarrina	17	27	9	18	1	6%	-9	-33%
Broken Hill	131	186	44	142	10	8%	-44	-24%
Burwood	157	237	70	167	9	6%	-70	-30%
Byron	178	270	68	202	24	14%	-68	-25%
Cabonne	93	145	45	100	7	8%	-45	-31%
Camden	329	575	134	441	112	34%	-134	-23%
Campbelltown	605	965	285	680	75	12%	-285	-30%
Canada Bay	435	643	176	466	32	7%	-176	-27%
Canterbury-Bankstown	1,447	2,191	637	1,554	107	7%	-637	-29%
Carrathool <sup>a</sup>	4	19	9	9	5		-9	
Central Coast	1,599	2,404	681	1,723	123	8%	-681	-28%
Central Darling			5					
Cessnock	288	446	114	332	44	15%	-114	-25%
Clarence Valley	272	404	101	303	31	11%	-101	-25%
Cobar	30	45	13	32	2	8%	-13	-29%
Coffs Harbour	421	604	133	471	50	12%	-133	-22%
Coolamon <sup>a</sup>	9	29	16	13	4		-16	

	2016-17 bill	2020 Cost-reflective bill	2020 Subsidy	2020 Net bill – including subsidy	Difference – 2020 net bill vs 2016-17		Difference – Net bill vs Full cost-recovery bill	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Coonamble	27	41	12	29	2	7%	-12	-28%
Cootamundra-Gundagai	73	108	30	78	5	6%	-30	-28%
Cowra	87	126	31	95	7	9%	-31	-24%
Cumberland	799	1,246	395	851	52	6%	-395	-32%
Dubbo	291	417	99	318	27	9%	-99	-24%
Dungog	59	90	25	65	6	9%	-25	-28%
Edward River	61	87	22	65	4	6%	-22	-25%
Eurobodalla	245	360	84	276	31	13%	-84	-23%
Fairfield			362					
Federation	78	114	31	84	6	7%	-31	-27%
Forbes	58	84	22	62	4	7%	-22	-26%
Georges River	620	927	269	657	38	6%	-269	-29%
Gilgandra	32	51	17	34	2	7%	-17	-33%
Glen Innes Severn	55	79	21	58	3	6%	-21	-26%
Goulburn Mulwaree	161	231	51	181	20	12%	-51	-22%
Greater Hume	58	92	27	65	7	12%	-27	-29%
Griffith	146	211	51	160	13	9%	-51	-24%
Gunnedah			30					
Gwydir	38	56	16	41	3	8%	-16	-28%
Hawkesbury	348	528	143	384	36	10%	-143	-27%
Hay	24	37	12	26	2	7%	-12	-31%
Hilltops	143	191	38	154	10	7%	-38	-20%
Hornsby	685	1,052	315	736	52	8%	-315	-30%
Hunters Hill	74	118	39	80	6	8%	-39	-33%
Inner West	899	1,339	363	975	76	8%	-363	-27%
Inverell	96	135	31	105	8	9%	-31	-23%
Junee	33	50	14	35	3	9%	-14	-29%
Kempsey			62					
Kiama	171	233	42	191	19	11%	-42	-18%
Ku-ring-gai	558	829	231	599	40	7%	-231	-28%
Kyogle	54	82	23	60	6	11%	-23	-27%
Lachlan	35	52	16	36	2	5%	-16	-31%
Lake Macquarie			425					
Lane Cove	192	271	61	210	18	9%	-61	-23%
Leeton	54	89	30	59	5	9%	-30	-33%
Lismore	229	358	104	254	25	11%	-104	-29%
Lithgow	106	171	54	117	11	10%	-54	-32%

	2016-17 bill	2020 Cost-reflective bill	2020 Subsidy	2020 Net bill – including subsidy	Difference – 2020 net bill vs 2016-17		Difference – Net bill vs Full cost-recovery bill	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Liverpool	866	1,380	393	987	121	14%	-393	-28%
Liverpool Plains	49	74	21	53	4	7%	-21	-29%
Lockhart	18	33	13	20	2	9%	-13	-40%
Maitland			164					
Mid-Coast	528	762	188	574	47	9%	-188	-25%
Mid-Western	146	201	35	167	21	14%	-35	-17%
Moree Plains	91	127	28	99	8	8%	-28	-22%
Mosman	171	257	72	184	13	7%	-72	-28%
Murray River	87	120	25	95	8	9%	-25	-21%
Murrumbidgee	20	37	17	20	1	5%	-17	-45%
Muswellbrook	86	126	31	95	10	11%	-31	-24%
Nambucca	119	176	41	134	16	13%	-41	-24%
Narrabri	82	115	26	89	7	9%	-26	-23%
Narrandera	42	61	15	45	4	9%	-15	-25%
Narromine	38	59	18	41	3	7%	-18	-31%
Newcastle	755	1,193	372	821	67	9%	-372	-31%
North Sydney	371	564	162	402	31	8%	-162	-29%
Northern Beaches	1,122	1,721	511	1,210	88	8%	-511	-30%
Oberon	37	59	20	40	3	7%	-20	-33%
Orange	238	374	115	258	20	9%	-115	-31%
Parkes	95	130	27	103	8	8%	-27	-21%
Parramatta	873	1,310	362	948	75	9%	-362	-28%
Penrith			386					
Port Macquarie-Hastings	447	695	183	511	65	14%	-183	-26%
Port Stephens	402	598	155	443	40	10%	-155	-26%
Queanbeyan	324	462	102	360	35	11%	-102	-22%
Randwick	644	940	254	686	42	6%	-254	-27%
Richmond Valley	131	197	52	145	14	11%	-52	-26%
Ryde	449	692	209	483	34	8%	-209	-30%
Shellharbour	362	553	158	395	33	9%	-158	-29%
Shoalhaven	516	798	218	580	64	12%	-218	-27%
Singleton	121	181	46	136	15	13%	-46	-25%
Snowy Monaro	158	204	33	171	13	8%	-33	-16%
Snowy Valleys	75	118	37	81	5	7%	-37	-31%
Strathfield	175	254	65	189	14	8%	-65	-25%
Sutherland	984	1,502	431	1,071	87	9%	-431	-29%
Sydney City	986	1,451	314	1,138	152	15%	-314	-22%
Tamworth	317	467	115	352	35	11%	-115	-25%

	2016-17 bill	2020 Cost-reflective bill	2020 Subsidy	2020 Net bill – including subsidy	Difference – 2020 net bill vs 2016-17		Difference – Net bill vs Full cost-recovery bill	
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	%	(\$'000)	%
Temora	39	59	16	43	4	10%	-16	-27%
Tenterfield	52	77	21	57	5	9%	-21	-27%
The Hills	732	1,158	349	808	76	10%	-349	-30%
Tweed	514	757	181	577	63	12%	-181	-24%
Upper Hunter	86	129	34	95	8	9%	-34	-26%
Upper Lachlan	53	79	20	59	6	12%	-20	-25%
Uralla	38	61	20	41	3	8%	-20	-32%
Wagga Wagga	319	475	118	358	39	12%	-118	-25%
Walcha	18	31	12	19	2	9%	-12	-39%
Walgett	36	53	16	37	1	3%	-16	-30%
Warren	14	28	12	15	1	6%	-12	-45%
Warrumbungle	72	99	23	77	5	7%	-23	-23%
Waverley	309	457	130	328	19	6%	-130	-28%
Weddin	27	44	15	29	2	8%	-15	-33%
Wentworth	43	61	14	47	4	10%	-14	-23%
Willoughby	349	530	158	373	23	7%	-158	-30%
Wingecarribee	263	389	95	294	31	12%	-95	-24%
Wollondilly	249	387	103	284	35	14%	-103	-27%
Wollongong	966	1,538	492	1,046	79	8%	-492	-32%
Woollahra	337	475	115	360	23	7%	-115	-24%
Yass Valley	95	147	40	108	13	14%	-40	-27%
<b>Average</b>	<b>257</b>	<b>388</b>	<b>106</b>	<b>282</b>	<b>27</b>	<b>9%</b>	<b>-112</b>	<b>-27%</b>

<sup>a</sup> Carrathool and Coolamon Shire Councils held uncontested elections in 2016 and as such the 2016-17 bills do not reflect the costs of fully contested elections. As such, the increases shown above are disproportionately large. Subsidies shown for these councils were calculated by using the average subsidy per elector for the other 25 Small-Rural councils, multiplied by the number of electors in Carrathool and Coolamon, respectively.

**Note:** Fairfield, Gunnedah, Kempsey, Lake Macquarie, Maitland and Penrith Councils ran their own elections and Central Darling Shire Council did not hold an election in 2016 and 2017. Subsidies shown for these councils were calculated by using the average subsidy per elector for similar councils, multiplied by the number of electors in each of these seven councils.

**Source:** IPART Analysis.