IPART Review of Local Government Election Costs

Randwick City is located in the eastern suburbs of the Sydney metropolitan area bounded by Centennial Park in the north, the Pacific Ocean in the east, and to the south by Botany Bay. It has an area of 37 square kilometres and contains 13 different suburbs with housing density highest in Randwick, Coogee and Kingsford.

Randwick City Council welcomes the opportunity to provide a submission to the Independent Pricing and Regulatory Tribunal (IPART) on the draft IPART review of local government election costs.

In summary, Randwick City Council does not support the significant and unreasonable change in pricing methodology proposed by IPART for the 2020 election. Council is of the view that the basis for such a pricing model is flawed, given the absence of any market for services.

We do acknowledge the desire to create a competitive market for services. However, until such time as we can be confident of success in this area, no change to pricing should be considered. Council has already budgeted for and planned for the costs of the 2020 election. Any increase over and above CPI cannot be absorbed without impacting service delivery.

Before yet another cost shift is inflicted upon Local Government, with a primary focus on ambitious economics, some consideration should be given to the social impact of a continual increase in burden being shifted from one level of government to another.

Other State Governments subsidise the LG elections for the benefit of the community. The cost to councils in those States is lower. The review provides no analysis on the benefits of such an approach and no further discussion points are included in the draft.

Randwick City Council would strongly encourage the NSW Government to consider their contribution to local communities and the impact on local services prior to developing new methodologies for pricing that result in the NSW State Government generating financial gains at the expense of valued Local Government services.

A response to individual recommendations is included below.

Draft Recommendations

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

Response

- Randwick City Council does not agree with the notional revenue requirement provided for the purposes of funding the 2020 election and beyond.

- The increase in revenue requirement represents a cost shift to Local Government and one that is proposed with little notice or consultation.

- While Council appreciates IPART's recommended notional revenue equivalent includes efficiencies not considered by the NSWEC, we do not agree with the inclusion of additional expenses not previously costed.

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

Response

- Council does not agree with the inclusion of an increase in corporate overheads being allocated to Local Government. The Local Government Election share has increased 67.9% from $3.56 million to $5.98 million – once again, this is a blatant cost shifting exercise;

- Some efficiency has been identified in NSWEC overheads, but it is confirmed in the draft that these have not been fully realised. This is due to the argument made in the report that the adoption of a market model would assist in driving efficiencies by the NSWEC. Therefore, in the meantime, all councils must pay for the inefficiency;

- Why were the following not included by NSWEC in their original submission to IPART? Is this because these costs have not been part of the cost recovery methodology in previous years?

    o NSWEC's executive salaries and Joint Roll Agreement (electoral roll maintenance) costs;
    o an allowance for capital costs, including allowances for depreciation and returns on assets and working capital;
    o a regulatory tax allowance; and

- The PWC allocation methodology (*reviewed EMF in 2016 P3, the methodology which is not included in the draft*) of head office costs to councils was set at 27.7%. The flawed assumption is because there is an absence of better information, IPART have also allocated 27.7% of its executive salaries and common capital expenses to councils, indicating a rushed approach without proper data gathering and robust methodological analysis of the various datasets.

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

Response

- Randwick City Council does not agree with being charged for return on assets.

4. **Adopt a real post-tax WACC of 3.2% for the purposes of calculating the allowance for a return on assets, which included:**

    - **A gearing ratio of 45% and an equity beta of 0.45**
    - **Market observations (cost of debt and market risk premium), based on the February 2019 bi-annual market update.**

Response

- Randwick City Council does not support the post-tax WACC of 3.2%. The methodology used for the purposes of calculating the WACC is a methodology used in the corporate environment. The service provided by the NSWEC is provided from government to government, with a mandated service that results in a risk-free environment. The cost of debt and inclusion of taxation assumptions is not reflective of the current environment.

- Randwick City Council does understand the importance of reporting costs on an equivalent basis to those that would be experienced should the NSWEC operate in a competitive market. Until such market has been developed, pricing should be based on the current environment.

5. **Calculate regulatory depreciation (or return of assets) using a straight line depreciation method for each group of assets, applying the asset lives in Table 3.6.**

Response

Noted

6. **Set an allowance for regulatory depreciation for the 2020 local government elections at $2.76 million as shown in Table 3.1.**

Response

- There is no evidence for the assumption that a new election systems upgrade would cost $5.1 million, with no mention as to how long the project would take to complete (1 or multiple years). Why are NSWEC not exploring the option of both 'Hardware as a Service' (HaaS) and Software as a Service (SaaS), to remove any capital expenditure and introduce efficiency through this approach? and

- Finally, wouldn't this system also be used for other elections, so shouldn't the 27.7% PWC methodology mentioned in recommendation 2 above be used in this calculation?

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

Response

- Why is there a tax allowance when the NSWEC has no tax liability? The assumption that there is an operating competitive market is a flawed one, and until there is evidence there is one, this number should be removed; and

- The Australian Election Company provide election services and the market share decreased from 9% to 5% due to the non-competitive market.

- Any recommended reporting of taxation equivalent payments should be for reporting purposes only to ensure transparency for competition purposes only until such time as there is a competitive environment. The allowance should not be included in charges to Local Government.

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

Response

- Randwick City Council does not agree with an allowance for return of working capital being included within the pricing structure for local government elections. Local Government never receives any working capital allowance for carrying out the NSW Government job. Council also questions the level of the allowance presented and therefore the methodology for the calculation of the allowance.

9. **NSWEC's efficient costs of managing local government elections should be allocated using the impactor-pays funding hierarchy. That is, where possible, costs should be allocated to the parties that create the need for those costs. Where it is impractical to allocate costs in this way, they should be funded by the NSW Government (i.e. taxpayers).**

10. **Applying the impactor-pays funding hierarchy means the NSWEC should allocate to:**

    - **Client councils (i.e. those councils which have engaged the NSWEC to manage their elections), the efficient cost of services it provides exclusively to those councils.**
    - **Client and non-client councils, the efficient cost of enrolment services it provides to both types of council.**
    - **NSW Government, the efficient cost of services it provides to both client and non-client councils, but it is unable to recover from non-client councils (i.e. maintaining the electoral roll, state-wide advertising, community education materials and funding disclosure).**

11. **The indirect costs the NSWEC allocates to client councils (and, in relation to enrolment services, client and non-client councils) should be shared amongst these councils on a per-**

elector basis (i.e. the amount a council pays depends on the number of electors in its area), with the following exceptions:

- **Shared Returning Officer costs should be allocated by the number of electors for each client council in the Shared Returning Officer grouping.**

- **Sydney Town Hall costs should be allocated by the number of ballots for each of the client councils using the Sydney Town Hall for as a polling place (both pre-polling and on election day).**
- **Counting and results costs that are venue-specific (e.g. 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 (e.g. project management costs) should be allocated by the number of ballots for each client council.**

- **Local government boundaries costs (part of enrolment services) should be allocated evenly amongst all councils (i.e. 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.**

Response

- The fact that NSW Government is proposing to pass on these significant additional charges to Councils by increasing the cost of NSWEC service at very short notice and without proper consultation, rather than identifying savings in the state government's budget, will mean a potential reduction in Council services;

- This is another example of last-minute cost shifting without consultation and agreement.

- The NSW Government and IPART expect that Council will consult with its community when making changes to rates and charges. Included in this consultation is the conversation about service levels. Randwick City Council has not been invited to any consultation with the NSWEC regarding the proposed services and pricing prior to determining a draft position; and

- Due to the distinct lack of any guidance or information from either OLG or NSWEC, as to the true costs of the 2020 elections, Randwick City Council (RCC) have been accruing based on the 2017 cost and spreading the impact over the four-year term.

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

- **Legislative reform to require the mandatory unbundling, component pricing and offering of the NSWEC's individual local government election services. In advance of the council elections in 2024, the NSWEC should have unbundled its costs and services, and provide councils with binding quotes for each individual election service, so that councils can decide which election services the NSWEC will provide them with.**

- **The establishment of independent regulatory oversight of:**
  - **The NSWEC's prices for unbundled local government election services, until genuine choice and competition emerges.**
  - **The performance of all service providers, to ensure that all providers provide the mandatory, minimum levels of service (i.e. that they comply with the non-discretionary standards of conducting an election).**

- **Legislative change to reduce the period before an election by which a council has to resolve to engage the NSWEC from 18 months to 9 months.**

- **Provision of assistance to councils to further develop their election management capabilities through a training program delivered by the Office of Local Government.**

- **Legislative change, if required, to ensure that a council's General Manager becomes responsible for producing a valid election result if and when the council ceases to engage the NSWEC for all election services.**

Response

- We concur with IPART's recommendation to open-up the market, increasing competition and therefore efficiencies, but it has to recognise that the market is a niche market and therefore does not lend itself to competition. Identified barriers to participate in the market, such as engaging the NSWEC transfers the risk of producing a valid election result from the council's General Manager to the Electoral Commissioner, leads it to being logical for councils to choose NSWEC over other providers. This has already been the experience in our industry, it is difficult to see how this will change;

- Any actions taken to open the market, if there is indeed a market, will take several years before the market is truly competitive and efficiencies gained. There are no foreseeable benefits to councils in the short to medium term and concessions must be made for this;

- There is no research or empirical evidence to indicate, within the draft, that there is indeed a market for providing an election service within NSW and so therefore there may not be any real opportunity to minimise the cost impact via an open tender process; and

- Unless there is research or empirical evidence that backs up the assumption that there is a market place, the theory used to support a reduction in cost to councils over time is flawed, therefore introducing a new model as a big bang now and this close to the 2020 election is not practical and it should not be done for the 2020 election.

Additional Responses

- Please note that Randwick City Council believes that there hasn't been a robust risk analysis conducted, in respect of the impact to the successful running of the 2020 elections by adopting a new model in late 2019;

- Other State Governments subsidise the LG elections for the benefit of the community. The cost to councils in those States is lower. The review provides no analysis on the benefits of such an approach and no further discussion points are included in the draft; and

- There has been no evidence provided on alternatives to prove that the impactor-pays principle is the best or most efficient methodology to be used in this scenario.

For Reference Only

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

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

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

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

Asset type	Existing assets[a]	New assets
Election systems upgrade (WIGM, countback and UPV)	–	8
Other assets	4	8

[a] As at 1 July 2018.

Source: IPART analysis.