

**RESPONSE TO DRAFT REPORT  
REVIEW OF LOCAL GOVERNMENT ELECTION COSTS**

The Riverina Joint Organisation welcomes the opportunity to provide feedback to IPART on its Draft Report on the Review of Local Government Election Costs. Our Member Councils are Bland, Coolamon, Cootamundra-Gundagai, Greater Hume, Junee, Lockhart and Temora, the JO also has two Associate Members, Goldenfields Water and Riverina Water County Councils.

It is our understanding that the Review was initiated by the Premier because of concerns raised by Local Government in relation to the NSWEC’s escalating costs of delivering local government elections. We note that the Premier provided IPART with an over-arching purpose to be addressed in this Review, stating:

*“the purpose of 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...”*

The methodology which was supposed to minimise the financial burden to councils has in fact resulted, in our Region, in an average increase of 69% on the cost of 2016/17 elections. At a time when IPART is applying a robust methodology to determine the annual increase in local government rates, which has resulted in a cumulative increase of 5.6% since 2016/17<sup>1</sup>, the fact that IPART has recommended a 69% increase for NSWEC services is astounding. Below is the financial impact that the proposed pricing will have on our Member Councils:

MEMBER COUNCIL	2016-17	NSWEC Proposed	IPART Recommended	Difference IPART vs 2016-17		Difference IPART vs NSWEC Proposed	
				\$	%	\$	%
Bland	\$ 44,000.00	\$ 62,000.00	\$ 72,000.00	28,000.00	64%	10,000.00	16%
Coolamon	\$ 9,000.00*	\$ 8,000.00	\$ 29,000.00	N/A*		N/A*	
Cootamundra-Gundagai	\$ 73,000.00	\$ 98,000.00	\$ 119,000.00	46,000.00	63%	21,000.00	21%
Greater Hume	\$ 58,000.00	\$ 77,000.00	\$ 97,000.00	39,000.00	67%	20,000.00	26%
Junee	\$ 33,000.00	\$ 44,000.00	\$ 55,000.00	22,000.00	67%	11,000.00	25%
Lockhart	\$ 18,000.00	\$ 24,000.00	\$ 34,000.00	16,000.00	89%	10,000.00	42%
Temora	\$ 39,000.00	\$ 52,000.00	\$ 65,000.00	26,000.00	67%	13,000.00	25%

\*No election held in 2016-17, so comparison not applied

<sup>1</sup> NSW Rate Peg: 2016/17-1.5%, 17/18-1.5%, 18/17-2.3%

We struggle to understand IPART's assertion that this is cost-reflective and efficient pricing. In addition we are very concerned that IPART has chosen to deliver the increased costs in terms of averages, rather than discuss the direct impact on councils. This Report would be enhanced if IPART took the costs it has calculated in Schedule B and then undertook a case study of the impact on a cross-section of councils. Using averaging masks outcomes, creating a false impression of the direct impact of the proposed increases on councils.

We take particular issue with the inclusion of factors in the pricing such as working capital, the opportunity cost of capital (return on assets), depreciation and notional tax. The argument appears to be that these are intended to recreate a private enterprise environment. By using these factors IPART is artificially inflating the cost of NSWEC's services to the detriment of the local government. The justification for doing this is to create a "level playing field", which is an economic construct, designed to justify price increases for statutory authorities. If the creation of the market relies on this type of cost manipulation then perhaps there is not a genuine and sustainable market for the services.

IPART's underlying assumption that "local government election services are likely to be contestable" is flawed. We believe this is a flawed assumption because it fails to address the realities of thin markets which are common to country NSW, where the LGAs cover large geographic areas and dispersed populations. It is disappointing that IPART has used this single market approach when clearly there are multiple markets at play:

1. Newcastle, Sydney and Wollongong;
2. Large Regional Cities, like Bathurst, Coffs Harbour, Wagga Wagga and Albury;
3. Regional towns; and
4. Remote Rural Communities.

While competitors are likely to find the first two markets attractive, it is highly unlikely that regional towns, which are often characterised by multiple population centres and remote rural communities, will be attractive to private providers.

One of our major concerns is that private providers will enter the market for the "low hanging fruit"; the first two markets, where there are high population densities, usually covering small geographic areas which are easier and cheaper to service. If this occurs the result would be that NSWEC's "indirect contestable services", which under IPART's methodology are allocated to client-councils on a per-electoral basis, will be left to be paid by those councils least able to afford them.

We do not agree with IPART's assessment that there is a "workable competitive market". At this [REDACTED] private company with the capacity to undertake the work, in our [REDACTED] level of choice capable of generating the necessary competitive [REDACTED] efficient service delivery. We believe what will occur is that the other competitor will look at what NSWEC is charging and charge exactly the same - because that is what the market has to pay for the service. The competitive advantage for the private provider will lie in a fixed price quote, whereas NSWEC only offers an estimate, however this is likely to be

negated by the requirement that General Managers are responsible for a valid election result where NSWEC is not providing the service.

We note that IPART has elected to apply their impactor-pays funding hierarchy to allocate the costs of NSWEC's service delivery. It appears that the impetus for adopting this approach is to create a pricing approach that supports competition. Consequently the focus appears to be on increasing the price of the service in order to make the service more attractive to NSWEC competitors. We believe that this approach is inconsistent with the Terms of Reference which required IPART to establish a robust methodology that minimised the financial burden to councils.

The Report appears to focus on the need to get more players into the market with the underlying assumption that this will improve efficiencies and reduce costs. As stated above we believe that competitors will cherry pick the best markets leaving the balance to NSWEC. The application of the impactor-pays principle will result in the indirect costs of the elections being applied across the remaining client-councils. This will increase the price to them as they are forced to bear the burden of NSWEC's indirect operational costs. The impact on councils is likely to be mostly borne by regional towns and remote rural councils as the probability is that they will remain clients of NSWEC because they will not be an attractive commercial proposition for a private provider.

It is unclear why it is "consistent with the impactor-pays principle" that councils, in aggregate, should pay a larger share of the efficient costs of providing the elections. We would argue that what should be recognised is that local government is a creature of the State. The recent forced amalgamations show that councils only exist with the grace and favour of the State. Indeed it is the State Government that decides how often councils are required to hold elections and the State can, if it chooses, suspend the need for an election by sacking councillors and appointing an administrator.

Consequently we believe that IPART's methodology should reflect the subservient nature of local government to the State and the State's responsibility in setting the timing and frequency of local government elections. The State's responsibilities should be reflected in the pricing and therefore the majority of the costs associated with the delivery of the elections should rest with the State, not directly with local government. A highly functioning democracy underpins the well-being of the State; the State should embrace the role that it has in ensuring the integrity of that democratic process.

We would argue that the provision of elections is a Community Service Obligation that the State should be meeting. We suggest an alternative to the impactor-pays methodology adopted by IPART where the per cost for the delivery of the election is determined based on a council's size, number of wards and other supporting services. The State would meet the full cost of the election for a council wanted to provide services above and beyond those that were prescribed then the council would negotiate with NSWEC for those services and pay for them on a per elector basis. The per elector cost would be the same regardless of the location of the council, ensuring that remote rural councils were not disadvantaged by their location and number of

voters. In a country where one vote, one value is enshrined, the cost of the vote should be the same regardless of where you vote.

We question the need to open the market to private providers; we do not believe that “contestability” will deliver any significant savings to our Member Councils. Indeed based on the IPART’s current proposals our Members are clearly much worse off. We believe that a decision to support NSWEC’s monopoly service provision, accompanied by a review mechanism similar to the Local Government Cost Index would provide a more cost effective approach. This approach would also negate the need for IPART to include costs like depreciation, the opportunity cost of capital invested in assets, working capital and notional tax in its pricing calculations for NSWEC because they would no longer be relevant.

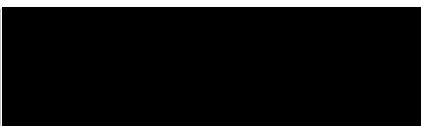
We note that IPART has identified a number of barriers to entry by private providers. We believe the biggest barrier is the requirement that the General Manager takes responsibility for delivering a valid election result where NSWEC is not used. This level of risk is unacceptable for most General Managers and their councils. IPART has suggested that the way to deal with this issue is to make the General Manager responsible for a valid election result regardless of who conducted the election. This is not an acceptable solution, in adopting this IPART is not only recommending that the NSWEC’s service provision be more expensive it is also suggesting that more risk would be attached to it.

It is disappointing that after a year of review, IPART’s answer to the issue of the cost of local government elections appears to be to charge councils more, so that private providers enter the market that are prepared to charge councils less. In addition the suggestion that NSWEC’s services not only cost more but carry more risk, because NSWEC would no longer be responsible for a valid election result is not acceptable.

We seriously doubt that there will ever be sufficient competition in the market to create competing pricing propositions. We ask that IPART consider revisiting its assumptions on the basis that there will never be a viable, competitive market for local government elections. We ask that IPART produce a robust methodology and approach based on a scenario where NSWEC is effectively a monopoly service provider and which adequately reflects the State’s role in ensuring democratic processes that deliver valid electoral outcomes.

We would welcome the opportunity to discuss the matters we have raised with you further.

Yours sincerely

A solid black rectangular box redacting the signature of Cr Rick Firman OAM.

Cr Rick Firman OAM  
Chairman  
24 June 2019