

Richmond
Valley
Council



ATTACHMENTS

Tuesday, 22 October 2019

UNDER SEPARATE COVER

Ordinary Council Meeting

Table of Contents

| | | |
|------|--|-----|
| 6.1 | Minutes Ordinary Meeting held on 17 September 2019 | |
| | Attachment 1 Ordinary Meeting Minutes 17 September 2019..... | 4 |
| 6.2 | Minutes of the Local Traffic Committee Meeting (held electronically) on 4 September 2019 | |
| | Attachment 1 Local Traffic Committee Meeting - Electronic Minutes 4 September 2019 | 18 |
| | Attachment 2 Attachment A - Redwood Lane No Trucks | 21 |
| 14.1 | Outcome of the Independent Pricing and Regulatory Tribunal (IPART) review into the cost of the 2020 NSW Government Elections | |
| | Attachment 1 IPART final report Review of Local Government Election Costs August 2019 | 22 |
| | Attachment 2 IPART Review of Local Government Election Costs Government Response 2019 | 180 |
| 15.3 | Investment Policy Update | |
| | Attachment 1 Revised Investment Policy 2019/2020 | 182 |
| 18.1 | Launch of Your Council website - Minister for Local Government | |
| | Attachment 1 Email from the Minister for Local Government providing the link to the Your Council website | 187 |

Richmond
Valley
Council



MINUTES

**Ordinary Council Meeting
17 September 2019**

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

ORDER OF BUSINESS

| | | |
|-----------|---|-----------|
| 1 | ACKNOWLEDGEMENT OF COUNTRY | 4 |
| 2 | PRAYER..... | 4 |
| 3 | PUBLIC ACCESS AND QUESTION TIME | 4 |
| 3.1 | PUBLIC ACCESS AND QUESTION TIME - NOTICE OF MOTION - TOWN ENTRY SIGNS..... | 4 |
| 4 | APOLOGIES | 5 |
| 5 | MAYORAL MINUTES..... | 5 |
| | Nil | |
| 6 | CONFIRMATION OF MINUTES | 5 |
| 6.1 | Minutes Ordinary Meeting held on 20 August 2019 | 5 |
| 7 | MATTERS ARISING OUT OF THE MINUTES | 5 |
| 8 | DECLARATION OF INTERESTS | 5 |
| 9 | PETITIONS..... | 5 |
| | Nil | |
| 10 | NOTICE OF MOTION | 6 |
| 10.1 | Notice of Motion - Town entry signs | 6 |
| 11 | MAYOR'S REPORT | 6 |
| 11.1 | Mayor Attendances 13 August - 9 September 2019 | 6 |
| 12 | DELEGATE'S REPORTS | 6 |
| 12.1 | Delegates' Report Submitted to September 2019 Ordinary Meeting..... | 6 |
| 13 | MATTERS DETERMINED WITHOUT DEBATE | 7 |
| 13.1 | Matters to be Determined Without Debate..... | 7 |
| 14 | GENERAL MANAGER'S REPORTS | 7 |
| 14.1 | Election of Deputy Mayor | 7 |
| 14.2 | Review of Submissions for Beach Permit System | 8 |
| 15 | FINANCIAL REPORTS | 9 |
| 15.1 | Financial Analysis Report - August 2019..... | 9 |
| 16 | TENDER REPORTS..... | 9 |
| 16.1 | Rehabilitation of Sewer Mains - VP155217 | 9 |
| 17 | GENERAL BUSINESS | 10 |
| 17.1 | Road Maintenance and Construction Services Review Update on Implementation Actions | 10 |
| 18 | MATTERS FOR INFORMATION | 10 |
| 18.1 | Development Applications determined under the Environmental Planning and Assessment Act for the period 1 August 2019 to 31 August 2019 | 11 |
| 18.2 | Grant Application Information Report - August 2019 | 11 |
| 19 | QUESTIONS ON NOTICE | 12 |
| 19.1 | Questions with Notice, provided at Ordinary meeting 20 August 2019 | 12 |

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

| | | |
|-----------|---|-----------|
| 20 | QUESTIONS FOR NEXT MEETING (IN WRITING)..... | 13 |
| 21 | MATTERS REFERRED TO CLOSED COUNCIL | 13 |
| 21.1 | Write off Bad Debt..... | 13 |
| 22 | RESOLUTIONS OF CLOSED COUNCIL | 14 |
| 21.1 | Write off Bad Debt..... | 14 |

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

**MINUTES OF RICHMOND VALLEY COUNCIL
ORDINARY COUNCIL MEETING
HELD AT THE COUNCIL CHAMBERS, 10 GRAHAM PLACE, CASINO
ON TUESDAY, 17 SEPTEMBER 2019 AT 5 PM**

Please note: these minutes are subject to confirmation at the next Council Meeting. Decisions recorded in the draft minutes are subject to the Council's Code of Meeting Practice in relation to rescinding decisions.

PRESENT: Cr Robert Mustow (Mayor), Cr Stephen Morrissey (Deputy Mayor), Cr Sam Cornish, Cr Robert Hayes, Cr Sandra Humphrys, Cr Jill Lyons, Cr Daniel Simpson

IN ATTENDANCE: Vaughan Macdonald (General Manager), Angela Jones (Director Infrastructure and Environment), Ryan Gaiter (Chief Financial Officer/Manager Mid-Richmond), Julie Clark (Personal Assistant to the General Manager and Mayor) and Kaela Barber (Managerial Assistant, Infrastructure and Environment)

1 ACKNOWLEDGEMENT OF COUNTRY

The Mayor provided an Acknowledgement of Country by reading the following statement on behalf of Council:

"Richmond Valley Council recognises the people of the Bundjalung Nations as Custodians and Traditional Owners of this land and we value and appreciate the continuing cultural connection to lands, their living culture and their unique role in the life of this region in the past, present and future."

2 PRAYER

The meeting opened with a prayer by the General Manager.

3 PUBLIC ACCESS AND QUESTION TIME

3.1 PUBLIC ACCESS AND QUESTION TIME - NOTICE OF MOTION - TOWN ENTRY SIGNS

The following persons addressed Council in relation to Item 10.1 – Notice of Motion – Town Entry Signs;

Ms Kirby Barker spoke on behalf of the Bundjalung People and the Evans Head Pre-School Association Inc. advocating for Council leadership towards the installation of traditional owner signage at the entry and exit points of Richmond Valley Council villages/towns. Advised children, families and educators of the Evans Head and Woodburn communities have identified there is currently no signage and requested Council work collaboratively with members of the community to create signage showing individual stories for each location.

The Mayor thanked Ms Barker for addressing Council.

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

Mr Craig Gillespie, Teacher of Evans River K-12, outlined a valuable Aboriginal program provided at the school and spoke of the importance of encouraging language and culture into the daily teaching curriculum for students. Advised of a "Cultural Suitcase" which is provided to students to assist them understand Aboriginal heritage and provide tools to learn language and confidently speak on behalf of their country, carry out acknowledgements and welcome addresses.

Mr Gillespie thanked Council for its involvement in the community and set a challenge for Council to create a "Cultural Suitcase" of its own for the entire Richmond Valley community.

The Mayor thanked Mr Gillespie for his address.

Ms Allyson Cuskelly, Director of Evans Head Preschool Association Inc. spoke about the importance of having traditional owner signage. Signage would provide a strong sense of identity, connectiveness and confidence to assist children be effective communicators.

With the implementation of signage, it would provide the community and visitors with the knowledge of the land to which they are on.

Further advised that the group would like to be involved in the project of creating signage.

The Mayor thanked Ms Cuskelly for addressing Council.

4 APOLOGIES

Nil

5 MAYORAL MINUTES

Nil

6 CONFIRMATION OF MINUTES**6.1 MINUTES ORDINARY MEETING HELD ON 20 AUGUST 2019****RESOLUTION 170919/1**

Moved: Cr Robert Hayes

Seconded: Cr Jill Lyons

That Council confirms the Minutes of the Ordinary meeting held on 20 August 2019

CARRIED

7 MATTERS ARISING OUT OF THE MINUTES

Nil.

8 DECLARATION OF INTERESTS

NIL.

9 PETITIONS

Nil.

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

10 NOTICE OF MOTION**10.1 NOTICE OF MOTION - TOWN ENTRY SIGNS****RESOLUTION 170919/2**

Moved: Cr Robert Hayes

Seconded: Cr Daniel Simpson

That:

1. A report be brought back to Council on the possible impacts and associated costs on rate payers by installing signs at the entry points to our towns and villages; in stages, Stage 1 being Evans Head and Woodburn and future stages being Broadwater, Coraki, Rappville and Casino to acknowledge the traditional owners of the Bundjalung Country, that we reside on.
2. Council take into consideration, the submissions delivered to the General Manager on 3 September 2019 on behalf of the early childhood educators in our community, as well as the addresses by representatives of the Evans Head-Woodburn Preschool and the Evans River K-12 School at tonight's meeting with regards to the progress they have achieved with their curriculum and how the installation of these signs will further educate our children towards reconciliation and recognition of the Traditional owners.

CARRIED**11 MAYOR'S REPORT****11.1 MAYOR ATTENDANCES 13 AUGUST - 9 SEPTEMBER 2019****RESOLUTION 170919/3**

Moved: Cr Robert Mustow

Seconded: Cr Stephen Morrissey

That Council receive and note the Mayor attendance report 13 August – 9 September 2019.

CARRIED**12 DELEGATE'S REPORTS****12.1 DELEGATES' REPORT SUBMITTED TO SEPTEMBER 2019 ORDINARY MEETING.****RESOLUTION 170919/4**

Moved: Cr Robert Mustow

Seconded: Cr Sandra Humphrys

That Council receive and note the Delegates' report for the month of September 2019.

CARRIED

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

13 MATTERS DETERMINED WITHOUT DEBATE**13.1 MATTERS TO BE DETERMINED WITHOUT DEBATE****RESOLUTION 170919/5**

Moved: Cr Sandra Humphrys

Seconded: Cr Stephen Morrissey

That items 15.1, 16.1 and 17.1 identified be determined without debate.

CARRIED**14 GENERAL MANAGER'S REPORTS****14.1 ELECTION OF DEPUTY MAYOR****EXECUTIVE SUMMARY**

Section 231 of the *Local Government Act 1993 (The Act)* provides that the Councillors may elect a Deputy Mayor for the mayoral term or for a shorter term. The Deputy Mayor may exercise any function of the Mayor at the request of the Mayor, or if the Mayor is prevented by illness, absence or otherwise from exercising the function, or if there is a casual vacancy in the office of Mayor.

Schedule 7 of the *Local Government (General) Regulation 2005 (The Regulations)* provides for the method of conduct for the election of Deputy Mayor. The methods of conduct for the election, if more than one Councillor is nominated, are by preferential ballot, by ordinary ballot or by open voting.

It is recommended that the Deputy Mayor be elected for a 12-month term and that the method of conduct for the election of Deputy Mayor be by open voting.

It is also appropriate following declaration of the election result that nomination forms and any ballot papers be destroyed.

RESOLUTION 170919/6

Moved: Cr Robert Hayes

Seconded: Cr Jill Lyons

That:

1. Council elect a Deputy Mayor for a one-year period.
2. Nominations for the position of Deputy Mayor be submitted in accordance with the Local Government (General) Regulation 2005, Schedule 7.
3. The method of conduct for the election of Deputy Mayor be by open voting.
4. Following declaration of the election result, nomination forms be destroyed.

CARRIED

The General Manager, as Returning Officer for the election, advised that he had received one nomination for the position of Deputy Mayor and called for further nominations from the floor, however none were submitted. He advised that the nomination he had received was a valid nomination and it was from Cr Morrissey.

Page 7

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

As there was one nomination only, Cr Morrissey was declared elected as Deputy Mayor for the next 12 months.

The Mayor congratulated Cr Morrissey on his election as Deputy Mayor.

14.2 REVIEW OF SUBMISSIONS FOR BEACH PERMIT SYSTEM**EXECUTIVE SUMMARY**

At Council's Ordinary meeting of 19 February 2019, the following question was raised:

Item 19.1 "What can Council do to control the amount of out of area vehicles which access Airforce Beach for inappropriate uses, without detracting from the local users".

Research was carried out by Council's Ranger and information received was then presented in a Briefing Note at the Councillor Information Session of 2 July 2019. Council then publicly exhibited the proposal to introduce a Beach Permit Scheme with submissions revealing that there is a widely acknowledged issue on the beach from driving offences and anti-social behaviour.

Based on feedback from the community, several actions such as an increase in Ranger patrols, the introduction of a media campaign and a review of beach access signage are recommended.

RESOLUTION 170919/7

Moved: Cr Robert Hayes

Seconded: Cr Daniel Simpson

That Council:

1. Increase ranger patrols, including weekend patrols, commencing from October 2019. This would be in liaison with NSW Police Force, Crowns Lands and the National Parks and Wildlife Service and will commence at the start of the October Long-weekend School holidays which begin on 28 September 2019.
2. Develop and implement a media campaign focusing on improved behaviour from beach goers and highlighting that a zero-tolerance approach will be taken by Council rangers.
3. Review beach signage to ensure beach rules and speed limits are clear.
4. Approve a budget adjustment of \$11,800 from the 2019/20 budget surplus to fund additional Ranger salaries to undertake beach patrols.
5. Undertake a periodical review of the effectiveness of the increased patrolling with a report to be submitted to Council after June 2020.

CARRIED

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

15 FINANCIAL REPORTS**15.1 FINANCIAL ANALYSIS REPORT - AUGUST 2019****EXECUTIVE SUMMARY**

The purpose of this report is to inform Council on the status and performance of its investment portfolio in accordance with the *Local Government Act 1993* (Section 625), *Local Government (General) Regulation 2005* (Clause 212), Australian Accounting Standard (AASB 139) and Council's Investment Policy.

The value of Council's Investment Portfolio as at 31 August 2019 including General Bank Accounts and Trust Funds is shown below.

| Investment Portfolio | General Bank Accounts | Trust Funds | Total |
|----------------------|-----------------------|-------------|--------------|
| \$46,162,589 | \$2,048,310 | \$87,050 | \$48,297,949 |

The weighted average rate of return on Council's investments for August 2019 was 2.29% which is above the 90 Day Bank Bill Index for August of 0.97%.

RESOLUTION 170919/8

Moved: Cr Sandra Humphrys

Seconded: Cr Stephen Morrissey

Recommended that Council adopt the Financial Analysis Report detailing investment performance for the month of August 2019.

CARRIED**16 TENDER REPORTS****16.1 REHABILITATION OF SEWER MAINS - VP155217****EXECUTIVE SUMMARY**

Richmond Valley Council sought Tenders for the rehabilitation of sewer gravity mains within the township of Casino. Council has an aging sewer network which currently experiences ground water infiltration as a result of deterioration. This coupled with the risk of failure requires these assets to be assessed and rehabilitated on a priority basis.

Four (4) submissions for tender were received. Three (3) were evaluated as conforming tenders. Insituform Pacific is recommended as the successful tenderer and most advantageous to council.

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

RESOLUTION 170919/9

Moved: Cr Sandra Humphrys

Seconded: Cr Stephen Morrissey

That

1. Council accept the tender for Insituform Pacific which represents best value for Council at the tendered price of \$773,215.45 (exclusive of GST)
2. Allow for the Common Seal of Council be affixed to any documentation as required.

CARRIED**17 GENERAL BUSINESS****17.1 ROAD MAINTENANCE AND CONSTRUCTION SERVICES REVIEW UPDATE ON IMPLEMENTATION ACTIONS****EXECUTIVE SUMMARY**

At the March 2017 Ordinary Meeting, Council resolved to adopt the recommendations of the Road Maintenance and Construction Services Review and to report to Council every six months on the progress of the implementation of the recommendations.

This report provides commentary on the actions undertaken in response to the recommendations made in the report, through to 31 August 2019.

RESOLUTION 170919/10

Moved: Cr Sandra Humphrys

Seconded: Cr Stephen Morrissey

That:

1. Council receive and note the progress report on the implementation of the recommendations of the Road Maintenance and Construction Services Review; and
2. Further progress report will be submitted on an annual basis.

CARRIED**18 MATTERS FOR INFORMATION****RESOLUTION 170919/11**

Moved: Cr Stephen Morrissey

Seconded: Cr Sam Cornish

Recommended that the following reports submitted for information be received and noted.

CARRIED

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

18.1 DEVELOPMENT APPLICATIONS DETERMINED UNDER THE ENVIRONMENTAL PLANNING AND ASSESSMENT ACT FOR THE PERIOD 1 AUGUST 2019 TO 31 AUGUST 2019**RESOLUTION 170919/12**

Moved: Cr Stephen Morrissey

Seconded: Cr Sam Cornish

That Council receive and note the development application report for the period 1 August 2019 to 31 August 2019.

CARRIED**18.2 GRANT APPLICATION INFORMATION REPORT - AUGUST 2019****RESOLUTION 170919/13**

Moved: Cr Stephen Morrissey

Seconded: Cr Sam Cornish

That Council receive and note the Grant Application Information Report for the month of August 2019.

CARRIED

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

19 QUESTIONS ON NOTICE**19.1 QUESTIONS WITH NOTICE, PROVIDED AT ORDINARY MEETING 20 AUGUST 2019**

The following questions on notice were received from Councillor Daniel Simpson.

Questions:

1. Does the Council have a process in place to monitor development applications that have been approved and have commenced, but have not obtained interim or final approval?
2. Is there a best practice standard issued by either the Department of Local Government or Department of Planning in relation to development applications that have not obtained interim or final approval?
3. Is there any potential liability for Council if approval and commenced development applications are not signed off?
4. Is there any potential liability for Council in regard to Fire Safety Statements that have not been issued by businesses, when annual submission is required?

Responses:

1. Under the EP&A Act Council is not required to monitor the status of individual applications. It should be noted that many approved DAs do not commence immediately and some do not proceed if they aren't activated within five years. In 2018/19 Council determined 274 DAs. Given this volume of DAs Council does not have the resources or a current program in place to monitor development statuses. Compliance with consent conditions is the responsibility of the applicant/landowner. Consent conditions are often placed on consents which require the applicant/owner to notify Council when the structure requires an occupation certificate.
2. Part 6 of the EP&A Act 1979 describes what the type of certificate and when a certificate is required to be issued for building works and when a building is required to be finalised and an Occupation Certificate issued. Depending on the nature of a development, Council Officers will impose various standard conditions on a Development Consent to ensure legislative requirements are adhered to. Council is not aware of a specific standard or Guideline on this matter issued by the Department of Planning Infrastructure and Environment which now includes the Office of Local Government. However, additional information regarding Frequently Asked Questions – Occupation Certificates is attached.
3. Council applies various conditions of consent requiring an Occupation Certificate to be issued prior to the use of the building. The obligation is on the owner/applicant to advise Council when the building is fit for occupation. Development Consents are a legal document and the onus is on the owner/applicant to comply with the conditions of consent. There are liabilities for the owner if an Occupation Certificate is not obtained, impacts such as not being able to occupy the building, the sale or demolition of the building, insurance/risk exposure and the risk of legal action by Council to rectify the matter.
4. Council currently does not have the resources to monitor Fire Safety Certificates/Statements as the emphasis is placed on the owner to ensure their business is safe for their clients/customers and appropriate safety measures are in place. The requirement for annual Fire Safety Certificates/Statements is conditioned on a Development Consent and as such the onus is placed on the owner to comply with consent conditions. Council can challenge non-compliance or breaches of consent conditions pursuant to Acts and Regulations. Council officers are obliged to identify and require compliance with any observations of inadequate fire safety

Page 12

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

measures made during regular inspections of businesses for food safety compliance or building certification. Council also is required to respond to complaints of inadequate fire safety measures within a building and will take appropriate action to ensure safety measures are in place within the building and public safety is ensured.

RESOLUTION 170919/14

Moved: Cr Daniel Simpson

Seconded: Cr Robert Hayes

That the responses to the questions regarding development and related issues, raised by Councillor Daniel Simpson, be received and noted.

CARRIED

20 QUESTIONS FOR NEXT MEETING (IN WRITING)

Nil.

21 MATTERS REFERRED TO CLOSED COUNCIL**21.1 Write off Bad Debt**

This matter is considered to be confidential under Section 10A(2) - (a) of the Local Government Act, and the Council is satisfied that discussion of this matter in an open meeting would, on balance, be contrary to the public interest as it deals with personnel matters concerning particular individuals (other than councillors).

This matter is classified confidential due to its content containing personnel issues.

It is not appropriate for personnel issues to be discussed in public. As part of Council process, the outcome of consideration of the matter will be disclosed to the public.

The General Manager reported that no written representations had been received in respect to the item listed for consideration in Closed Council.

The Chair called for verbal representations from the gallery.

There were no representations from the gallery.

The Chair advised under section 10A of the Local Government Act 1993, the media and public are to be excluded from the meeting on the basis that the business to be considered is classified confidential under the provisions of section 10A(2) as outlined above.

ORDINARY COUNCIL MEETING MINUTES

17 SEPTEMBER 2019

RESOLUTION 170919/15

Moved: Cr Stephen Morrissey

Seconded: Cr Sandra Humphrys

That:

1. Council resolved to enter Closed Council to consider the business identified in Item 21.1, together with any late reports tabled at the meeting.
2. Pursuant to section 10A(1)-(3) of the *Local Government Act 1993*, the media and public be excluded from the meeting on the basis that the business to be considered is classified confidential under the provisions of section 10A(2) as outlined above.
3. The correspondence and reports relevant to the subject business be withheld from access to the media and public as required by section 11(2) of the *Local Government Act 1993*.

CARRIED

Council closed its meeting at 5.50 pm. The public left the Chamber.

The Open Council Meeting resumed at 5.55 pm.

22 RESOLUTIONS OF CLOSED COUNCIL

The following resolutions of Council, passed while the meeting was closed to the public, were read to the Open Council Meeting by the Chair.

21.1 WRITE OFF BAD DEBT

That Council write off the "bad debt" as set out in the report.

The Meeting closed at 5.56 pm.

The minutes of this meeting were confirmed at the Ordinary Council Meeting held on 22 October 2019.

.....
CHAIRPERSON



RICHMOND VALLEY COUNCIL

Locked Bag 10
Casino NSW 2470
Phone (02) 6660 0300

LOCAL TRAFFIC COMMITTEE MEETING HELD VIA ELECTRONIC FORMAT (EMAIL) ON 4 SEPTEMBER 2019

Background

Council has various Committees which have various functions. The Report of the recent Local Traffic Committee Meeting held via email as the alternative meeting format in this instance in accordance with section 5.3.1 of 'Guidelines to the Operation of Traffic Committees' is provided below.

RECOMMENDATION

Recommended that Council receives and endorses the recommendations contained within the Report of the Local Traffic Committee Meeting held on via Electronic Format on 4 September 2019.

AGENDA

1. Apologies
2. Declaration of Interests
3. Reports
 1. **REQUEST FOR NO TRUCK RESTRICTION REDWOOD LANE, WOODBURN**
4. Other Matters

LOCAL TRAFFIC COMMITTEE MEETING

4 September 2019

**MINUTES OF LOCAL TRAFFIC COMMITTEE MEETING HELD VIA ELECTRONIC
FORMAT (EMAIL) ON 4 SEPTEMBER 2019**

PRESENT

Cr Sam Cornish (Chair), Senior Constable Daniel Nicoll (NSW Police), Katherine Boulton (Network and Safety Officer, RMS), Col Humphreys (Representative for Chris Gulaptis MP), Angela Jones (Director Infrastructure & Environment RVC), Kelsey Carter (Engineering Assistant Road and Transport Assets RVC).

APOLOGIES

Graeme Robertson (Co-Ordinator Assets Management RVC).

DECLARATION OF INTERESTS

Nil.

MATTERS ARISING FROM PREVIOUS MINUTES

Nil.

REPORTS**1. REQUEST FOR NO TRUCKS RESTRICTION, REDWOOD LANE, WOODBURN**

This section of Redwood Lane is two-way, running parallel to River St between Cedar Street and Duke Street, and consists of a 3.9m wide carriageway which was built to provide access to the back of the shops.

Multiple services run within the carriageway in the wheel path of trucks including water, sewer and stormwater, and there are impacted manholes within the carriageway. Drainage issues are arising due to truck impaction with kerb and gutter and severe edge breaks are forming.

Council Staff have had to conduct urgent repairs to water services which have been impacted by heavy vehicles using Redwood Lane five times within the past 15 months. Each time urgent repairs have to be carried out businesses are without water services, and the laneway is closed for at least a day while the area is excavated, the service repaired and the road reinstated. This causes significant disruption and costs for both businesses and Council.

Trucks are using Redwood Lane to park on a vacant block of land at 4-8 Duke Street or on land behind the pub. The property owner has erected No Parking signs on their land, however these are being ripped down. There is ample parking availability on Richmond Terrace for long vehicles. Other methods such as parking restrictions and fencing the vacant land has been considered, however these options will not resolve the impact trucks are having on services in the carriageway of the lane, and the unsuitability of the 3.9m wide local access lane for heavy vehicles.

RICHMOND VALLEY COUNCIL

PAGE 1

LOCAL TRAFFIC COMMITTEE MEETING

4 September 2019

The request is to consider providing a No Trucks restriction on the section of Redwood Lane between Duke Street and Cedar Street to prevent this on-going damage to services and the associated disruption required to undertake emergency works to underground services.

A No Truck restriction would prevent drivers of heavy vehicles greater than 4.5 tonne driving past the sign unless the driver's destination lies beyond the sign, and it is the only route, so deliveries to properties would still be accommodated.

Engagement with local businesses has indicated that of the 18 in this section of River St, 12 supported the proposal, one business was unsure and 5 including were unable to be contacted via phone or visiting the store due to businesses being closed or staff passing details to managers to provide feedback and managers not yet contacting Council. Four businesses requested additional no parking restrictions along Redwood Lane due to parked cars limiting the narrow lane width, and half of the businesses didn't use Redwood Lane for their deliveries. All businesses who supported installation of the No Truck restriction supported use of cameras to assist with enforcement if deemed necessary after installation.

A copy of the plan showing the location of the proposed No Truck restriction which shows services locations is circulated to Committee Members (Refer Attachment A).

LTC.1 RECOMMENDED that the Committee consider the ongoing services impaction and urgent repair work necessitated by truck access to Redwood Lane and the request for No Trucks restriction to the section of Redwood Lane between Duke Street and Cedar St.


Responses received were all in favour.

No response was received from Col Humphreys (Representative for Chris Gulaptis MP).

RMS recommended that the location be monitored for efficacy over a period of 6/12 months, as there is a concern that enforcement of this traffic control device will be low and non-compliance will again become an issue in the future.

Police representative requested that Council advise Richmond Highway Patrol when restriction is in place to allow for enforcement.





Richmond Valley Council
Locked Mail Bag 10
10 Graham Place
CAWSD NSW 2470
Telephone: 02 9440 3400
Fax: 02 9440 3400
Email: info@richmondvalley.nsw.gov.au

Important Notice!
This map is not a precise survey document. Accurate locations can only be determined by a survey on the ground.
This information has been prepared for Council internal purposes and for use for other purposes. No responsibility is made about the accuracy or suitability of this information for use for any purpose. (whether the purpose has been notified or not). While every care is taken to ensure the accuracy of this data, neither the Richmond Valley Council nor the LPI makes any representations or warranties about its accuracy, reliability, completeness or suitability for any particular purpose and disclaims all responsibility and liability (including without limitation, liability to negligence) for all expenses, losses, damages (including indirect or consequential damages) and costs (which may result) that are a result of the data being inaccurate or incomplete in any way and for any reason.
(c) State of New South Wales, Special Services, Department of Finance, Services and Innovation.
2017 © Richmond Valley Council.



Projection: GDA94 / MGA zone 56
Date: 27/08/2019
Drawn By: Kelsey Carter

No Truck restriction Redwood Lane, Woodburn
Map Scale: 1:987 at A4



© Independent Pricing and Regulatory Tribunal (2019)

With the exception of any:

- (a) coat of arms, logo, trade mark or other branding;
- (b) third party intellectual property; and
- (c) personal information such as photos of people,

this publication is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia Licence.



The licence terms are available at the Creative Commons website:
<https://creativecommons.org/licenses/by-nc-nd/3.0/au/legalcode>

IPART requires that it be attributed as creator of the licensed material in the following manner: © Independent Pricing and Regulatory Tribunal (2019).

The use of any material from this publication in a way not permitted by the above licence or otherwise allowed under the *Copyright Act 1968* (Cth) may be an infringement of copyright. Where you wish to use the material in a way that is not permitted, you must lodge a request for further authorisation with IPART.

Disclaimer

IPART does not guarantee or warrant, and accepts no legal liability whatsoever arising from or connected to, the accuracy, reliability, currency or completeness of any material contained in this publication.

Information in this publication is provided as general information only and is not intended as a substitute for advice from a qualified professional. IPART recommends that users exercise care and use their own skill and judgment in using information from this publication and that users carefully evaluate the accuracy, currency, completeness and relevance of such information. Users should take steps to independently verify the information in this publication and, where appropriate, seek professional advice.

Nothing in this publication should be taken to indicate IPART's or the NSW Government's commitment to a particular course of action.

ISBN 978-1-76049-368-4

The Independent Pricing and Regulatory Tribunal (IPART)

IPART provides independent regulatory decisions and advice to protect and promote the ongoing interests of the consumers, taxpayers and citizens of NSW. IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from IPART's website: <https://www.ipart.nsw.gov.au/Home>.

Tribunal Members

The Tribunal members for this review are:

Dr Paul Paterson, Chair

Mr Ed Willett

Ms Deborah Cope

Enquiries regarding this document should be directed to a staff member:

Letitia Watson-Ley (02) 9290 8402

Sarah Blackwell (02) 9113 7763

Scott Chapman (02) 9290 8449

Contents

| | |
|---|------------|
| Tribunal Members | iii |
| 1 Executive summary | 1 |
| 1.1 Price regulation is required for the 2020 local government elections | 3 |
| 1.2 We have identified efficiency savings | 4 |
| 1.3 Prices should reflect the full, efficient cost of providing election services | 5 |
| 1.4 NSW Government should subsidise council bills for the 2020 elections | 5 |
| 1.5 Structure of this report | 6 |
| 1.6 List of final recommendations | 7 |
| 2 Price regulation and competition | 9 |
| 2.1 The NSWEC provides a range of election-related services | 10 |
| 2.2 Competition in the market for local government election services | 10 |
| 2.3 Regulation of the NSWEC's prices and establishing service standards | 18 |
| 2.4 Possible further reform for local government elections in 2024 | 23 |
| 3 Identifying the efficient costs of local government elections | 31 |
| 3.1 Efficiency review of NSWEC's election services | 32 |
| 3.2 Notional revenue requirement | 36 |
| 3.3 Operating expenditure | 41 |
| 3.4 Capital expenditure | 56 |
| 3.5 Return on assets | 58 |
| 3.6 Return of assets (regulatory depreciation) | 60 |
| 3.7 Tax allowance | 60 |
| 4 Allocating efficient costs between the NSW Government and councils | 62 |
| 4.1 Most of NSWEC's efficient costs should be allocated to councils | 62 |
| 4.2 We have addressed limitations with the NSWEC's existing methodology | 70 |
| 4.3 We do not support the NSWEC's proposed methodology as it reduces the incentive to efficiently conduct elections | 75 |
| 4.4 Allocation of the NSWEC's total efficient costs | 78 |
| 5 Impact on councils' election bills | 80 |
| 5.1 Cost-reflective bills for 2020 local government elections | 81 |
| 5.2 Council subsidy for 2020 local government elections | 84 |
| 5.3 Total government funding of 2020 local government elections | 88 |
| A Glossary | 90 |
| B Terms of reference | 92 |
| C EY review of efficient expenditure | 96 |
| D Weighted average cost of capital | 97 |
| E Council bills – Cost-recovery (no subsidy) | 104 |
| F Council net bills - Subsidised | 108 |



Review of local government election costs [IPART](#) v



vi **IPART** Review of local government election costs

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.¹ 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.

¹ 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.

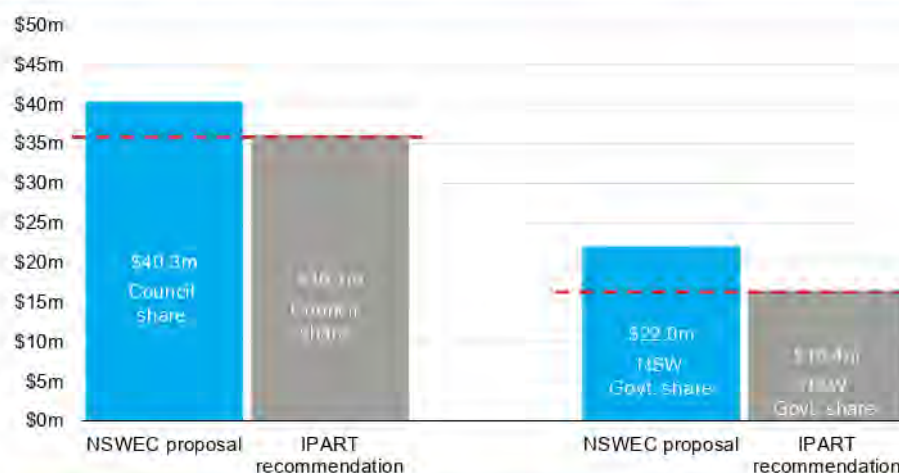
We also recommend that the NSW Electoral Commission establish performance standards (ie, minimum level of service) that would apply to all local government elections, including those administered by the NSWEC, as well as those administered by private electoral service providers.

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,² 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.³

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.

² 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.

³ 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.⁴

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).

⁴ 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 services⁵ and other possible regulatory reforms and supporting measures.

⁵ 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.⁶

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.⁷ 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.

⁶ NSW Electoral Commission, *Annual Report 2016-17*, p 28.

⁷ 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.

10 IPART Review of local government election costs

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%.⁸ 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 2012,⁹ with its market share decreasing to around 5% for the 2016 and 2017 elections. It has mainly serviced larger metropolitan and regional councils.¹⁰

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.

⁸ 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.

⁹ 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.

¹⁰ 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.¹¹ 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,¹² 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.

¹¹ 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.

¹² 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)

12 IPART Review of local government election costs

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.¹³
- ▼ 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 costs¹⁴
- ▼ Limited brand loyalty and advertising
- ▼ Limited vertical integration¹⁵
- ▼ 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.¹⁶
- ▼ 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).¹⁷ We have included the efficient costs for

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

¹⁴ 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.

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

¹⁶ 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.

¹⁷ 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.¹⁸ 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".¹⁹

¹⁸ 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.

¹⁹ 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 |
|---|------------------|
| Incremental costs of LGEs | |
| Staffing | Contestable |
| Venue procurement | Contestable |
| Procedures, forms and training | Contestable |
| Logistics | Contestable |
| Ballot papers | Contestable |
| Project management | Contestable |
| Electoral roll preparation ^a | Non-contestable |
| Client liaison | Contestable |
| Call centre | Contestable |
| Nominations | Contestable |
| Counting and results ^b | 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 |
| LGE share of common costs | |
| Head office costs | Contestable |
| Executive costs | Contestable |
| Maintenance of the electoral roll | Non-contestable |

^a 'Electoral roll' means the 'event roll' referred to in the NSWEC's cost proposal.

^b 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.²⁰ 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'.²¹

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

²⁰ Although this can change over time with, for example, advances in technology.

²¹ 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.²² 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".²³

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.²⁴

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.²⁵ 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.²⁶

²² 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.

²³ Brewarrina Shire Council submission to IPART Draft Report, June 2019, p 2.

²⁴ NSWEC submission to IPART Draft Report, July 2019, p 2.

²⁵ NSWEC submission to IPART Issues Paper, July 2019, p 20.

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

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.²⁷

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".²⁸ Similarly, Blacktown City Council welcomes "greater transparency of service pricing".²⁹

²⁷ NSWEC submission to IPART Draft Report, July 2019, p 3.

²⁸ 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).

²⁹ 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".³⁰

Both Hawkesbury City Council and Port Stephens Council are concerned about the administrative costs of regulatory oversight.³¹ 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.³²

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.³³ 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.³⁴

³⁰ Kiama Municipal Council submission to IPART Draft Report, July 2019, p 1.

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

³² 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.

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

³⁴ 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.³⁵

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.³⁶

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.³⁷

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

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

³⁶ EY Final Report, p 7.

³⁷ 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.³⁸

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

³⁸ 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.³⁹ 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).⁴⁰
- ▼ There is no cost certainty for councils that engage the NSWEC, with subsequent risk to council budgets.⁴¹
- ▼ 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.⁴²

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.

³⁹ 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.

⁴⁰ 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.

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

⁴² 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.⁴³

The Australian Election Company submitted that:

⁴³ 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.⁴⁴

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”.⁴⁵

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.”⁴⁶

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

⁴⁴ Australian Election Company submission to IPART Draft Report, July 2019, p 2.

⁴⁵ NSWEC submission to IPART Draft Report, July 2019, p 4.

⁴⁶ NSWEC submission to IPART Draft Report, July 2019, p 2.

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

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.⁴⁸

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

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.⁵¹ 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).

⁴⁷ NSWEC submission to IPART Draft Report, July 2019, p 3.

⁴⁸ Penrith City Council submission to IPART Draft Report, July 2019, p 2.

⁴⁹ Camden Council submission to IPART Draft Report, July 2019, p 4.

⁵⁰ Shoalhaven City Council submission to IPART Draft Report, July 2019, p 3.

⁵¹ 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^a
- ▼ 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.

^a 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,⁵² 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.

⁵² 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.⁵³

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.”⁵³

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.⁵⁴

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.⁵⁵

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

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.

⁵³ NSWEC submission to IPART Draft Report, July 2019, p 24.

⁵⁴ ScytI submission to IPART Draft Report, July 2019, p 3.

⁵⁵ ScytI submission to IPART Draft Report, July 2019, pp 1-2.

⁵⁶ 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.⁵⁷ Moree Plains Shire Council also suggested reducing pre-polling times as a way to reduce the costs of local government elections.⁵⁸

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.⁵⁹

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.

⁵⁷ Blacktown City Council submission to IPART Draft Report, July 2019, p 3.

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

⁵⁹ 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.⁶⁰ 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.⁶¹

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.

⁶⁰ 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.

⁶¹ 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,⁶² 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:

⁶² 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 2016-17.⁶³
- ▼ 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.⁶⁴ Further, many of the reasons the NSWEC provided to justify its 2020 cost proposal involved managing the risks around local government elections.⁶⁵ 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.⁶⁶

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:

⁶³ 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*).

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

⁶⁵ EY Final Report, pp 7-8.

⁶⁶ 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.⁶⁷ We discuss this in more detail in Chapter 2.

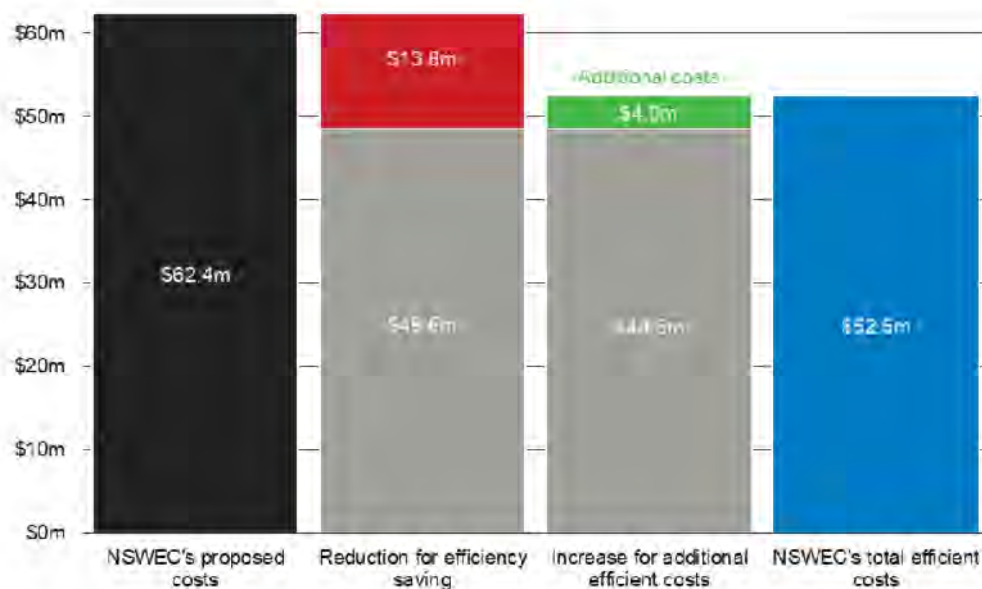
3.1.3 We are recommending substantial efficiency savings

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.⁶⁸

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).

⁶⁷ EY Final Report, pp 6-7

⁶⁸ 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.⁶⁹ 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.⁷⁰ However, the NSWEC disagreed with them and queried EY's approach to assessing its efficient costs.⁷¹ We have considered these views and discuss the efficiency review in more detail in the sections below.

⁶⁹ EY Final Report, p 26.

⁷⁰ 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.

⁷¹ 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.⁷² 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).⁷³

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% |
| Notional Revenue Requirement | 62,352 | 52,479 | -9,873 | -15.8% | 100.0% |

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

⁷² 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.

⁷³ 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 2019⁷⁴ (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.⁷⁵

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% |
| Notional Revenue Requirement | 53,906 | 52,479 | -1,427 | -2.65% |

Source: IPART analysis.

⁷⁴ 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.

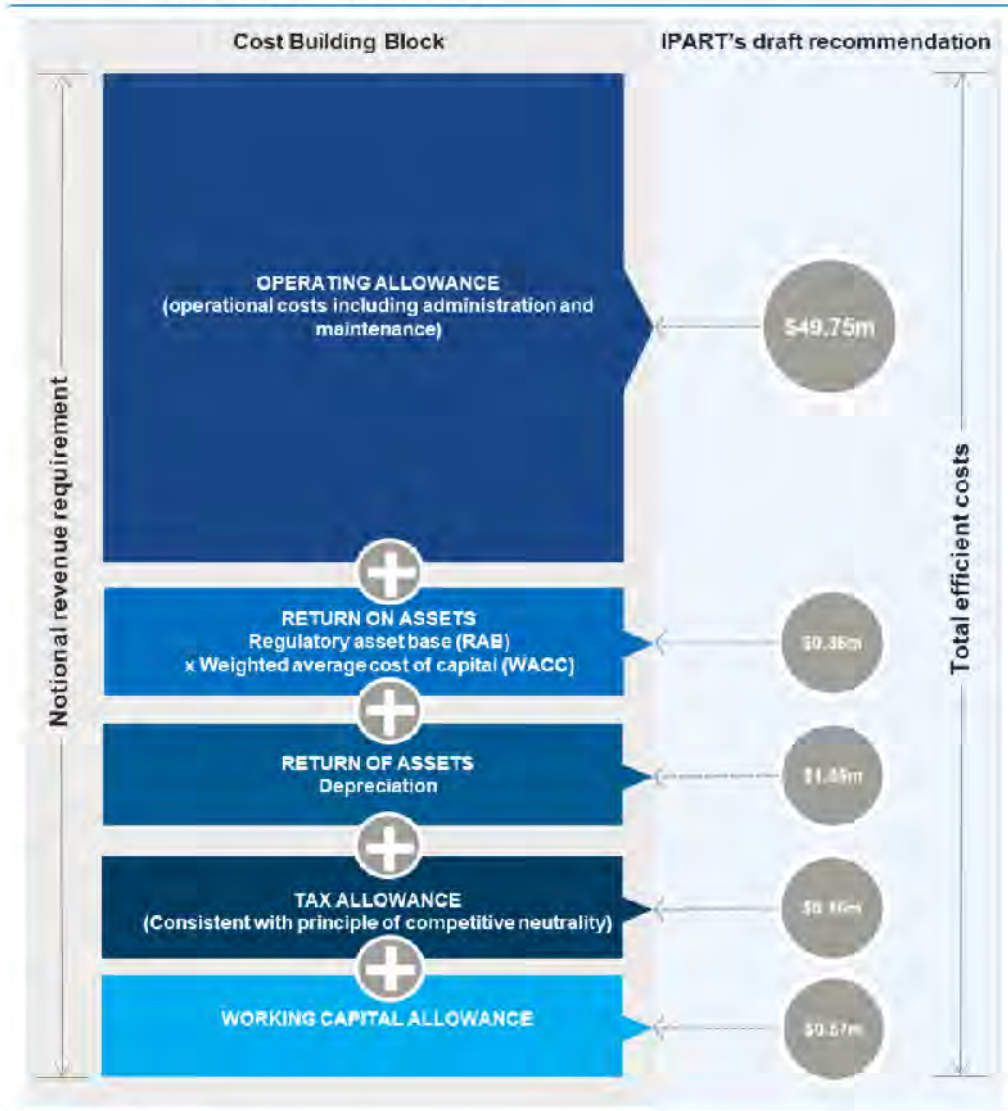
⁷⁵ The NSWEC provided information on the appropriate allocation of existing assets (mostly IT system and intangible assets) to the cost of local government elections. As such, we have revised down the share of existing assets to be recovered through prices since our Draft Report.

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 Paper⁷⁶ and Draft Report⁷⁷ 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.⁷⁸ In any case, the

⁷⁶ 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.

⁷⁷ LG NSW, submission to IPART Draft Report, July 2019, p 6.

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

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.⁷⁹ 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.

⁷⁹ 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).⁸⁰

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 (%) |
|---|-------------------------|-------------------------------------|---------------------|----------------|
| Incremental costs of conducting local government elections | | | | |
| 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 ^a | 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% |
| SUBTOTAL - Marginal costs | 58,791 | 45,069 | -13,722 | -23.3% |
| Local government election share of common costs | | | | |
| Corporate overheads - EMF ^b | 3,561 | 3,443 | -118 | -3.3% |
| Corporate overheads - Executive Office costs | 0 | 854 | 854 | |
| Joint Roll Agreement ^c | 0 | 380 | 380 | |
| SUBTOTAL - Share of common costs | 3,561 | 4,676 | 1,116 | 31.3% |
| Total | 62,352 | 49,745 | -12,607 | -20.2% |

^a Electoral roll means the 'event roll' referred to in the NSWEC's cost proposal.

^b Election Management Fee

^c 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.

⁸⁰ 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,⁸¹ the NSWEC is proposing operating expenditure of \$62.4 million for the 2020 local government elections.⁸² This represents an increase in nominal terms of 50.8% (or \$21.0 million) compared to the previous elections in 2016 and 2017.⁸³

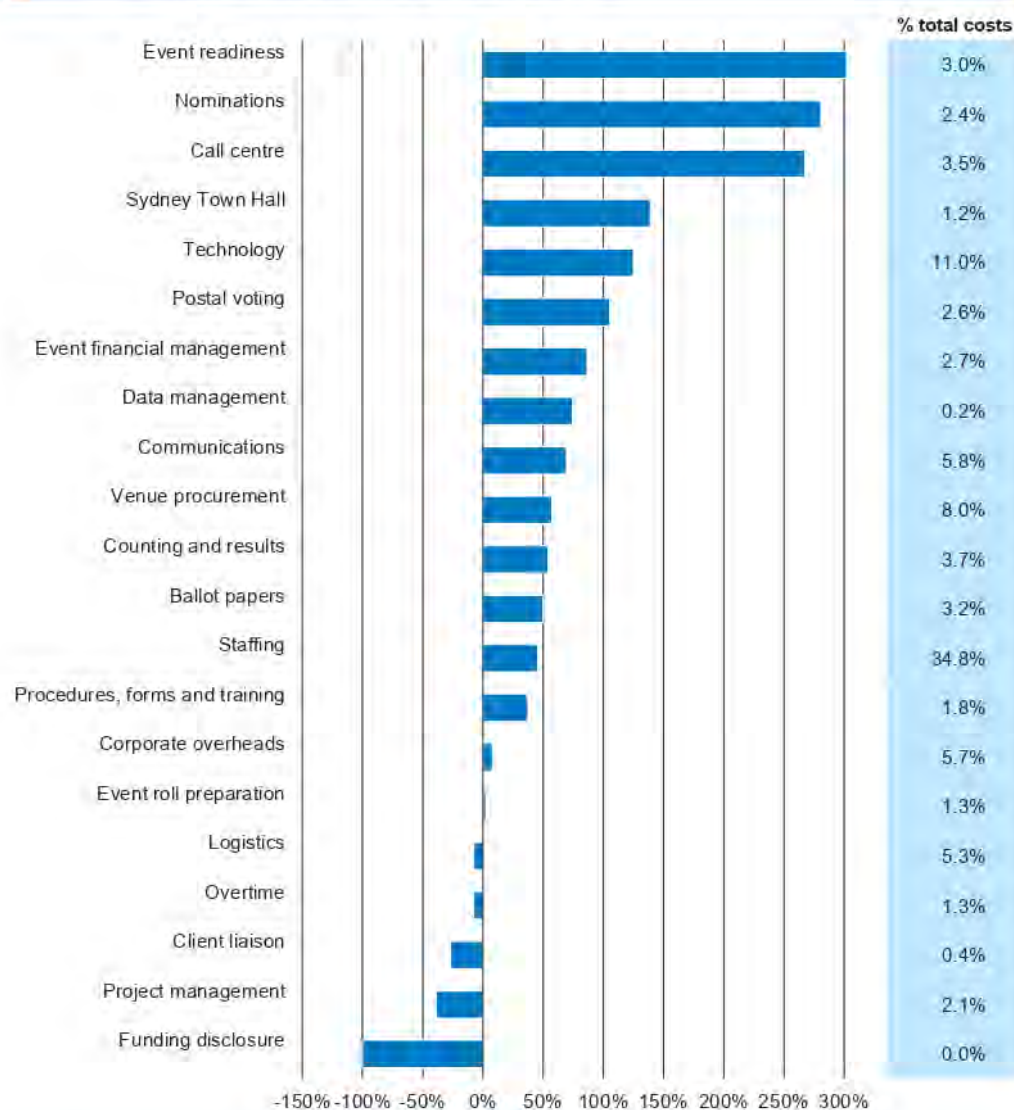
Election staffing is the key driver of this cost increase (see Figure 3.4). It is the NSWEC's main cost item, comprising 34.8% of its operating expenditure, followed by technology (11.0%) and venue procurement (8.0%). The NSWEC is proposing nominal increases in these cost items of 45.4%, 125.0% and 57.3%,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

⁸¹ '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).

⁸² 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).

⁸³ 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' estimates⁸⁴ of the NSWEC's operating expenditure, as the 'bottom-up' estimates were only finalised shortly before we released the

⁸⁴ 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.⁸⁵ 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).⁸⁶
- ▀ Technology costs, \$1.9 million higher (eg, renting IT equipment, instead of purchasing computers and other hardware).⁸⁷
- ▀ Communications, \$0.8 million higher (eg, aligning costs with those incurred for the State Government election in 2019).⁸⁸

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.⁸⁹

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.⁹⁰

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%:

⁸⁵ 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.

⁸⁶ 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).

⁸⁷ 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.

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

⁸⁹ 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.

⁹⁰ 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 growth⁹¹ 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.⁹² 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

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

⁹² 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).⁹³

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.⁹⁴

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

⁹³ EY Final Report, pp 27-28.

⁹⁴ EY Final Report, pp 17, 20-22.

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.⁹⁵ Further, it did not indicate any KPIs that linked the increase in pay rates to improvements in service delivery.⁹⁶

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.⁹⁷

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.⁹⁸ 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).⁹⁹

⁹⁵ 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).

⁹⁶ EY Final Report, p 19.

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

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

⁹⁹ 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.¹⁰⁰

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.¹⁰¹

In response to these concerns, EY has revised its assessment about the complexity of local government elections.¹⁰² 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.¹⁰³ In response, EY has provided analysis in its Final Report that its recommended pay rates are set above the minimum wage.¹⁰⁴

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

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

¹⁰¹ 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.

¹⁰² EY Final Report, p 18.

¹⁰³ NSWEC submission to IPART Draft Report, July 2019, pp 7-8

¹⁰⁴ EY Final Report, p 20.

rates, and therefore costs.¹⁰⁵ 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.¹⁰⁶ 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.¹⁰⁷ 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.¹⁰⁸

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:

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

¹⁰⁶ 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.

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

¹⁰⁸ NSWEC submission to IPART Draft Report, July 2019, p 8.

- ▼ The rate of workplace incidents was already relatively low,¹⁰⁹ 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.¹¹⁰

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.¹¹¹

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.¹¹²

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.¹¹³ 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.¹¹⁴ 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.¹¹⁵

In any case, EY has recommend a broad efficiency adjustment to these costs.¹¹⁶ 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.¹¹⁷

¹⁰⁹ 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.

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

¹¹¹ EY Final Report, p 21.

¹¹² EY Final Report, p 21.

¹¹³ 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.

¹¹⁴ 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.

¹¹⁵ EY Final Report, p 29.

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

¹¹⁷ 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.¹¹⁸

EY found that the NSWEC's proposal was adequately justified, which is largely consistent with the Draft Report.¹¹⁹ 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.¹²⁰ 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.¹²¹ 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.¹²² 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.¹²³

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.¹²⁴

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

¹¹⁸ Email from the NSWEC to IPART dated 31 May 2019.

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

¹²⁰ EY Final Report, pp 22-23.

¹²¹ 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.

¹²² IPART Draft Report, p 29.

¹²³ EY Final Report, p 22.

¹²⁴ 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.¹²⁵
- ▶ 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.¹²⁶ Similarly, Shoalhaven City Council considered that councils own facilities that would be suitable election polling and office venues.¹²⁷

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.¹²⁸

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).¹²⁹ 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.¹³⁰ 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.¹³¹

The NSWEC introduced count centres for the 2017 elections, in response to the increasing complexity of the counting process.¹³² 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.¹³³

¹²⁵ 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.

¹²⁶ Penrith City Council submission to IPART Draft Report, July 2019, p 4.

¹²⁷ Shoalhaven City Council submission to IPART Draft Report, July 2019, p 2.

¹²⁸ NSWEC submission to IPART Draft Report, July 2019, p 9.

¹²⁹ This item also includes project management costs.

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

¹³¹ EY Final Report, p 25.

¹³² 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.

¹³³ 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%.¹³⁴ As a result, it recommended count centre costs of \$1.7 million for the 2020 local government elections.¹³⁵ 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.¹³⁶

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.¹³⁷

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.¹³⁸

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%.

¹³⁴ EY Final Report, p 24.

¹³⁵ EY Final Report, p 2.

¹³⁶ IPART Draft Report, p 30.

¹³⁷ EY Final Report, pp 23-24.

¹³⁸ 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%.¹³⁹

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.¹⁴⁰ 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.¹⁴¹

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

¹³⁹ EY Final Report, p 29.

¹⁴⁰ EY Final Report, p 3.

¹⁴¹ 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.¹⁴² However, Randwick City Council thought the NSWEC should not recover any of its corporate overheads from councils.¹⁴³ 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).¹⁴⁴

The EMF currently excludes the NSWEC's Executive Office costs.¹⁴⁵ 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.¹⁴⁶

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

¹⁴² Penrith City Council submission to IPART Draft Report, July 2019, p 5.

¹⁴³ Randwick City Council submission to IPART Draft Report, July 2019, p 2.

¹⁴⁴ 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).

¹⁴⁵ It also excludes depreciation expense, but we propose to include a portion of this expense in the NSWEC's NRR (see section 3.3).

¹⁴⁶ PWC Report, p 7.

¹⁴⁷ NSWEC submission to IPART Draft Report, July 2019, p 27.

¹⁴⁸ Email from the NSWEC to IPART dated 5 August 2019.

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.¹⁴⁹ 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.¹⁵⁰ We have allocated 16.9% of the Joint Roll Agreement costs to the 2020 local government elections.¹⁵¹

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).¹⁵² In addition, it is proposing to invest in cybersecurity initiatives.¹⁵³

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

¹⁴⁹ 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).

¹⁵⁰ Email from the NSWEC to IPART dated 16 April 2019.

¹⁵¹ 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.

¹⁵² 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, accessed 19 June 2019).

¹⁵³ 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.¹⁵⁴ 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.¹⁵⁵

The NSWEC has subsequently advised that there was insufficient time to undertake market testing.¹⁵⁶ However, EY has maintained its recommended 5% to 10% reduction.¹⁵⁷ 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 |
| Final recommendation | – | 5,347 | 252 |
| Difference | – | -594 | -28 |
| Difference (%) | – | -10.0% | -10.0% |

Source: IPART analysis.

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

¹⁵⁵ Shoalhaven City Council submission to IPART Draft Report, July 2019, p 2.

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

¹⁵⁷ 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,¹⁵⁸ so we have included a proportion of its costs in the regulatory asset base.¹⁵⁹
- ▼ **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 |
| Total | 7,720 | | 1,107 |

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.

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

¹⁵⁹ 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 | - | - | - |
| Closing RAB | 945 | 5,977 | 5,360 |

Source: IPART analysis.

3.5.2 WACC

We consider it is appropriate to apply our standard WACC methodology¹⁶⁰ 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.

¹⁶⁰ 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.¹⁶¹

Table 3.9 IPART's final 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 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,¹⁶² 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 stakeholders¹⁶³ 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.

¹⁶¹ 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.

¹⁶² Under a post-tax framework, the value of imputation (franking) credits (gamma) enters the regulatory decision only through the estimate of the tax liability.

¹⁶³ 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 ^a | -4 | -1,190 | 11,627 |

^a 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.¹⁶⁴ 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.¹⁶⁵
- ▀ Controls key aspects of the election process and the conditions under which elections are conducted.¹⁶⁶

In contrast, Eurobodalla Shire Council supported our cost breakdown based on the impactor-pays funding hierarchy.¹⁶⁷ 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.¹⁶⁸ 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).¹⁶⁹

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).¹⁷⁰

¹⁶⁴ 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.

¹⁶⁵ 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.

¹⁶⁶ 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).

¹⁶⁷ Eurobodalla Shire Council submission to IPART Draft Report, July 2019, p 1.

¹⁶⁸ Kiama Municipal Council submission to IPART Draft Report, p 1 and Anonymous submission to IPART Draft Report, p 1.

¹⁶⁹ Camden Council submission to IPART Draft Report, July 2019, p 2.

¹⁷⁰ 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.¹⁷¹ 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.¹⁷²

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,¹⁷³ 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.¹⁷⁴

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.

¹⁷¹ NSWEC submission to IPART Draft Report, July 2019, pp 21-22.

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

¹⁷³ 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.

¹⁷⁴ 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.

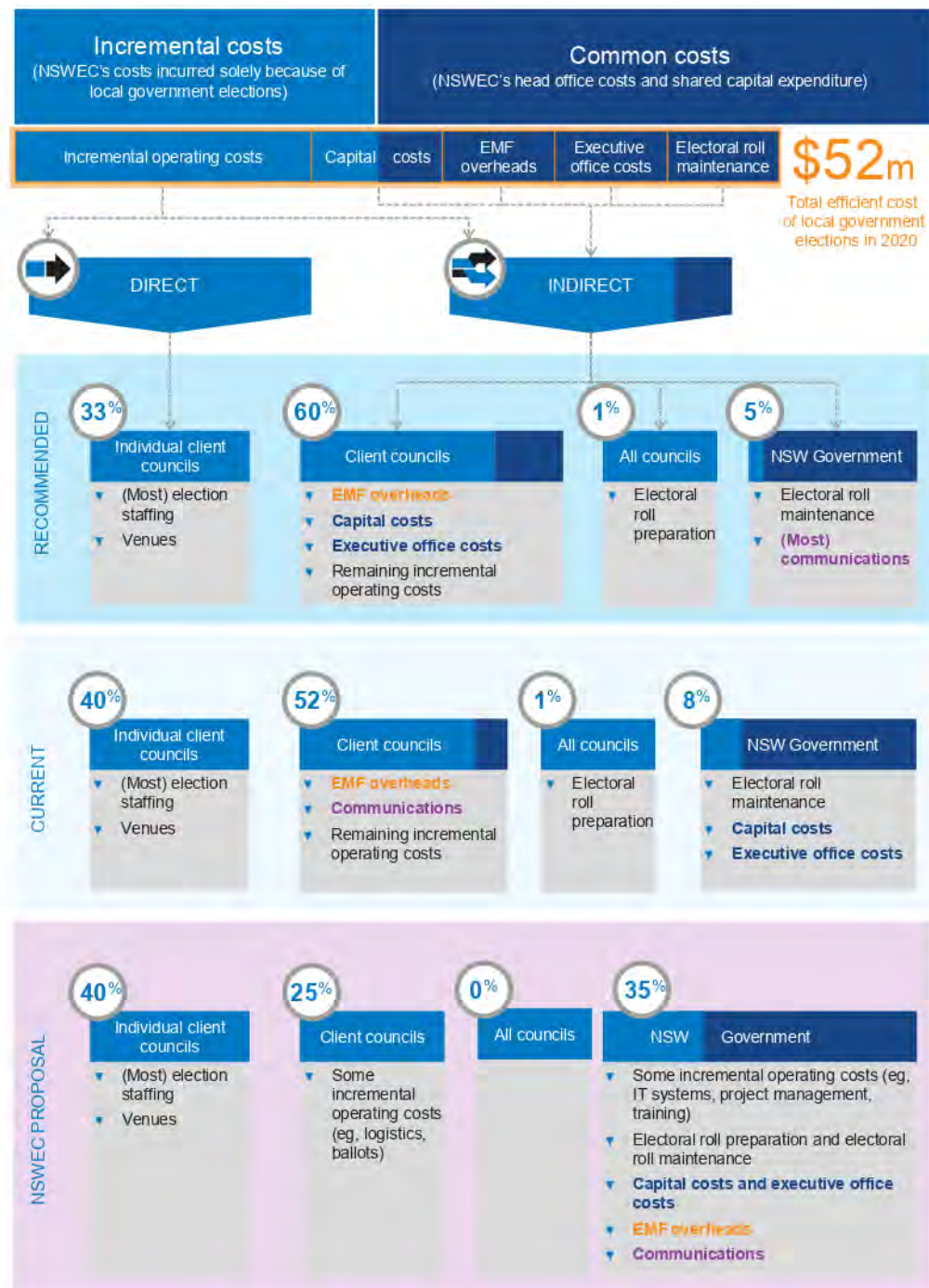
Our recommended allocation of election costs between the NSW Government and councils remains largely unchanged from the Draft Report (as it is still based on the impactor-pays principle). The main difference is the allocation of the communication cost item:

- ▼ 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).¹⁷⁵ Therefore, we have now allocated all of the communication costs to the NSW Government.¹⁷⁶

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.

¹⁷⁵ Email from NSWEC to IPART dated 12 July 2019.

¹⁷⁶ 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 ^a | NSWEC's proposed allocation | IPART's allocation |
|--|------------|--|-----------------------------|---------------------------------------|
| Operating expenditure (incremental costs of LGEs) | | | | |
| Election staffing | Direct | Individual client councils | Individual client councils | Individual client councils |
| <i>Activity exceptions:</i> | | | | |
| RO office security ^b | 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 ^b | 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 ^c | 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 |
| Operating expenditure (LGE share of common costs) | | | | |
| 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 |
| Building block items | | | | |
| 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.¹⁷⁷ 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).

¹⁷⁷ 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.¹⁷⁸ 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.¹⁷⁹

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.¹⁸⁰ 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.¹⁸¹

¹⁷⁸ Bathurst Regional Council submission to IPART Draft Report, July 2019, p 1.

¹⁷⁹ 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.

¹⁸⁰ 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.

¹⁸¹ 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.¹⁸² 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.¹⁸³ 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.¹⁸⁴ 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.¹⁸⁵
- ▼ ‘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

¹⁸² 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.

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

¹⁸⁴ Email from NSWEC to IPART dated 12 July 2019.

¹⁸⁵ 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.¹⁸⁶ Warrumbungle Shire Council supported our recommendation to allocate election awareness campaign costs to the NSW Government.¹⁸⁷

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.¹⁸⁸ Penrith City Council considered this would ensure a transparent and competitive process, likely to result in better outcomes for the community.¹⁸⁹

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.¹⁹⁰ Similarly, the Central Coast Council and LGNSW noted that the NSW Government should pay a portion of NSWEC's indirect costs.¹⁹¹
- ▼ 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.¹⁹²

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

¹⁸⁷ Warrumbungle Shire Council submission to IPART Draft Report, July 2019, p 2.

¹⁸⁸ 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.

¹⁸⁹ Penrith City Council submission to IPART Issues Paper, May 2019, p 5.

¹⁹⁰ Inner West Council submission to IPART Issues Paper, May 2019, p 2.

¹⁹¹ Central Coast Council submission to IPART Issues Paper, May 2019, p 3; LG NSW submission to IPART Issues Paper, May 2019, p 12.

¹⁹² 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.¹⁹³

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 grouping¹⁹⁴
- ▼ Count centre venue costs – number of ballots for each client council in the count centre grouping¹⁹⁵
- ▼ 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 costs¹⁹⁶ 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.¹⁹⁷ 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)¹⁹⁸ 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.

¹⁹³ 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.

¹⁹⁴ 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.

¹⁹⁵ 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.

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

¹⁹⁷ Email from the NSWEC to IPART dated 29 May 2019.

¹⁹⁸ 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.¹⁹⁹

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.²⁰⁰ 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.²⁰¹ 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.²⁰²

- **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.

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

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

²⁰¹ Email from NSWEC to IPART dated 5 August 2019.

²⁰² 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-electoral basis, rather than directly to individual councils.²⁰³ However, the NSWEC was unable to provide more detailed information on the specific cost items causing the cross-subsidies.²⁰⁴
- ▼ **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.²⁰⁵

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

²⁰³ 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.

²⁰⁴ Email from IPART to the NSWEC dated 6 June 2019.

²⁰⁵ 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.²⁰⁶

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.²⁰⁷ 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.²⁰⁸

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.²⁰⁹

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

²⁰⁶ 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.

²⁰⁷ NSWEC submission to IPART Draft Report, July 2019, p 23.

²⁰⁸ Email from IPART to the NSWEC dated 6 June 2019.

²⁰⁹ NSWEC IPART Issues Paper, May 2019, p 13.

the local government elections.²¹⁰ 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.²¹¹

²¹⁰ Terms of Reference (Appendix B of this report).

²¹¹ 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)

| Building blocks | NSWEC existing allocation | NSWEC proposed allocation | IPART final recommendation allocation |
|-----------------------------------|---------------------------|---------------------------|---------------------------------------|
| Councils' share | | | |
| 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 |
| Total councils' share (\$) | 48,512 | 32,863 | 49,687 |
| <i>Total councils' share (%)</i> | 92.4% | 62.6% | 94.7% |
| NSW Govt share (\$) | 3,967 | 19,615 | 2,792 |
| <i>NSW Govt share (%)</i> | 7.6% | 37.4% | 5.3% |
| Total | 52,479 | 52,479 | 52,479 |

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).²¹²

²¹² 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.²¹³

²¹³ 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%²¹⁴ higher than for the 2016-17 elections.²¹⁵ This includes the effects of inflation.²¹⁶ 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,²¹⁷ 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.²¹⁸ This had the effect of reducing council bills.

²¹⁴ For councils that undertook full elections in 2016 and 2017. This excludes Carrathool and Coolamon Shire Councils which had uncontested elections in 2016.

²¹⁵ 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.

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

²¹⁷ NSWEC submission to IPART Issues Paper, May 2019, p 8.

²¹⁸ 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.

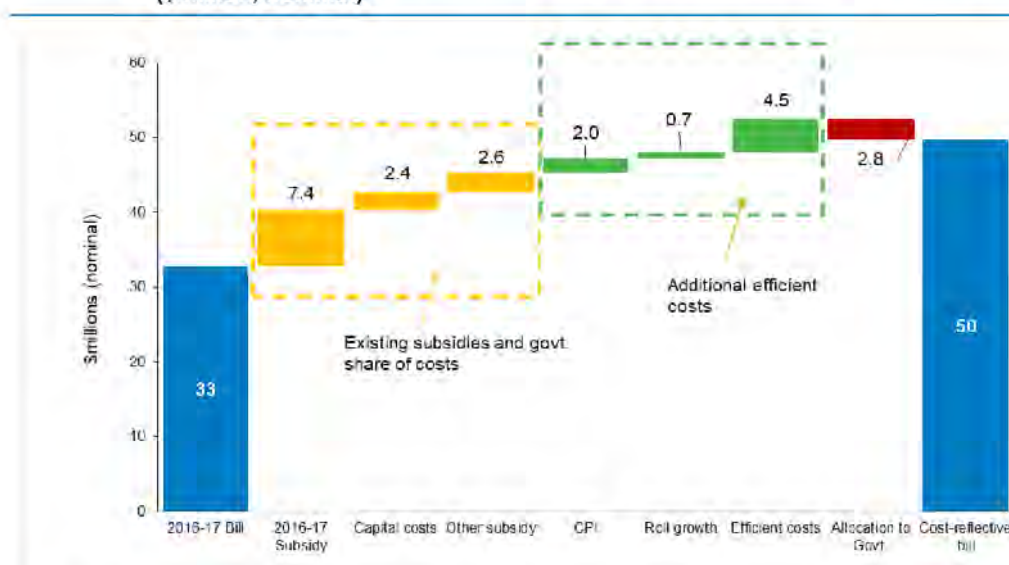
While the NSWEC has proposed a higher operating cost base (\$62.4 million) than what we have recommended (\$49.7 million),²¹⁹ it proposes to allocate most indirect costs (\$22.0 million) to the State Government for the 2020 elections.

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.

²¹⁹ 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.²²⁰

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 ^a | 29 | 9.34 | 46 | 14.96 | 17 | 59% | 5.61 | 60% |

^a 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-electors basis.

²²⁰ 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.²²¹

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.²²²

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-

²²¹ 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.

²²² 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.²²³

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 bills²²⁴ (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 councils²²⁵ that held their elections in 2016 will show a relatively higher nominal increase in bills compared to the 45 councils which held elections in 2017.²²⁶ This is due to the extra year of inflation, and the cap in **real** bills.²²⁷

²²³ Forbes Shire Council submission to IPART's Draft Report, July 2019, p 1

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

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

²²⁶ 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.

²²⁷ 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 Council²²⁸ to 34% in Camden Council.²²⁹ 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%.²³⁰ We note that over the same period the rate peg has been between 8.6% (2016 to 2020) and 6.6% (2017 to 2020).²³¹

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 ^a | 29 | 9.34 | 31 | 9.97 | 2 | 8% | 0.63 | 7% |

^a 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.

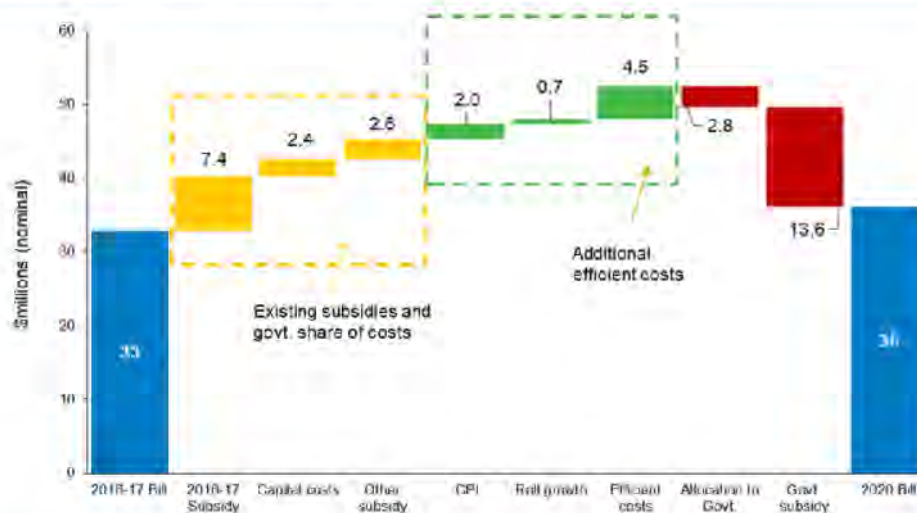
²²⁸ The NSWEC projects that the number of electors in Walgett Shire Council will fall from 3,940 at the 2016 election to 3,793 in 2020.

²²⁹ 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.

²³⁰ 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.

²³¹ 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 elections²³²
- ▼ Central Darling Shire Council did not hold an election
- ▼ Two councils held uncontested elections.²³³

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 type²³⁴

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

²³³ 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.

²³⁴ 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 |
| Total | | | | 1,460 |

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.²³⁵

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.

²³⁵ 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. |



B Terms of reference

92 **IPART** Review of local government election costs



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

GPO Box 5341 Sydney NSW 2001 ■ P: (02) 8574 5000 ■ F: (02) 9339 5500 ■ W: nsw.gov.au

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 5 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.¹

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.² 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.³

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**.

¹ Local government elections were conducted in two tranches in 2016 and 2017.

² 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.

³ 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





Ernst & Young
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5359
ey.com/au

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.

Ernst & Young disclaims all responsibility to any Third Parties for any loss or liability that the Third Parties may suffer or incur arising from or relating to or in any way connected with the contents of the Report, the provision of the Report to the Third Parties or the reliance upon the Report by the Third Parties.

No claim or demand or any actions or proceedings may be brought against Ernst & Young arising from or connected with the contents of the Report or the provision of the Report to the Third Parties. Ernst & Young will be released and forever discharged from any such claims, demands, actions or proceedings.

Ernst & Young have consented to the Report being published electronically on the IPART website for informational purposes only. Ernst & Young have not consented to distribution or disclosure beyond this. The material contained in the Report, including the Ernst & Young logo, is copyright and copyright in the Report itself vests in IPART. The Report, including the Ernst & Young logo, cannot be altered without prior written permission from Ernst & Young.

Ernst & Young's liability is limited by a scheme approved under Professional Standards Legislation.

Table of contents

| | | |
|------------|--|----|
| 1. | Summary of findings | 1 |
| 2. | Introduction | 5 |
| 2.1 | Background | 5 |
| 2.2 | EY's scope | 5 |
| 2.3 | Acknowledgments | 5 |
| 3. | Assessing prudence and efficiency | 6 |
| 3.1 | Understanding how the NSWEC conducts an election | 6 |
| 3.2 | Prudence | 8 |
| 3.3 | Efficiency | 8 |
| 4. | NSWEC's proposed expenditure for LGE 2020 | 10 |
| 4.1 | Operating expenditure | 10 |
| 4.2 | Capital expenditure | 12 |
| 5. | Review of NSWEC's projected operating expenditure for LGE 2020 | 13 |
| 5.1 | Approach | 13 |
| 5.2 | Reconciliation of approach compared to initial report | 15 |
| 5.3 | Review of prudence | 16 |
| 5.4 | Assessment of material cost changes | 17 |
| 5.5 | Staffing costs | 17 |
| 5.6 | Table loadings | 20 |
| 5.7 | Venue procurement | 22 |
| 5.8 | Project Costs | 23 |
| 5.9 | Count centres | 24 |
| 5.10 | Efficiency factor to be applied to other operating cost items | 25 |
| 5.11 | Items with material changes from LGE 2012 | 28 |
| 6. | Review of NSWEC's projected capital expenditure for LGE 2020 | 30 |
| 6.1 | WIGM, Countback and UPV upgrades | 30 |
| Appendix A | Cost reconciliation | 34 |

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 2016-17¹
- ▶ 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 2016-17² and has been proposed to increase in nominal terms by 31% to \$11.54 per elector³ 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.⁴

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.

¹ 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.

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

³ 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

⁴ 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% |
| Total | 62,352,327 | 48,779,645 | -13,572,682 | -22% |

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,⁵ 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.⁶

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.⁷ 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 instances⁸
- ▶ 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.

⁵ 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>>.

⁶ Local Government Act 1993 (NSW) s 291A.

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

⁸ 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).⁹ This was subsequently included as an Appendix to IPART's Draft report on the Review of local government election costs.¹⁰

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.

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

¹⁰ 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.¹¹ Under Section 296 of the *Local Government Act 1993*, Councils can resolve to either:

- ▶ Engage the NSWEC to administer the election¹²
- ▶ Engage a commercial electoral services provider to administer the election, such as the Australian Election Company.¹³

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,¹⁴ 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.'¹⁵ 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,¹⁶ 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:¹⁷

¹¹ 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.

¹² *Local Government Act* (NSW) s 296AA(1)(a).

¹³ *Ibid* s 296AA(1)(b).

¹⁴ *Ibid* s 296(2).

¹⁵ *Ibid* s 296B(6)(c).

¹⁶ Electoral Commission NSW, *Local Government elections 2016-17 Service Commitments Charter*.

¹⁷ 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.¹⁸ 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 ways¹⁹
- ▶ 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'.²⁰ 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 elections²¹
- ▶ 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 procedure²²
- ▶ The Election Fraud and Corruption Risk Assessment conducted by Walter Partners in 2014²³

¹⁸ The NSWEC's Strategic Plan for 2017-2020 commits to 'improved timeliness of count' but does not appear to indicate any specific time targets.

¹⁹ NSW Electoral Commission, *Strategic Plan 2017-2020 Democracy Delivered*, page 17.

²⁰ NSW Electoral Commission, *Annual Report 2017-18*, p 68.

²¹ NSW Electoral Commission, *Strategic Plan 2017-2020: Democracy Delivered*, page 17.

²² NSW Electoral Commission, *Annual Report 2017-18*, p 68.

²³ 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 2016-17²⁴ and has been proposed to increase in nominal terms by 31% to \$11.54 per elector²⁵ 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.²⁶

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 ^a | 1,641,085 | N/A | N/A | N/A |
| Total | 41,350,609 | 62,352,327 | 21,001,718 | 51% |

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.

²⁴ Based on LGE 2016-17 base costs of \$41.35m and total number of electors enrolled in NSW of 4.71m

²⁵ 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

²⁶ 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'²⁷
 - ▶ 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 (\$) |
|-------------------------------------|----------------------------|------------------------------|------------------|
| Material cost increases | | | |
| 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 |

²⁷ 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.²⁸

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:²⁹

- ▶ 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.³⁰

²⁸ 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>>.

²⁹ LGR Consolidated Financial Model SK 20190602_Final LG - Ref for P17.xlsx.

³⁰ 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:

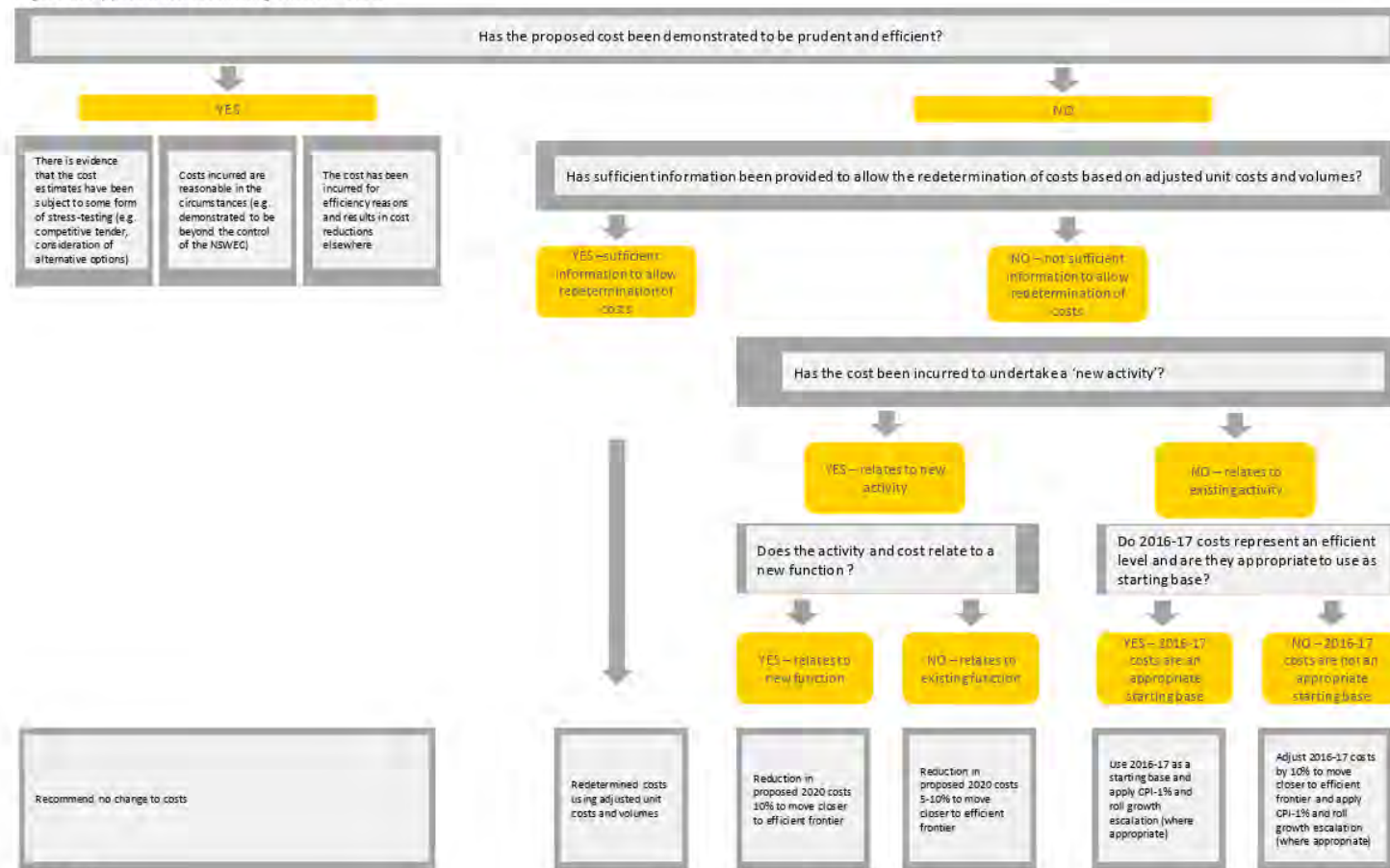
- ▶ The costs related to an activity undertaken by the NSWEC that is prudent in the circumstances existing at the time
- ▶ The activity and the associated costs were undertaken in the most cost-effective way that resulted in the optimal quantity of resources is used to undertake the activity and to deliver 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 |
| Total Staffing Costs | 14,917,778 | 21,685,233 | 6,767,455 | 45% |

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 ³¹ | SGE 2019 rates ³² | NSWEC's proposed LGE 2020 rates ³³ |
|---|-------------------------------------|------------------------------|---|
| 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 Manager 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 Manager 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.³⁴ 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.³⁵

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.

³¹ 'SGE19 - Staffing Rate Matrix - Internal working document.xlsx' provided by the NSWEC on 17 May 2019.

³² Ibid.

³³ LGE 2020 Budget Submitted to IPART 4 July 2019.xlsx.

³⁴ Victorian Electoral Commission, 'Employment Guide for Election Casuals and Officials', page 10.

³⁵ 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),³⁶ 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

³⁶ 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 ³⁷ |
|---|---------------------------|------------------------|---|
| 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:

³⁷ 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 2016³⁸
 - ▶ 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 22,270³⁹ and at LGE 2016-17 was 15,250⁴⁰
- ▶ 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.⁴¹ 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.

³⁸ NSWEC, Report on the Conduct of the 2017 Local Government Election, p. 49

³⁹ NSWEC, Report on the Conduct of the 2015 State Government Election, p.12

⁴⁰ 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.

⁴¹ 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,⁴² only 4% of candidate dissatisfaction was because it 'took too long to get results'⁴³. 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 ⁴⁴ |
|---------------------------|-------------------------|---------------------------------|--|
| Ordinary Voting | | | |
| 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 |
| Declaration Voting | | | |
| 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 |

⁴² IPSOS, 2016-17 Local Government Elections Candidates Survey Report (December 2016), p 20.

⁴³ Ibid, p 18.

⁴⁴ 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 |
| Total Venue Procurement | 3,155,192 | 4,963,091 |

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).⁴⁵ 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

⁴⁵ 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).⁴⁶ 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:

⁴⁶ 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,⁴⁷ 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."⁴⁸

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:⁴⁹

- ▶ Cost benefit analysis of proposed expenditure
- ▶ Targeted KPIs that measure outputs against defined service levels
- ▶ Stress testing

⁴⁷ 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

⁴⁸ Ibid, page 116

⁴⁹ 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)⁵⁰
- ▶ 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 2020⁵¹ 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

⁵⁰ NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

⁵¹ 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 ⁵² | 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:

⁵² 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,⁵³ 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

⁵³ 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 ballots⁵⁴
- ▶ 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.⁵⁵

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

⁵⁴ JSCem, Report – preference counting in local government elections in NSW, November 2017.

⁵⁵ *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 Budget⁵⁶
- ▶ 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 delivery⁵⁷
- ▶ 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%⁵⁸
- ▶ 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.

⁵⁶ NSW Treasury, 2018-19 Budget - Budget Paper 1 - Chapter 6 - Expenditure, p 6 - 4.

⁵⁷ For example, refer to National Commission of Audit, Towards Responsible Government: The Report of the National Commission of Audit, February 2014, Appendix Volume 2

⁵⁸ 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 instances⁵⁹
- ▶ 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.

⁵⁹ 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 - QA 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 |

Independent Pricing and Regulatory Tribunal
Further review of efficient costs of the NSW Electoral Commission's conduct of local government elections

EY | 34

| 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 | 26,604 |
| | 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 |

Independent Pricing and Regulatory Tribunal
Further review of efficient costs of the NSW Electoral Commission's conduct of local government elections

EY | 35

| 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 |
| AP04: Counting, Results & Declaration Votes | 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 |
| AP05: Attendance & Non-Attendance Voting | 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 |
| AP06: Technology | 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 |
| AP07: Communications | 9032 - Licensing costs | 0 | 0 | 20,000 |
| | 9248 - Post Election Surveys | 0 | 0 | 200,000 |
| | 9311 - Targeted Audiences | 19,795 | 21,775 | 235,000 |

Independent Pricing and Regulatory Tribunal
Further review of efficient costs of the NSW Electoral Commission's conduct of local government elections

EY | 36

| 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 ^a | | 1,641,085 | 2,209,492 | N/A |
| Grand Total | | 41,350,609 | 56,536,701 | 62,352,327 |

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.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit ey.com.

© 2019 Ernst & Young, Australia
All Rights Reserved.

Ernst & Young is a registered trademark. Our report may be relied upon by the Independent Pricing and Regulatory Tribunal only pursuant to the terms of our engagement letter dated 5 July 2019. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party or the reliance upon our report by the other party.

Liability limited by a scheme approved under Professional Standards Legislation.
ey.com

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% |
| Post-tax real WACC | 2.9% | 3.5% | 2.9% | 3.2% | 3.5% |
| 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.

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.²³⁶ 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.

²³⁶ 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.²³⁷ The NSWEC supported it in principle.²³⁸ 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.²³⁹

Randwick City Council did not support the WACC value, arguing that the government to government nature of the service created a risk-free environment.²⁴⁰ 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.

²³⁷ City of Canada Bay Council submission to IPART Draft Report, July 2019, p 3.

²³⁸ NSWEC submission to IPART Draft Report, July 2019, p 29.

²³⁹ 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.

²⁴⁰ Randwick City Council submission to IPART Draft Report, July 2019, p 2.

Lowest observed betas

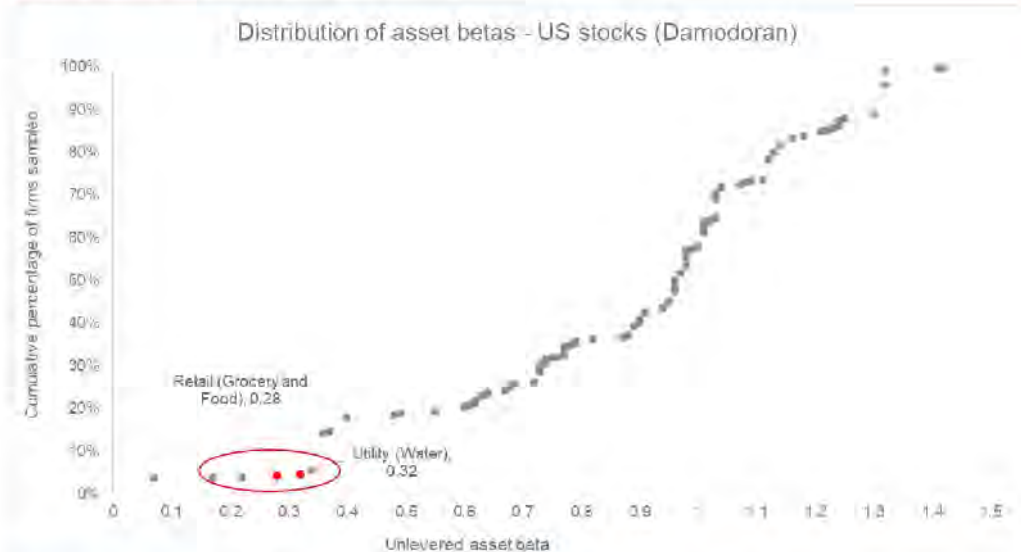
In order to make an empirical assessment of the minimum return an equity investor would require for a very low-risk investment, we considered the range of asset betas observed across the universe of listed firms in the United States. We chose the United States because it is a large, diversified economy 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.²⁴¹

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,²⁴² 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 (last updated on 5 January 2019); and IPART analysis.

²⁴¹ A. Damodaran, Beta, Unlevered beta and other risk measures www.stern.nyu.edu/~adamodar/pc/datasets/betas.xls (last updated on 5 January 2019).

²⁴² 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 |
| Election Costing (2019 proposed here) | 0.28 |

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.

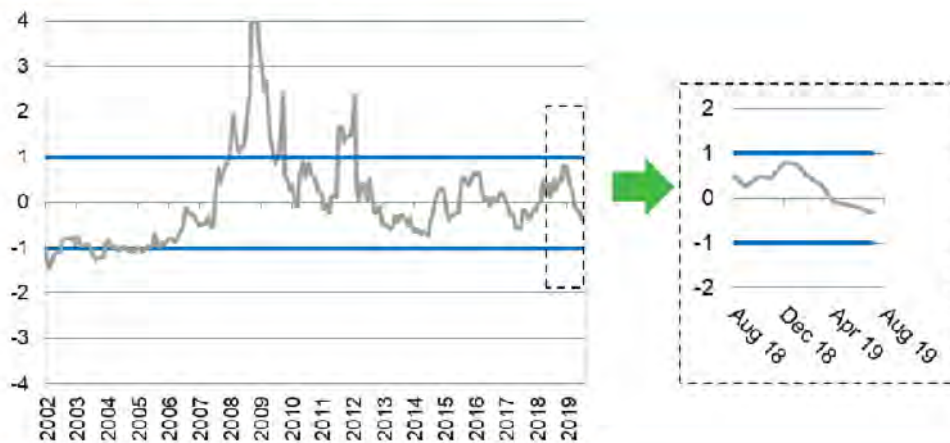
Source: IPART analysis.

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 ^a | 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 ^a | 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% |

Review of local government election costs **IPART** 105

| 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% |
| Average | 257 | 315 | 388 | 139 | 51% | 77 | 13% |

^b 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 ^a | 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 ^a | 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% |

Review of local government election costs [IPART](#) 109

| | 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% |

110 **IPART** Review of local government election costs

| | 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% |
| Average | 257 | 388 | 106 | 282 | 27 | 9% | -112 | -27% |

^a 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.

NSW Government Response

IPART Review of Local Government Election Costs



Review of Local Government Election Costs

NSW Government Response to IPART Recommendations

The next local council elections will be held on 12 September 2020. Since 2008, council elections have been undertaken on a full cost recovery basis. The NSW Electoral Commission (NSWEC) pays the direct costs of the election and then invoices councils once the elections are completed plus an Election Management Fee to cover the NSWEC's corporate overheads.

The Government has asked the Independent Pricing and Regulatory Tribunal (IPART) to undertake a review of local government election costs for the 2020 elections. IPART has been asked to recommend a costing methodology that minimises the financial burden on councils and ensures local government elections are conducted efficiently and cost effectively.

The Government thanks IPART and all the stakeholders who participated in this process for their work on this review.

IPART's review has demonstrated the need for the Government to meet part of the costs of council elections. In response to IPART's review, the NSW Government is pleased to announce that it intends to fund the NSWEC's core costs in relation to the administration of local government elections, thereby reducing councils' election costs.

Under the new funding model, costs will be assigned as either direct or core costs and allocated to councils or the NSW Government accordingly. The funding model will see costs allocated on the following basis:

- Direct (or marginal) costs are the costs that would not be incurred if an election was not held. These will be recovered from councils on a direct allocation and per elector basis. These include election staffing, venues, ballot paper printing, council-specific advertising and voter information products.
- Core costs are defined as head office costs such as staff payroll, training, election security, project management, drafting of election procedures and policies, core IT system development and maintenance and ongoing voter roll maintenance. These are the costs the NSWEC must incur to maintain its capacity to conduct local government elections. The NSW Government will fund these core costs of \$19.9 million.

The NSW Government's funding contribution will result in an indicative weighted average cost per elector of \$8.21, which will be passed onto councils, compared to a weighted average cost per elector of \$12.72 if no NSW Government contribution was provided. Adoption of the new funding model offers the following benefits:

- it reduces councils' election costs ensuring all councils, regardless of size, can afford to retain an electoral services provider to administer their elections
- it is more efficient, cost effective and cost reflective
- it ensures a more equitable allocation of election costs, eliminating the need for larger councils to cross subsidise smaller councils' elections, and
- it reflects the practice in other jurisdictions where State Governments fund their Electoral Commissions' core operations in relation to local government elections resulting in lower costs per elector compared to NSW.

The Government is committed to further reducing the cost of local government elections.

NSW Government Response

IPART Review of Local Government Election Costs



Amendments were made to the Local Government (General) Regulation 2005 last year to give councils the option of avoiding the cost of by-elections in the first 18 months of councils' terms by filling vacancies by a countback. The option of countbacks will be available to councils following the September 2020 ordinary elections.

To achieve further efficiencies in the administration of council elections, the Government proposes to make amendments to the electoral provisions of the Regulation to modernise and align them with the more contemporary and efficient practices used at State elections. These amendments will be made in time for the September 2020 council elections.

The Government agrees with IPART that electoral service providers should be responsive to the needs of councils in administering their elections and, to accommodate this, amendments will also be made to the Regulation to require the NSWEC and other electoral service providers to exercise their functions as election managers in consultation with councils. To ensure the integrity of council elections, ultimate decision making in relation to the administration of council elections will rest with the election manager.

The Government is committed to identifying further opportunities for reducing councils' election costs and to this end, it will be consulting with the local government sector early next year on extending to all councils the option of conducting their elections by universal postal voting instead of attendance voting from the 2024 election.

Universal postal voting has operated successfully in Victoria for some years. At the 2016 Victorian local government elections, 72 out of 79 (92.7%) councils conducted their elections by universal postal voting. In 2016, universal postal voting elections cost 12.2% less than attendance voting elections and had higher participation rates. Participation rates at council elections using universal postal voting elections was 73.8% compared to 61.5% for attendance voting elections.



Council Policy

| | |
|-------------------------|-------------------------|
| Policy Title: | Investments |
| Policy Number: | 6.14 |
| Focus Area: | Governance and Advocacy |
| Responsibility: | Finance |
| Meeting Adopted: | (to be completed) |

OBJECTIVE

To provide a framework for investing Council's funds in order to maximise revenue from authorised investments, while having due consideration of risk and security of the investment; using the care, diligence and skill that a prudent person would exercise in investing Council funds.

POLICY

1. Legislative Requirements

All investments are to comply with the following:

- Section 625 of the *Local Government Act 1993*;
- Clause 212 of the *Local Government (General) Regulation 2005*;
- Ministerial Investment Order;
- Local Government Code of Accounting Practice and Financial Reporting;
- Australian Accounting Standards;
- Office of Local Government Circulars; and
- Section 14A(2), 14C(1) and (2) of the *Trustee Amendment (Discretionary Investments) Act 1997*.

2. Definitions

1. Authorised Deposit-taking Institutions (ADIs) - are corporations authorised under the Bank Act 1959 (Cwth) to take deposits from customers. ADI's include banks, building societies and credit unions all of which are regulated by the Australian Prudential Regulation Authority (APRA).
2. Bank Bill Swap Rate - is the compilation and average rate of market rates supplied by domestic banks relating to multiple maturities of bank bills.
3. Bills of Exchange - is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person, or to bearer.
4. Debentures - are a debt security usually secured by a fixed or floating charge over an underlying asset or pool of assets. Debentures are normally issued by companies in return for medium and long-term investment funds.

Richmond Valley Council - 6.14 Investments Policy

Adopted: TBA

Page 1 of 5

5. Floating Rate Note - are securities that (in Australia) pay a coupon normally priced at a fixed margin above the Bank Bill Swap Rate
6. TCorp - means NSW Treasury Corporation
7. Term Deposits - are non-tradeable investments offered by ADIs with varying maturity dates (normally from one month to 60 months) and a rate set at the outset. Interest is normally payable upon maturity or if the term is longer than 12 months, annually from the investment date. Penalties apply if the funds are withdrawn before maturity and a notice period of 31 days is usually required.
8. 90 Day Bank Bill Reference Rate (BBSW) – is the wholesale interbank rate within Australia and is published by the Australian Financial Markets Association (AFMA). It is the borrowing rate among the country's top market makers and is widely used as the benchmark interest rate for financial instruments.

3. Delegation of Authority

Authority for implementation of the Investment Policy is delegated by Council to the General Manager in accordance with the Local Government Act 1993. The General Manager delegates the day-to-day management of Council's Investments to the Chief Financial Officer/Manager Mid-Richmond, Financial Accountant, Principal Accountant and Business Development Accountant with assistance in collating data from other finance staff. Officers' delegated authority to manage Council's investments shall be recorded and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

All new investments require at least two of the above staff to approve, and evidence of such is to be kept in the Investment Folders, maintained by the Financial Accountant. These documents should specify the amount of money invested, the security or form of investment made, the term of the investment and if appropriate the rate of interest to be paid and the amount of money that Council has earned.

4. Prudent Person Standard

Council officers should act with the duty of care, skill, prudence and diligence that a prudent person would exercise when investing and managing their own funds. As trustees of public monies, officers are to manage Council's investment portfolios to safeguard the portfolio in accordance with the spirit of this Investment Policy, and not for speculative purposes.

5. Ethics and Conflicts of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires officers to disclose any conflict of interest to the General Manager. Independent advisors are also required to declare that they have no actual or perceived conflicts of interest.

6. Approved Investments

Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government:

- (a) any public funds or securities issued by or guaranteed by, the Commonwealth, any State of the Commonwealth or a Territory;
- (b) any debentures or securities issued by a council (within the meaning of the Local Government Act 1993 (NSW));
- (c) interest bearing deposits with, or any debentures or bonds issued by, an authorised deposit-taking institution (as defined in the Banking Act 1959 (Cwth)), but excluding subordinated debt obligations;
- (d) any bill of exchange which has a maturity date of not more than 200 days; and if purchased for value confers on the holder in due course a right of recourse against a bank which has been designated as an authorised deposit-taking institution by the Australian Prudential Regulation Authority;
- (e) a deposit with the New South Wales Treasury Corporation or investments in an Hour-Glass investment facility (now known as TCorpIM Fund) of the New South Wales Treasury Corporation.

7. Prohibited Investments

In accordance with the Ministerial Investment Order, this investment policy prohibits but is not limited to any investment carried out for speculative purposes including:

- Derivative based instruments;
- Principal only investments or securities that provide potentially nil or negative cashflow;
- Stand-alone securities issued that have underlying futures, options, forwards contracts and swaps of any kind;

This policy also prohibits the specific use of leveraging (borrowing to invest) of an investment. However, where loan funding is obtained for a specific project and there is a time lag between receiving the funds and final expenditure, funds may be invested in the short term.

8. Liquidity and Maturity

Surplus funds are determined by review of Council's "Daily Cashflow" spreadsheet, which forecasts known revenues and expected expenditures. It is revised each day by Council's Financial Accountant (a detailed procedure is included in the Financial Accountants Procedure Manual). As a rule of thumb, a cash balance of approximately \$500,000 is to be maintained to cover emergency situations. Funds over and above this are considered surplus however a level of cash is to be held in a separate account to cover short term payment run demands. This account is chosen in order to attract interest at a higher rate than the general fund account and should be approximately \$3,000,000.00-\$5,000,000.

In the short term, the duration of investments will be determined by analysis of the "Daily Cashflow". For the longer term, cash requirements will be determined by Council's Long Term Financial Plan. In addition, the current market for interest rates must be taken into consideration and input from Council's financial advisors should be sought as to the longer-term outlook.

9. Credit Rating, Portfolio and Counterparty Limits

The minimum and maximum holding percentage for each investment class and the counterparty limits for each institution are as follows:

| Investment Class | Minimum Holding | Maximum Holding | Counterparty Limit |
|-------------------------------------|-----------------|-----------------|--------------------|
| Cash | 5% | 30% | 25% |
| Term Deposits – AAA Rated | 0% | 100% | 40% |
| Term Deposits – AA Rated | 0% | 100% | 30% |
| Term Deposits – A Rated | 0% | 70% | 20% |
| Term Deposits – BBB Rated | 0% | 50% | 15% |
| Term Deposits – Unrated | 0% | 20% | 10% |
| TCorpIM Cash Facility | 0% | 40% | 100% |
| TCorpIM Strategic Cash Facility | 0% | 40% | 100% |
| TCorpIM Medium Term Growth Facility | 0% | 40% | 100% |

10. Risk Management Guidelines

Investments obtained are to be considered using the following criteria:

- Preservation of Capital – the requirement of preventing losses in an investment portfolio's total value (considering the time value of money);
- Diversification – setting limits to the amounts invested with a financial institution or government authority to reduce credit risk. An investment must not exceed 40% of the total investment portfolio;
- Credit risk – the risk that an institution that Council has invested in fails to pay the interest and or repay the principal of an investment;
- Market risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in market prices;
- Liquidity risk – the risk an investor is unable to redeem the investment at a fair price within a timely period; and
- Maturity risk – the risk relating to the length of 'term to maturity' of the investment. The larger the term, the greater the length of exposure and risk to market volatilities both gains and losses.

11. Investment Advisor

Council utilises Imperium Markets for its financial advisory services and for the use of its online investment platform for a monthly fee. TCorp also offers this service free to Council although this is being used on a needs basis rather than a contracted monthly arrangement.

12. Measurement

As Council no longer holds grandfathered investments such as Collateralised Debt Obligations (CDOs), the investment returns for the portfolio are easily identifiable. This

measurement of the market value is to be assessed at least once a month to coincide with monthly reporting.

13. Environmentally Sustainable Investments (ESI's)

Council is committed to investing in Environmentally Sustainable Investments (ESI's) and will:

- Give preference to ESI's where their rate of return is equal or greater to other investment options
- Monitor the % of ESI held in our portfolio and seek to increase this % over time.
- Continually scan the market for ESI products that are compliant with the LG investment framework
- Report on our progress towards achieving the abovementioned objectives.

14. Benchmarking

Benchmarks are established to evaluate investment outcomes against objectives, and they must be easily measurable. The 90 Day Bank Bill Reference Rate (BBSW) is used as Council's benchmark and is included in the Monthly Financial Analysis Report to Council.

All investments aim to at least match or outperform the BBSW.

15. Reporting and Reviewing of Investments

Documentary evidence must be held for each investment and details thereof maintained in an investment register, and it must provide Council legal title to the investment, i.e. a financial instrument that clearly defines the contractual arrangement needs to be provided to Council. It is imperative that this financial instrument states that the investment is held in the name of Council. The Investment Register must be reconciled to Council's financial records monthly.

Certificates must be obtained from the financial institutions confirming the amounts of investments held on the Council's behalf as at 30 June each year and reconciled to the Investment Register.

A monthly Financial Analysis Report will be provided to Council, detailing the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and changes in market value.

REVIEW

This policy will be reviewed at least once a year or as required in the event of legislative changes. Any amendment to the policy must be by way of Council resolution.

From: Louise Bell
Sent: Mon, 23 Sep 2019 14:02:15 +1000
To: t1connect prod
Subject: Launch of Your Council website - Minister for Local Government

#ECMBODY
#QAP RECORDS DEFAULT
#NOREG

From: NSW Gov No Reply [mailto:noreply@minister.nsw.gov.au]
Sent: Thursday, 19 September 2019 3:33 PM
To: council <council@richmondvalley.nsw.gov.au>
Subject: Launch of Your Council website - Minister for Local Government



The Honourable Shelley Hancock MP
Minister for Local Government

Dear Mr Macdonald

I am pleased to inform you of the NSW Government's soon-to-be launched website **Your Council**, which will showcase the great work of the State's 128 local councils.

As you may be aware, the Office of Local Government (OLG) has been collecting a wide range of council data for more than 25 years and using it to produce detailed comparative reports which are currently available on the OLG website.

This data is now being presented in an interactive format on a dedicated website to allow local communities to access detailed information about their local council and the wide range of services it provides at the click of a button.

Your Council allows ratepayers to access comprehensive statistics on the operations of their local council and the profile of their local community including:

- Council expenditure in a range of areas including roads, bridges, footpaths, libraries, recreation and culture, community services, and the environment
- Community facilities including the number of swimming pools, public halls, and libraries as well as the length of roads and amount of open space
- Key operational information including council staffing levels, the number of DAs approved, and average rates and charges
- Demographic information about the local population and councillors as well as economic statistics including the unemployment rate, average income, and number of businesses.

The data for each council is also benchmarked against the average for like councils so ratepayers can compare how their council is travelling.

The easy to understand and user friendly website also celebrates the sheer size and scale of our councils as a whole with a Statewide snapshot of the NSW local government sector.

The one-stop-shop for local government is a valuable resource for residents, ratepayers and the general community, as well as councillors, council staff, local government peak bodies, researchers, academics and State Government agencies.

The new site is part of the NSW Government's commitment to strengthen the transparency, accountability and performance of the local government sector.

The website, which was developed in consultation with local councils and local government peak bodies, will be updated annually as new data becomes available.

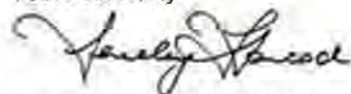
OLG will continue to work with the local government sector to enhance the functionality of the new website as part of our ongoing commitment to improving council reporting.

Your Council will also guide development of a new Performance Measurement Framework with consistent benchmarks for all NSW councils.

The new website – www.yourcouncil.nsw.gov.au – will be launched shortly and I encourage you to actively promote it to your local community.

For more information contact the Office of Local Government's Performance Team on 02 4428 4100 or olg@olg.nsw.gov.au.

Yours sincerely



The Hon. Shelley Hancock MP
Minister for Local Government

Richmond Valley Council

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2019



DRAFT

Richmond Valley Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019



General Purpose Financial Statements

for the year ended 30 June 2019

| Contents | Page |
|--|-----------|
| 1. Understanding Council's Financial Statements | 3 |
| 2. Statement by Councillors & Management | 4 |
| 3. Primary Financial Statements: | |
| Income Statement | 5 |
| Statement of Comprehensive Income | 6 |
| Statement of Financial Position | 7 |
| Statement of Changes in Equity | 8 |
| Statement of Cash Flows | 9 |
| 4. Notes to the Financial Statements | 10 |
| 5. Independent Auditor's Reports: | |
| On the Financial Statements (Sect 417 [2]) | 81 |
| On the Financial Statements (Sect 417 [3]) | 82 |

Overview

Richmond Valley Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

10 Graham Place
Casino NSW 2470

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.richmondvalley.nsw.gov.au.

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their council and community.

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2019.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, property, plant and equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's financial statements are required to be audited by the NSW Audit Office.

In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the Financial Statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the audit report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

General Purpose Financial Statements

for the year ended 30 June 2019

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the Local Government Act 1993 (NSW) (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

To the best of our knowledge and belief, these statements:

- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 22 October 2019.

Robert Mustow
Mayor
22 October 2019

Steve Morrissey
Councillor
22 October 2019

Vaughan Macdonald
General Manager
22 October 2019

Ryan Gaiter
Responsible Accounting Officer
22 October 2019

Income Statement

for the year ended 30 June 2019

| Original unaudited budget 2019 | \$ '000 | Notes | Actual 2019 | Actual 2018 ¹ |
|--|--|-------|----------------|-----------------------------|
| Income from continuing operations | | | | |
| <u>Revenue:</u> | | | | |
| 24,955 | Rates and annual charges | 3a | 24,942 | 23,276 |
| 14,420 | User charges and fees | 3b | 15,919 | 14,488 |
| 1,037 | Interest and investment revenue | 3c | 1,732 | 1,060 |
| 151 | Other revenues | 3d | 166 | 166 |
| 8,513 | Grants and contributions provided for operating purposes | 3e,3f | 9,731 | 9,461 |
| 12,089 | Grants and contributions provided for capital purposes | 3e,3f | 17,647 | 11,557 |
| 61,165 | Total income from continuing operations | | 70,137 | 60,008 |
| Expenses from continuing operations | | | | |
| 19,371 | Employee benefits and on-costs | 4a | 20,661 | 19,017 |
| 1,338 | Borrowing costs | 4b | 1,249 | 2,940 |
| 9,995 | Materials and contracts | 4c | 10,741 | 9,963 |
| 14,185 | Depreciation and amortisation | 4d | 15,939 | 14,698 |
| 5,868 | Other expenses | 4e | 5,444 | 5,033 |
| — | Net losses from the disposal of assets | 5 | 5,791 | 2,677 |
| 50,757 | Total expenses from continuing operations | | 59,825 | 54,328 |
| 10,408 | Operating result from continuing operations | | 10,312 | 5,680 |
| 10,408 | Net operating result for the year | | 10,312 | 5,680 |
| 10,408 | Net operating result attributable to council | | 10,312 | 5,680 |
| (1,681) | Net operating result for the year before grants and contributions provided for capital purposes | | (7,335) | (5,877) |

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 Financial Instruments: Recognition and Measurement

The above Income Statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

for the year ended 30 June 2019

| \$ '000 | Notes | 2019 | 2018 ¹ |
|--|-------|---------------|-------------------|
| Net operating result for the year (as per Income Statement) | | 10,312 | 5,680 |
| Other comprehensive income: | | | |
| Amounts which will not be reclassified subsequently to the operating result | | | |
| Gain (loss) on revaluation of IPP&E | 9 | 32,026 | 67,960 |
| Impairment (loss) reversal relating to IPP&E | 9 | 90 | 2,859 |
| Total items which will not be reclassified subsequently to the operating result | | 32,116 | 70,819 |
| Total other comprehensive income for the year | | 32,116 | 70,819 |
| Total comprehensive income for the year | | 42,428 | 76,499 |
| Total comprehensive income attributable to Council | | 42,428 | 76,499 |

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

DRAFT

Statement of Financial Position

as at 30 June 2019

| \$ '000 | Notes | 2019 | 2018 ¹ |
|---|-------|----------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalent assets | 6(a) | 8,172 | 5,988 |
| Investments | 6(b) | 37,528 | 35,028 |
| Receivables | 7 | 11,971 | 9,066 |
| Inventories | 8a | 1,249 | 1,422 |
| Other | 8b | 331 | 248 |
| Total current assets | | 59,251 | 51,752 |
| Non-current assets | | | |
| Investments | 6(b) | 1,000 | 4,000 |
| Receivables | 7 | 2,170 | 2,098 |
| Inventories | 8a | 1,679 | 1,679 |
| Infrastructure, property, plant and equipment | 9 | 787,250 | 746,993 |
| Total non-current assets | | 792,099 | 754,770 |
| TOTAL ASSETS | | 851,350 | 806,522 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 10 | 5,819 | 4,766 |
| Income received in advance | 10 | 30 | 31 |
| Borrowings | 10 | 2,486 | 2,289 |
| Provisions | 11 | 6,315 | 5,476 |
| Total current liabilities | | 14,650 | 12,562 |
| Non-current liabilities | | | |
| Payables | 10 | 512 | 574 |
| Borrowings | 10 | 23,414 | 24,900 |
| Provisions | 11 | 3,754 | 2,043 |
| Total non-current liabilities | | 27,680 | 27,517 |
| TOTAL LIABILITIES | | 42,330 | 40,079 |
| Net assets | | 809,020 | 766,443 |
| EQUITY | | | |
| Accumulated surplus | 12a | 353,793 | 343,332 |
| Revaluation reserves | 12a | 455,227 | 423,111 |
| Council equity interest | | 809,020 | 766,443 |
| Total equity | | 809,020 | 766,443 |

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 Financial Instruments: Recognition and Measurement

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the year ended 30 June 2019

| \$ '000 | Notes | 2019 | | | 2018 ¹ | | |
|--|-------|---------------------|---------------------------|----------------|---------------------|---------------------------|----------------|
| | | Accumulated surplus | IPP&E revaluation reserve | Total equity | Accumulated surplus | IPP&E revaluation reserve | Total equity |
| Opening balance | | 343,332 | 423,111 | 766,443 | 337,652 | 352,292 | 689,944 |
| Adoption of new accounting standards – not retrospective | 12b | 149 | – | 149 | – | – | – |
| Restated opening balance | | 343,481 | 423,111 | 766,592 | 337,652 | 352,292 | 689,944 |
| Net operating result for the year | | 10,312 | – | 10,312 | 5,680 | – | 5,680 |
| Other comprehensive income | | | | | | | |
| – Gain (loss) on revaluation of IPP&E | 9 | – | 32,026 | 32,026 | – | 67,960 | 67,960 |
| – Impairment (loss) reversal relating to IPP&E | 9 | – | 90 | 90 | – | 2,859 | 2,859 |
| Other comprehensive income | | – | 32,116 | 32,116 | – | 70,819 | 70,819 |
| Total comprehensive income | | 10,312 | 32,116 | 42,428 | 5,680 | 70,819 | 76,499 |
| Equity – balance at end of the reporting period | | 353,793 | 455,227 | 809,020 | 343,332 | 423,111 | 766,443 |

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under *AASB 139 Financial Instruments: Recognition and Measurement*

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 30 June 2019

| Original unaudited budget 2019 | \$ '000 | Notes | Actual 2019 | Actual 2018 |
|---|--|-------|----------------|----------------|
| Cash flows from operating activities | | | | |
| <u>Receipts</u> | | | | |
| 24,955 | Rates and annual charges | | 25,193 | 23,130 |
| 14,420 | User charges and fees | | 14,043 | 15,739 |
| 1,037 | Investment and interest revenue received | | 767 | 665 |
| 20,602 | Grants and contributions | | 24,170 | 19,560 |
| – | Bonds, deposits and retention amounts received | | 251 | 115 |
| 151 | Other | | 329 | – |
| <u>Payments</u> | | | | |
| (19,371) | Employee benefits and on-costs | | (20,303) | (18,725) |
| (9,694) | Materials and contracts | | (10,391) | (11,016) |
| (1,271) | Borrowing costs | | (1,103) | (2,900) |
| (5,868) | Other | | (3,147) | (4,239) |
| 24,961 | Net cash provided (or used in) operating activities | 13b | 29,809 | 22,329 |
| Cash flows from investing activities | | | | |
| <u>Receipts</u> | | | | |
| – | Sale of investment securities | | 1,290 | – |
| 3,091 | Sale of real estate assets | | – | 381 |
| 634 | Sale of infrastructure, property, plant and equipment | | 1,456 | 4,792 |
| 1 | Deferred debtors receipts | | 2 | 2 |
| <u>Payments</u> | | | | |
| – | Purchase of investment securities | | – | (13,000) |
| (29,503) | Purchase of infrastructure, property, plant and equipment | | (29,084) | (22,548) |
| – | Purchase of real estate assets | | – | (519) |
| (25,777) | Net cash provided (or used in) investing activities | | (26,336) | (30,892) |
| Cash flows from financing activities | | | | |
| <u>Receipts</u> | | | | |
| 2,000 | Proceeds from borrowings and advances | | 1,000 | 13,855 |
| <u>Payments</u> | | | | |
| (2,370) | Repayment of borrowings and advances | | (2,289) | (12,238) |
| (370) | Net cash flow provided (used in) financing activities | | (1,289) | 1,617 |
| (1,186) | Net increase/(decrease) in cash and cash equivalents | | 2,184 | (6,946) |
| 5,988 | Plus: Cash and cash equivalents – beginning of year | 13a | 5,988 | 12,934 |
| 4,802 | Cash and cash equivalents – end of the year | 13a | 8,172 | 5,988 |
| Additional Information: | | | | |
| 38,528 | plus: Investments on hand – end of year | 6(b) | 38,528 | 39,028 |
| 43,330 | Total cash, cash equivalents and investments | | 46,700 | 45,016 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 30 June 2019

Contents of the Notes accompanying the Financial Statements

| Note | Details | Page |
|-------|---|------|
| 1 | Basis of preparation | 11 |
| 2(a) | Council functions/activities – financial information | 14 |
| 2(b) | Council functions/activities – component descriptions | 15 |
| 3 | Income from continuing operations | 16 |
| 4 | Expenses from continuing operations | 22 |
| 5 | Gains or losses from the disposal, replacement and de-recognition of assets | 26 |
| 6(a) | Cash and cash equivalent assets | 26 |
| 6(b) | Investments | 27 |
| 6(c) | Restricted cash, cash equivalents and investments – details | 29 |
| 7 | Receivables | 30 |
| 8 | Inventories and other assets | 32 |
| 9 | Infrastructure, property, plant and equipment | 34 |
| 10 | Payables and borrowings | 37 |
| 11 | Provisions | 40 |
| 12 | Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors | 42 |
| 13 | Statement of cash flows – additional information | 45 |
| 14 | Interests in other entities | 46 |
| 15 | Commitments | 48 |
| 16 | Contingencies and other assets/liabilities not recognised | 49 |
| 17 | Financial risk management | 52 |
| 18 | Material budget variations | 56 |
| 19 | Fair Value Measurement | 58 |
| 20 | Related Party Transactions | 70 |
| 21 | Statement of developer contributions | 72 |
| 22 | Financial result and financial position by fund | 74 |
| 23(a) | Statement of performance measures – consolidated results | 76 |
| 23(b) | Statement of performance measures – by fund | 77 |
| | Additional Council disclosures (unaudited) | |
| 23(c) | Statement of performance measures – consolidated results (graphs) | 78 |
| 24 | Council information and contact details | 80 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 22 October 2019. Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity for the purpose of preparing these financial statements.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Council is a not-for-profit entity.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts. Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 18 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2019.

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 12(b).

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

(c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of infrastructure, property, plant and equipment – refer Note 9
- (ii) estimated tip remediation provisions – refer Note 11
- (iii) employee benefit provisions – refer Note 11.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Significant judgements in applying the council's accounting policies

(iv) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations
- Water service
- Sewerage service

(b) The Trust Fund

In accordance with the provisions of Section 411 of the *Local Government Act 1993 (NSW)* (as amended), a separate and distinct Trust Fund is maintained to account for all money and property received by the council in trust which must be applied only for the purposes of, or in accordance with, the trusts relating to those monies.

Trust monies and property subject to Council's control have been included in these reports.

A separate statement of monies held in the Trust Fund is available for inspection at the council office by any person free of charge

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to, the taxation authority are presented as operating cash flows.

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been applied.

As at the date of authorisation of these financial statements, Council considers that the standards and interpretations listed below will have an impact upon future published financial statements ranging from additional and/or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

Effective for annual reporting periods beginning on or after 1 July 2019

- AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of Interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15 and AASB 1058 will replace AASB 1004 Contributions. These standards may affect the timing of the recognition of some grants and donations.

Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Based on Council's analysis, the impact on Council's revenue, net operating result and financial position would be considered immaterial if Council was to adopt the new revenue standards for the year ended 30 June 2019.

Council is unable to reliably estimate the impact on the financial statements for the year ended 30 June 2020 as the main impact could be on the treatment of certain capital and operational grant revenues. Council is unsure what potential new grants impacted by the new standards it may obtain in the 2019/2020 financial year and also whether certain grants would remain materially incomplete as at 30 June 2020.

- AASB 16 Leases

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

Based upon Council's investigation and analysis, Council identified leases which require adjustment to their current accounting treatment under AASB 16. Council does not consider the impact of adopting AASB 16 to be material on the financial statements for the 2019/2020 financial year due to the leases identified being immaterial or Council is able to apply the short-term and low-value asset exemptions.

Council has not elected to apply any pronouncements before their operative date in these financial statements.

DRAFT

Notes to the Financial Statements

for the year ended 30 June 2019

Note 2(a). Council functions/activities – financial information

Income, expenses and assets have been directly attributed to the following functions or activities.
Details of those functions or activities are provided in Note 2(b).

| \$ '000 | Income from continuing operations | | Expenses from continuing operations | | Operating result from continuing operations | | Grants included in income from continuing operations | | Total assets held (current and non-current) | |
|---------------------------------------|-----------------------------------|---------------|-------------------------------------|---------------|---|--------------|--|---------------|---|----------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Functions or activities | | | | | | | | | | |
| Connecting People and Places | 15,680 | 13,363 | 28,074 | 22,124 | (12,394) | (8,761) | 8,387 | 7,525 | 487,193 | 469,936 |
| Growing our Economy | 12,854 | 8,732 | 6,856 | 7,142 | 5,998 | 1,590 | 6,976 | 2,939 | 33,906 | 27,880 |
| Looking after our Environment | 22,519 | 20,641 | 21,643 | 22,587 | 876 | (1,946) | 134 | 110 | 272,567 | 251,183 |
| Making Council Great | 19,091 | 17,517 | 3,259 | 2,720 | 15,832 | 14,797 | 5,253 | 5,055 | 57,684 | 57,523 |
| Total functions and activities | 70,144 | 60,253 | 59,832 | 54,573 | 10,312 | 5,680 | 20,750 | 15,629 | 851,350 | 806,522 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 2(b). Council functions/activities - component descriptions

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Connecting People and Places

Festivals and Events, Swimming Pools, Libraries, Emergency Management, Cemeteries, Sports Grounds, Parks and Facilities, Community Centres and Halls, Building and Maintaining Roads, Community Engagement, Consultation and Communication, Community Programs and Grants.

Growing our Economy

Economic Development, Tourism, Town Planning and Development Services, Quarries, Northern Rivers Livestock Exchange, Private Works, Real Estate Development.

Looking after our Environment

Waste Management, Stormwater Management, Water Supplies, Sewerage Services, Environmental Health, Environmental Management.

Making Council Great

Governance and Advocacy, Customer Service, Information Technology Services, Organisational Development, Work Health and Safety, Financial Services, Engineering Support and Asset Management, Fleet Management.

DRAFT

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

| \$ '000 | 2019 | 2018 |
|--|---------------|---------------|
| (a) Rates and annual charges | | |
| Ordinary rates | | |
| Residential | 8,054 | 7,554 |
| Farmland | 2,469 | 2,281 |
| Business | 1,664 | 1,522 |
| Less: pensioner rebates (mandatory) | (394) | (380) |
| Rates levied to ratepayers | 11,793 | 10,977 |
| Pensioner rate subsidies received | 217 | 209 |
| Total ordinary rates | 12,010 | 11,186 |
| Annual charges | | |
| (pursuant to s.496, s.496A, s.496B, s.501 & s.611) | | |
| Domestic waste management services | 3,746 | 3,397 |
| Stormwater management services | 201 | 200 |
| Water supply services | 1,367 | 1,292 |
| Sewerage services | 6,920 | 6,692 |
| Waste management services (non-domestic) | 903 | 703 |
| Less: pensioner rebates (mandatory) | (457) | (431) |
| Annual charges levied | 12,680 | 11,853 |
| Pensioner subsidies received: | | |
| – Water | 81 | 76 |
| – Sewerage | 79 | 76 |
| – Domestic waste management | 92 | 85 |
| Total annual charges | 12,932 | 12,090 |
| TOTAL RATES AND ANNUAL CHARGES | 24,942 | 23,276 |

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts.

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government council area that are not subsidised by the NSW Government.

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

| \$ '000 | 2019 | 2018 |
|---|---------------|---------------|
| (b) User charges and fees | | |
| Specific user charges | | |
| (per s.502 - specific 'actual use' charges) | | |
| Water supply services | 4,674 | 4,410 |
| Sewerage services | 1,016 | 999 |
| Waste management services (non-domestic) | 44 | 27 |
| Total specific user charges | 5,734 | 5,436 |
| Other user charges and fees | | |
| (i) Fees and charges – statutory and regulatory functions (per s.608) | | |
| Planning and building regulation | 477 | 454 |
| Private works – section 67 | 661 | 929 |
| Regulatory/ statutory fees | 136 | 145 |
| Registration fees | 186 | 169 |
| Total fees and charges – statutory/regulatory | 1,460 | 1,697 |
| (ii) Fees and charges – other (incl. general user charges (per s.608)) | | |
| Aerodrome | 1 | 6 |
| Cemeteries | 258 | 308 |
| Quarries | 1,355 | 1,701 |
| RMS (formerly RTA) charges (state roads not controlled by Council) | 4,003 | 2,484 |
| Northern Rivers Livestock Exchange | 1,184 | 1,002 |
| Waste disposal tipping fees | 1,276 | 1,242 |
| Casino showground | 17 | 17 |
| Rent / hire of council property | 291 | 294 |
| Richmond Upper Clarence Regional Library | 13 | 13 |
| Sports grounds | 29 | 44 |
| Other | 298 | 244 |
| Total fees and charges – other | 8,725 | 7,355 |
| TOTAL USER CHARGES AND FEES | 15,919 | 14,488 |

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

| \$ '000 | 2019 | 2018 |
|--|---------------------|---------------------|
| (c) Interest and investment revenue (including losses) | | |
| Interest on financial assets measured at amortised cost | | |
| – Overdue rates and annual charges (incl. special purpose rates) | 158 | 191 |
| – Cash and investments | 784 | 552 |
| Fair value adjustments | | |
| – Movements in investments at fair value through profit and loss | 790 | 317 |
| <u>TOTAL INTEREST AND INVESTMENT REVENUE</u> | <u>1,732</u> | <u>1,060</u> |

Interest revenue is attributable to:**Unrestricted investments/financial assets:**

| | | |
|---|-----|-----|
| Overdue rates and annual charges (general fund) | 78 | 102 |
| General Council cash and investments | 993 | 476 |

Restricted investments/funds – external:

| | | |
|---------------------------|-----|-----|
| Development contributions | | |
| – Section 7.11 | 62 | 31 |
| – Section 64 | 148 | 118 |
| Water fund operations | 161 | 119 |
| Sewerage fund operations | 290 | 214 |

| | | |
|--|---------------------|---------------------|
| Total interest and investment revenue | <u>1,732</u> | <u>1,060</u> |
|--|---------------------|---------------------|

Accounting policy for interest and investment revenue

Interest income is recognised using the effective interest rate at the date that interest is earned.

(d) Other revenues

| | | |
|-----------------------------------|-------------------|-------------------|
| Fines | 80 | 124 |
| Insurance claims recoveries | 85 | 27 |
| Other | 1 | 15 |
| <u>TOTAL OTHER REVENUE</u> | <u>166</u> | <u>166</u> |

Accounting policy for other revenue

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Parking fees and fines are recognised as revenue when the service has been provided, or when the penalty has been applied, whichever occurs first.

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

Other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

Rental income is accounted for on a straight-line basis over the lease term.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

| \$ '000 | Operating 2019 | Operating 2018 | Capital 2019 | Capital 2018 |
|--|-------------------|-------------------|-----------------|-----------------|
| (e) Grants | | | | |
| General purpose (untied) | | | | |
| Current year allocation | | | | |
| Financial assistance – general component | 1,753 | 1,646 | – | – |
| Financial assistance – local roads component | 791 | 776 | – | – |
| Payment in advance - future year allocation | | | | |
| Financial assistance – general component | 1,817 | 1,689 | – | – |
| Financial assistance – local roads component | 821 | 797 | – | – |
| Total general purpose | 5,182 | 4,908 | – | – |
| Specific purpose | | | | |
| Bushfire and emergency services | 659 | 747 | 327 | 382 |
| Economic development | – | 5 | – | – |
| LIRS subsidy | 2 | 3 | – | – |
| Street lighting | 90 | 90 | – | – |
| Transport (roads to recovery) | 706 | 697 | – | – |
| Transport (other roads and bridges funding) | – | – | 1,484 | 1,367 |
| Library – Richmond Upper Clarence Regional | 116 | 141 | 45 | – |
| Natural disaster funding | 112 | 200 | 919 | 3,158 |
| Northern Rivers Livestock Exchange | – | – | 6,943 | 2,920 |
| Public Halls | – | – | 142 | – |
| Sporting grounds | – | – | 3,557 | 466 |
| Strategic planning | 13 | 11 | – | – |
| Waste and sustainability | 96 | 67 | – | 18 |
| Other | 190 | 238 | 167 | 211 |
| Total specific purpose | 1,984 | 2,199 | 13,584 | 8,522 |
| Total grants | 7,166 | 7,107 | 13,584 | 8,522 |
| Grant revenue is attributable to: | | | | |
| – Commonwealth funding | 5,888 | 5,742 | 2,148 | 3,121 |
| – State funding | 1,278 | 1,365 | 11,436 | 5,401 |
| | 7,166 | 7,107 | 13,584 | 8,522 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

| \$ '000 | Notes | Operating 2019 | Operating 2018 | Capital 2019 | Capital 2018 |
|---|-------|-------------------|-------------------|-----------------|-----------------|
| (f) Contributions | | | | | |
| Developer contributions: | | | | | |
| (s7.4 & s7.11 - EP&A Act, s64 of the LGA): | | | | | |
| Cash contributions | | | | | |
| S 7.11 – contributions towards amenities/services | | – | 5 | 1,642 | 1,171 |
| S 7.12 – fixed development consent levies | | – | – | 269 | 181 |
| S 64 – water supply contributions | | – | – | 93 | 73 |
| S 64 – sewerage service contributions | | – | – | 302 | 104 |
| Total developer contributions – cash | | – | 5 | 2,306 | 1,529 |
| Total developer contributions | 21 | – | 5 | 2,306 | 1,529 |
| Other contributions: | | | | | |
| Cash contributions | | | | | |
| Bushfire and emergency services | | 523 | 538 | – | – |
| Roads and bridges | | 10 | 1 | – | – |
| RMS contributions (regional roads, block grant) | | 903 | 885 | – | – |
| Sewerage (excl. section 64 contributions) | | 1 | – | – | – |
| Tourism | | 26 | 21 | – | – |
| Water supplies (excl. section 64 contributions) | | 1 | 2 | – | – |
| Other | | 714 | 536 | 65 | 20 |
| Library – Richmond Upper Clarence Regional | | 313 | 294 | – | – |
| Northern Rivers Livestock Exchange | | – | – | 186 | 157 |
| Sports grounds | | 74 | 72 | – | 2 |
| Total other contributions – cash | | 2,565 | 2,349 | 251 | 179 |
| Non-cash contributions | | | | | |
| Dedications – subdivisions (other than by s7.11) | | – | – | 1,506 | 1,278 |
| Sports grounds | | – | – | – | 49 |
| Total other contributions – non-cash | | – | – | 1,506 | 1,327 |
| Total other contributions | | 2,565 | 2,349 | 1,757 | 1,506 |
| Total contributions | | 2,565 | 2,354 | 4,063 | 3,035 |
| TOTAL GRANTS AND CONTRIBUTIONS | | 9,731 | 9,461 | 17,647 | 11,557 |

Accounting policy for grants and contributions

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner, or used over a particular period, and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed below.

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979*.

While Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and, accordingly, would not be payable to Council.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at reporting date.

| \$ '000 | 2019 | 2018 |
|---------|------|------|
|---------|------|------|

(g) Unspent grants and contributions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:

Operating grants

| | | |
|--|------------|------------|
| Unexpended at the close of the previous reporting period | 475 | 975 |
| Add: operating grants recognised in the current period but not yet spent | 327 | 127 |
| Add: operating grants received for the provision of goods and services in a future period | — | 5 |
| Less: operating grants recognised in a previous reporting period now spent | (349) | (632) |
| Unexpended and held as restricted assets (operating grants) | 453 | 475 |

Unspent operating grants are largely comprised of (\$'000's):-

RFS Subsidy \$128
EPA Better Waste & Recycling Grant \$142
Elsa Dixon Aboriginal Employment Program \$59
Crown Land Plan of Management Grant \$41

Capital grants

| | | |
|---|------------|------------|
| Unexpended at the close of the previous reporting period | 834 | 567 |
| Add: capital grants recognised in the current period but not yet spent | 256 | 494 |
| Less: capital grants recognised in a previous reporting period now spent | (608) | (227) |
| Unexpended and held as restricted assets (capital grants) | 482 | 834 |

Unspent capital grants are largely comprised of (\$'000's):-

EPA Waste Less Recycle More - Closure of Coraki Landfill and Establishment of the Transfer Station \$180
Stronger Country Communities Fund (SCCF) - Evans Head Main Beach Access Enhancement \$61
Stronger Country Communities Fund (SCCF) - Queen Elizabeth Park Sporting Complex Enhancement \$60

Contributions

| | | |
|---|--------------|--------------|
| Unexpended at the close of the previous reporting period | 7,296 | 6,121 |
| Add: contributions recognised in the current period but not yet spent | 227 | 54 |
| Add: contributions received for the provision of goods and services in a future period | 2,516 | 1,685 |
| Less: contributions recognised in a previous reporting period now spent | (1,339) | (564) |
| Unexpended and held as restricted assets (contributions) | 8,700 | 7,296 |

This balance is largely attributed to developer contributions (\$8.1m)

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

| \$ '000 | 2019 | 2018 |
|--|---------------|---------------|
| (a) Employee benefits and on-costs | | |
| Salaries and wages | 16,004 | 14,972 |
| Employee leave entitlements (ELE) | 3,424 | 3,058 |
| Superannuation | 1,951 | 1,820 |
| Workers' compensation insurance | 691 | 503 |
| Fringe benefit tax (FBT) | 76 | 71 |
| Payroll tax | 119 | 134 |
| Training costs (other than salaries and wages) | 211 | 195 |
| Other | 186 | 180 |
| Total employee costs | 22,662 | 20,933 |
| Less: capitalised costs | (2,001) | (1,916) |
| TOTAL EMPLOYEE COSTS EXPENSED | 20,661 | 19,017 |

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 16 for more information.

| \$ '000 | Notes | 2019 | 2018 |
|---|-------|--------------|--------------|
| (b) Borrowing costs | | | |
| (i) Interest bearing liability costs | | | |
| Interest on loans | | 1,212 | 1,373 |
| Loan refinancing costs | | – | 1,531 |
| Total interest bearing liability costs expensed | | 1,212 | 2,904 |
| (ii) Other borrowing costs | | | |
| Discount adjustments relating to movements in provisions (other than ELE) | | | |
| – Remediation liabilities | 11 | 37 | 36 |
| Total other borrowing costs | | 37 | 36 |
| TOTAL BORROWING COSTS EXPENSED | | 1,249 | 2,940 |

Accounting policy for borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

| \$ '000 | 2019 | 2018 |
|--|---------------|--------------|
| (c) Materials and contracts | | |
| Raw materials and consumables | 10,124 | 9,203 |
| Auditors remuneration ² | 75 | 73 |
| Legal expenses: | | |
| – Legal expenses: planning and development | 7 | 8 |
| – Legal expenses: other | 200 | 240 |
| Operating leases: | | |
| – Operating lease rentals: minimum lease payments ¹ | 335 | 439 |
| TOTAL MATERIALS AND CONTRACTS | 10,741 | 9,963 |

Accounting policy for operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

1. Operating lease payments are attributable to:

| | | |
|----------------|------------|------------|
| Computers | 217 | 324 |
| Motor vehicles | 94 | 94 |
| Other | 24 | 21 |
| | 335 | 439 |

2. Auditor remuneration

During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms

Auditors of the Council - NSW Auditor-General:**(i) Audit and other assurance services**

| | | |
|--|-----------|-----------|
| Audit and review of financial statements | 75 | 71 |
| Remuneration for audit and other assurance services | 75 | 71 |
| Total Auditor-General remuneration | 75 | 71 |

Non NSW Auditor-General audit firms**(i) Audit and other assurance services**

| | | |
|--|-----------|-----------|
| Audit and review of financial statements | – | 2 |
| Remuneration for audit and other assurance services | – | 2 |
| Total remuneration of non NSW Auditor-General audit firms | – | 2 |
| Total Auditor remuneration | 75 | 73 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

| \$ '000 | Notes | 2019 | 2018 |
|--|-------|---------------|----------------|
| (d) Depreciation, amortisation and impairment of intangible assets and IPP&E | | | |
| Depreciation and amortisation | | | |
| Plant and equipment | | 1,630 | 1,543 |
| Office equipment | | 76 | 78 |
| Furniture and fittings | | 71 | 75 |
| Land improvements (depreciable) | | 265 | 255 |
| Infrastructure: | | | |
| – Buildings – specialised | | 1,107 | 1,070 |
| – Other structures | | 273 | 178 |
| – Roads | | 5,967 | 5,257 |
| – Bridges | | 1,160 | 782 |
| – Footpaths | | 229 | 289 |
| – Stormwater drainage | | 575 | 564 |
| – Water supply network | | 1,355 | 1,433 |
| – Sewerage network | | 2,181 | 2,121 |
| – Swimming pools | | 119 | 115 |
| – Other open space/recreational assets | | 243 | 195 |
| Other assets: | | | |
| – Library books | | 81 | 82 |
| Reinstatement, rehabilitation and restoration assets: | | | |
| – Tip assets | 9,11 | 577 | 631 |
| – Quarry assets | 9,11 | 30 | 30 |
| Total gross depreciation and amortisation costs | | 15,939 | 14,698 |
| Total depreciation and amortisation costs | | 15,939 | 14,698 |
| Impairment / revaluation decrement of IPP&E | | | |
| Land improvements (depreciable) | | – | 98 |
| Infrastructure: | | | |
| – Buildings – specialised | | – | 92 |
| – Roads | | (90) | (4,734) |
| – Bridges | | – | 650 |
| – Swimming pools | | – | 1,035 |
| Total gross IPP&E impairment / revaluation decrement costs / (reversals) | | (90) | (2,859) |
| Amounts taken through revaluation reserve | | 90 | 2,859 |
| Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement | | – | – |
| TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E | | 15,939 | 14,698 |

Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPP&E

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets.

Depreciation is capitalised where in-house assets have contributed to new assets.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

Impairment of non-financial assets

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are no longer required to be tested for impairment under AASB 136. This is because these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Other assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

| \$ '000 | 2019 | 2018 |
|--|---------------------|---------------------|
| (e) Other expenses | | |
| Advertising | 102 | 86 |
| Bad and doubtful debts | 56 | 176 |
| Bank charges | 64 | 20 |
| Contributions/levies to other levels of government | | |
| – Emergency services levy (includes FRNSW, SES, and RFS levies) | 31 | 38 |
| – NSW fire brigade levy | 100 | 105 |
| – NSW rural fire service levy | 799 | 823 |
| – Waste levy | 91 | 115 |
| Councillor expenses – mayoral fee | 43 | 42 |
| Councillor expenses – councillors' fees | 139 | 134 |
| Councillors' expenses (incl. mayor) – other (excluding fees above) | 14 | 21 |
| Donations, contributions and assistance to other organisations (Section 356) | 531 | 496 |
| Electricity and heating | 836 | 738 |
| Insurance | 591 | 548 |
| IT expenses | 623 | 546 |
| Postage, printing & stationary | 289 | 298 |
| Street lighting | 414 | 349 |
| Subscriptions and publications | 101 | 94 |
| Telephone and communications | 495 | 288 |
| Valuation fees | 78 | 79 |
| Other | 47 | 37 |
| <u>TOTAL OTHER EXPENSES</u> | <u>5,444</u> | <u>5,033</u> |

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

| \$ '000 | Notes | 2019 | 2018 |
|--|-------|----------------|----------------|
| Property (excl. investment property) | | | |
| Proceeds from disposal – property | | 1,025 | 4,498 |
| Less: carrying amount of property assets sold/written off | | (2,862) | (4,591) |
| Net gain/(loss) on disposal | | (1,837) | (93) |
| Plant and equipment | | | |
| | 9 | | |
| Proceeds from disposal – plant and equipment | | 431 | 294 |
| Less: carrying amount of plant and equipment assets sold/written off | | (570) | (416) |
| Net gain/(loss) on disposal | | (139) | (122) |
| Infrastructure | | | |
| | 9 | | |
| Less: carrying amount of infrastructure assets sold/written off | | (3,815) | (2,708) |
| Net gain/(loss) on disposal | | (3,815) | (2,708) |
| Real estate assets held for sale | | | |
| | 8 | | |
| Proceeds from disposal – real estate assets | | – | 381 |
| Less: carrying amount of real estate assets sold/written off | | – | (135) |
| Net gain/(loss) on disposal | | – | 246 |
| NET GAIN/(LOSS) ON DISPOSAL OF ASSETS | | (5,791) | (2,677) |

Accounting policy for disposal of assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

Note 6(a). Cash and cash equivalent assets

| \$ '000 | 2019 | 2018 |
|--|--------------|--------------|
| Cash and cash equivalents | | |
| Cash on hand and at bank | 614 | 555 |
| Cash-equivalent assets | | |
| – Deposits at call | 7,558 | 5,433 |
| Total cash and cash equivalents | 8,172 | 5,988 |

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments

| \$ '000 | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|---|-----------------|---------------------|-----------------|---------------------|
| Investments | | | | |
| a. 'Financial assets at fair value through profit and loss' | | | | |
| – 'Held for trading' | 18,528 | – | 35,028 | 4,000 |
| b. 'Financial assets at amortised cost' / 'held to maturity' (2018) | 19,000 | 1,000 | – | – |
| Total Investments | 37,528 | 1,000 | 35,028 | 4,000 |
| TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS | 45,700 | 1,000 | 41,016 | 4,000 |
| Financial assets at fair value through the profit and loss | | | | |
| Managed funds | 18,528 | – | 13,028 | – |
| Long term deposits | – | – | 22,000 | 4,000 |
| Financial assets at amortised cost/held to maturity (2018) | | | | |
| Long term deposits | 19,000 | 1,000 | – | – |
| Total | 37,528 | 1,000 | 35,028 | 4,000 |

Accounting policy for investments

Accounting policy under AASB 9 – applicable from 1 July 2018

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise trade and other receivables, cash and cash equivalents and term deposits in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Council's financial assets measured at fair value through profit or loss comprise investments in managed funds in the Statement of Financial Position.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

(b) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (Note 8) and receivables (Note 7) in the Statement of Financial Position. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(d) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are held at fair value with changes in fair value taken to other comprehensive income.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment of available for sale investments

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(c). Restricted cash, cash equivalents and investments – details

| \$ '000 | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|--|-----------------|---------------------|-----------------|---------------------|
| Total cash, cash equivalents and investments | 45,700 | 1,000 | 41,016 | 4,000 |
| attributable to: | | | | |
| External restrictions | 27,693 | 1,000 | 21,645 | 4,000 |
| Internal restrictions | 18,007 | – | 19,371 | – |
| | 45,700 | 1,000 | 41,016 | 4,000 |

| \$ '000 | 2019 | 2018 |
|--|---------------|---------------|
| Details of restrictions | | |
| External restrictions – included in liabilities | | |
| Specific purpose unexpended loans – general | – | 338 |
| Bonds and deposits | 574 | 564 |
| External restrictions – included in liabilities | 574 | 902 |
| External restrictions – other | | |
| Developer contributions – general | 2,568 | 1,894 |
| Developer contributions – water fund | 1,841 | 1,697 |
| Developer contributions – sewer fund | 3,606 | 3,207 |
| Specific purpose unexpended grants | 935 | 1,309 |
| Water supplies | 4,769 | 3,672 |
| Sewerage services | 7,799 | 7,412 |
| Domestic waste management | 5,152 | 4,397 |
| Stormwater management | 569 | 485 |
| Other | 880 | 670 |
| External restrictions – other | 28,119 | 24,743 |
| Total external restrictions | 28,693 | 25,645 |
| Internal restrictions | | |
| Plant and vehicle replacement | 1,478 | 930 |
| Real estate and infrastructure | 2,855 | 4,831 |
| Employees leave entitlement | 1,158 | 1,125 |
| Carry over works | 243 | 360 |
| Northern Rivers Livestock Exchange | 61 | 555 |
| Insurance | 97 | 95 |
| Other waste management | 3,307 | 2,585 |
| Petersons quarry | 2,183 | 2,063 |
| Public cemeteries perpetual maintenance | 333 | 427 |
| Quarry rehabilitation | 166 | 152 |
| Revolving energy and sustainability fund | 8 | 8 |
| Richmond Upper Clarence Regional Library | 221 | 292 |
| RMS state road maintenance contract | 5 | 5 |
| Road rehabilitation | 897 | 458 |
| Rural road safety program | 114 | 112 |
| Unexpended rates variations | 705 | 1,633 |
| Financial Assistance Grant Advance Payment | 2,638 | 2,486 |
| Woodview quarry | 1,538 | 1,254 |
| Total internal restrictions | 18,007 | 19,371 |
| TOTAL RESTRICTIONS | 46,700 | 45,016 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables

| \$ '000 | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|---|-----------------|---------------------|-----------------|---------------------|
| Purpose | | | | |
| Rates and annual charges | 2,599 | 596 | 2,807 | 669 |
| Interest and extra charges | 169 | 8 | 169 | 12 |
| User charges and fees | 5,897 | 958 | 4,416 | 638 |
| Accrued revenues | | | | |
| – Interest on investments | 339 | 5 | 165 | – |
| Bank guarantees | 112 | 512 | 112 | 574 |
| Deferred debtors | 1 | 15 | 1 | 17 |
| Government grants and subsidies | 2,629 | 135 | 1,233 | 188 |
| Net GST receivable | 147 | – | 263 | – |
| Other debtors | 196 | – | 186 | – |
| Total | 12,089 | 2,229 | 9,352 | 2,098 |
| Less: provision of impairment | | | | |
| Rates and annual charges | (30) | (19) | (79) | – |
| User charges and fees | (78) | (39) | (191) | – |
| Other debtors | (10) | (1) | (16) | – |
| Total provision for impairment – receivables | (118) | (59) | (286) | – |
| TOTAL NET RECEIVABLES | 11,971 | 2,170 | 9,066 | 2,098 |
| Externally restricted receivables | | | | |
| Water supply | | | | |
| – Specific purpose grants | 80 | – | 76 | – |
| – Rates and availability charges | 325 | 96 | 319 | 105 |
| – Other | 1,236 | 355 | 1,262 | 430 |
| Sewerage services | | | | |
| – Specific purpose grants | 79 | – | 76 | – |
| – Rates and availability charges | 1,596 | 468 | 1,622 | 505 |
| – Other | 382 | 95 | 384 | 104 |
| Domestic waste management | 270 | 12 | 282 | 22 |
| Total external restrictions | 3,968 | 1,026 | 4,021 | 1,166 |
| Unrestricted receivables | 8,003 | 1,144 | 5,045 | 932 |
| TOTAL NET RECEIVABLES | 11,971 | 2,170 | 9,066 | 2,098 |

| \$ '000 | 2019 | 2018 |
|---|------------|------------|
| Movement in provision for impairment of receivables | | |
| Balance at the beginning of the year (calculated in accordance with AASB 139) | 286 | 165 |
| Amount restated through opening retained earnings on adoption of AASB 9 | (149) | – |
| Impairment loss recognised | 40 | – |
| + new provisions recognised during the year | – | 176 |
| – amounts already provided for and written off this year | – | (55) |
| Balance at the end of the period | 177 | 286 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

Receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rates debtors, Council uses the presumption that an asset which is non-current has seen a significant increase in credit risk.

The Council uses the presentation that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Council in full, without recourse by the Council to actions such as realising security (if any is held) or
- the financial assets (for non-rates debtors) are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced significant increase in credit risk then the lifetime losses are estimated and recognised.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are considered significantly past due, whichever occurs first.

None of the receivables that have been written off are subject to enforcement activity.

Where the Council renegotiates the terms of receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Rates and annual charges outstanding are secured against the property.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets

| \$ '000 | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|----------------------------------|-----------------|---------------------|-----------------|---------------------|
| (a) Inventories | | | | |
| (i) Inventories at cost | | | | |
| Real estate for resale | 215 | 1,679 | 215 | 1,679 |
| Stores and materials | 1,034 | – | 1,207 | – |
| Total inventories at cost | 1,249 | 1,679 | 1,422 | 1,679 |
| TOTAL INVENTORIES | 1,249 | 1,679 | 1,422 | 1,679 |

(b) Other assets

| | | | | |
|--------------------------------|------------|----------|------------|----------|
| Prepayments | 248 | – | 203 | – |
| Work in progress – real estate | 83 | – | 45 | – |
| TOTAL OTHER ASSETS | 331 | – | 248 | – |

Externally restricted assets

There are no restrictions applicable to the above assets.

(i) Other disclosures

| \$ '000 | Notes | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|--|-------|-----------------|---------------------|-----------------|---------------------|
| (a) Details for real estate development | | | | | |
| Residential | | 127 | 383 | 127 | 383 |
| Industrial/commercial | | 88 | 1,296 | 88 | 1,296 |
| Total real estate for resale | | 215 | 1,679 | 215 | 1,679 |

(Valued at the lower of cost and net realisable value)

Represented by:

| | | | | |
|-------------------------------------|------------|--------------|------------|--------------|
| Acquisition costs | 127 | 1,658 | 127 | 1,658 |
| Development costs | 88 | 21 | 88 | 21 |
| Total costs | 215 | 1,679 | 215 | 1,679 |
| Total real estate for resale | 215 | 1,679 | 215 | 1,679 |

Movements:

| | | | | |
|---|------------|--------------|------------|--------------|
| Real estate assets at beginning of the year | 215 | 1,679 | 213 | 1,297 |
| – Purchases and other costs | – | – | 137 | 382 |
| – WDV of sales (expense) | – | – | (135) | – |
| Total real estate for resale | 215 | 1,679 | 215 | 1,679 |

5

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets (continued)

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory held for distribution

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

Land held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed, borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

DRAFT

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment

| | as at 30/6/2018 | | | Asset movements during the reporting period | | | | | | | | | | as at 30/6/2019 | | |
|--|-----------------------|--------------------------|---------------------|---|----------------------|---|-----------------------------|----------------------|--|---------------|---------------------------|--|--|-----------------------|--------------------------|---------------------|
| | Gross carrying amount | Accumulated depreciation | Net carrying amount | Additions renewals ¹ | Additions new assets | Reinstatement costs for impaired assets | Carrying value of disposals | Depreciation expense | Impairment reversal (recognised in equity) | WIP transfers | Adjustments and transfers | Revaluation decrements to equity (ARR) | Revaluation increments to equity (ARR) | Gross carrying amount | Accumulated depreciation | Net carrying amount |
| \$ '000 | | | | | | | | | | | | | | | | |
| Capital work in progress | 5,940 | – | 5,940 | 1,489 | 679 | – | (59) | – | – | (5,395) | – | – | – | 2,654 | – | 2,654 |
| Plant and equipment | 26,121 | (12,996) | 13,125 | 1,187 | 919 | – | (548) | (1,630) | – | – | – | – | – | 26,596 | (13,543) | 13,053 |
| Office equipment | 1,273 | (971) | 302 | – | 8 | – | – | (76) | – | – | – | – | – | 1,281 | (1,047) | 234 |
| Furniture and fittings | 1,263 | (842) | 421 | – | 45 | – | – | (71) | – | – | – | – | – | 1,307 | (912) | 395 |
| Land: | | | | | | | | | | | | | | | | |
| – Crown land | 20,176 | – | 20,176 | – | – | – | (892) | – | – | – | – | – | 6 | 19,289 | – | 19,289 |
| – Operational land | 20,246 | – | 20,246 | – | 150 | – | (869) | – | – | – | – | – | 370 | 19,897 | – | 19,897 |
| – Community land | 8,743 | – | 8,743 | – | – | – | – | – | – | – | – | (216) | – | 8,527 | – | 8,527 |
| – Land under roads (post 30/6/08) | 277 | – | 277 | – | 27 | – | – | – | – | – | – | – | – | 304 | – | 304 |
| Land improvements – non-depreciable | 4,944 | – | 4,944 | – | 2 | – | – | – | – | – | – | – | 208 | 5,154 | – | 5,154 |
| Land improvements – depreciable | 14,375 | (2,473) | 11,902 | 1,025 | 1,575 | – | (79) | (265) | – | 403 | (89) | – | 489 | 17,807 | (2,846) | 14,961 |
| Infrastructure: | | | | | | | | | | | | | | | | |
| – Buildings – specialised | 68,498 | (15,919) | 52,579 | 1,863 | 934 | – | (929) | (1,107) | – | 669 | – | – | 2,142 | 73,284 | (17,133) | 56,151 |
| – Other structures | 17,270 | (1,625) | 15,645 | 2,396 | 3,403 | – | (547) | (273) | – | 365 | – | – | 624 | 23,381 | (1,768) | 21,613 |
| – Roads | 304,245 | (85,157) | 219,088 | 5,466 | 595 | 376 | (2,184) | (5,967) | 90 | 1,883 | – | – | 5,370 | 314,852 | (90,135) | 224,717 |
| – Bridges | 96,383 | (28,097) | 68,286 | 400 | – | 557 | (254) | (1,160) | – | 29 | – | – | 1,686 | 99,374 | (29,829) | 69,545 |
| – Footpaths | 13,920 | (2,200) | 11,720 | 176 | 540 | – | (93) | (229) | – | 747 | 89 | – | 290 | 15,707 | (2,467) | 13,240 |
| – Bulk earthworks (non-depreciable) | 62,362 | – | 62,362 | – | 17 | – | (16) | – | – | – | – | – | 1,572 | 63,935 | – | 63,935 |
| – Stormwater drainage | 51,965 | (17,081) | 34,884 | 50 | 181 | – | (52) | (575) | – | – | – | – | 16,022 | 59,932 | (9,422) | 50,510 |
| – Water supply network | 89,657 | (18,080) | 71,577 | 949 | 349 | – | (282) | (1,355) | – | 88 | – | – | 1,121 | 91,922 | (19,475) | 72,447 |
| – Sewerage network | 139,886 | (29,313) | 110,573 | 837 | 821 | – | (185) | (2,181) | – | 615 | – | – | 1,748 | 143,330 | (31,102) | 112,228 |
| – Swimming pools | 8,016 | (2,225) | 5,791 | 23 | – | – | (2) | (119) | – | – | – | – | 282 | 8,368 | (2,393) | 5,975 |
| – Other open space/recreational assets | 9,975 | (2,159) | 7,816 | 1,142 | 792 | – | (246) | (243) | – | 596 | – | – | 312 | 12,493 | (2,324) | 10,169 |
| Other assets: | | | | | | | | | | | | | | | | |
| – Library books | 1,168 | (815) | 353 | – | 94 | – | (21) | (81) | – | – | – | – | – | 1,146 | (801) | 345 |
| Reinstatement, rehabilitation and restoration assets (refer Note 11): | | | | | | | | | | | | | | | | |
| – Tip assets | 2,209 | (2,117) | 92 | – | 2,215 | – | – | (577) | – | – | – | – | – | 4,424 | (2,694) | 1,730 |
| – Quarry assets | 483 | (332) | 151 | – | 56 | – | – | (30) | – | – | – | – | – | 540 | (363) | 177 |
| Total Infrastructure, property, plant and equipment | 969,395 | (222,402) | 746,993 | 17,003 | 13,402 | 933 | (7,258) | (15,939) | 90 | – | – | (216) | 32,242 | 1,015,504 | (228,254) | 787,250 |

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment (continued)

| | as at 30/6/2017 | | | Asset movements during the reporting period | | | | | | | | | | | as at 30/6/2018 | | |
|--|-----------------------|--------------------------|---------------------|---|----------------------|---|-----------------------------|----------------------|--|--|---------------|---------------------------|--|--|-----------------------|--------------------------|---------------------|
| | Gross carrying amount | Accumulated depreciation | Net carrying amount | Additions renewals ⁽¹⁾ | Additions new assets | Reinstatement costs for impaired assets | Carrying value of disposals | Depreciation expense | Impairment loss (recognised in equity) | Impairment reversal (recognised in equity) | WIP transfers | Adjustments and transfers | Revaluation decrements to equity (ARR) | Revaluation increments to equity (ARR) | Gross carrying amount | Accumulated depreciation | Net carrying amount |
| Capital work in progress | 3,146 | – | 3,146 | 3,727 | 1,839 | – | (66) | – | – | – | (2,707) | – | – | – | 5,940 | – | 5,940 |
| Plant and equipment | 24,187 | (12,255) | 11,932 | 2,416 | 712 | – | (392) | (1,543) | – | – | – | – | – | – | 26,121 | (12,996) | 13,125 |
| Office equipment | 1,134 | (893) | 241 | – | 139 | – | – | (78) | – | – | – | – | – | – | 1,273 | (971) | 302 |
| Furniture and fittings | 1,226 | (767) | 459 | – | 36 | – | – | (75) | – | – | – | – | – | – | 1,263 | (842) | 421 |
| Land: | | | | | | | | | | | | | | | | | |
| – Operational land | 27,038 | – | 27,038 | – | – | – | (4,504) | – | – | – | – | – | – | 795 | 20,246 | – | 20,246 |
| – Community land | 25,291 | – | 25,291 | – | – | – | (25) | – | – | – | – | – | – | 570 | 8,743 | – | 8,743 |
| – Crown land | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 20,176 | – | 20,176 |
| – Land under roads (post 30/6/08) | 248 | – | 248 | – | 29 | – | – | – | – | – | – | – | – | – | 277 | – | 277 |
| Land improvements – non-depreciable | 4,373 | – | 4,373 | 440 | – | – | – | – | – | – | – | – | – | 131 | 4,944 | – | 4,944 |
| Land improvements – depreciable | 13,543 | (2,059) | 11,484 | 12 | 162 | – | – | (255) | (98) | – | 271 | 13 | – | 313 | 14,375 | (2,473) | 11,902 |
| Infrastructure: | | | | | | | | | | | | | | | | | |
| – Buildings – specialised | 66,594 | (14,578) | 52,016 | 230 | 94 | – | – | (1,070) | (92) | – | 3 | – | – | 1,398 | 68,498 | (15,919) | 52,579 |
| – Other structures | 12,457 | (2,353) | 10,104 | 2,318 | 2,469 | – | (1,116) | (178) | – | – | 1,729 | – | – | 319 | 17,270 | (1,625) | 15,645 |
| – Roads | 219,107 | (66,115) | 152,992 | 3,011 | 839 | 2,936 | (893) | (5,257) | – | 4,734 | 628 | – | – | 60,098 | 304,245 | (85,157) | 219,088 |
| – Bridges | 75,457 | (16,931) | 58,526 | 409 | – | 134 | (54) | (782) | (650) | – | 26 | – | – | 10,677 | 96,383 | (28,097) | 68,286 |
| – Footpaths | 16,952 | (4,997) | 11,955 | 19 | 203 | – | (204) | (289) | – | – | – | – | – | 35 | 13,920 | (2,200) | 11,720 |
| – Bulk earthworks (non-depreciable) | 73,631 | – | 73,631 | – | 361 | – | – | – | – | – | – | – | (11,630) | – | 62,362 | – | 62,362 |
| – Stormwater drainage | 50,093 | (15,951) | 34,142 | – | 158 | – | – | (564) | – | – | – | – | – | 1,148 | 51,965 | (17,081) | 34,884 |
| – Water supply network | 87,605 | (16,570) | 71,035 | 560 | 210 | – | (256) | (1,433) | – | – | 5 | – | – | 1,456 | 89,657 | (18,080) | 71,577 |
| – Sewerage network | 136,601 | (26,711) | 109,890 | 311 | 360 | – | (134) | (2,121) | – | – | 1 | – | – | 2,266 | 139,886 | (29,313) | 110,573 |
| – Swimming pools | 7,803 | (1,049) | 6,754 | 14 | – | – | (8) | (115) | (1,035) | – | – | – | – | 181 | 8,016 | (2,225) | 5,791 |
| – Other open space/recreational assets | 9,580 | (1,948) | 7,632 | 99 | 82 | – | (38) | (195) | – | – | 44 | (13) | – | 203 | 9,975 | (2,159) | 7,816 |
| Other assets: | | | | | | | | | | | | | | | | | |
| – Library books | 1,179 | (807) | 372 | – | 87 | – | (24) | (82) | – | – | – | – | – | – | 1,168 | (815) | 353 |
| Reinstatement, rehabilitation and restoration assets (refer Note 11): | | | | | | | | | | | | | | | | | |
| – Tip assets | 1,674 | (1,486) | 188 | – | 535 | – | – | (631) | – | – | – | – | – | – | 2,209 | (2,117) | 92 |
| – Quarry assets | 482 | (302) | 180 | – | 1 | – | – | (30) | – | – | – | – | – | – | 483 | (332) | 151 |
| Total Infrastructure, property, plant and equipment | 859,401 | (185,772) | 673,629 | 13,566 | 8,316 | 3,070 | (7,714) | (14,698) | (1,875) | 4,734 | – | – | (11,630) | 79,590 | 969,395 | (222,402) | 746,993 |

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Industry (DoI) – Water.

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

When infrastructure, property, plant and equipment are acquired by Council for nil or nominal consideration, the assets are initially recognised at their fair value at acquisition date.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

| Plant and equipment | Years | Other equipment | Years |
|-----------------------------------|--------------|--------------------------------------|--------------|
| Office equipment | 3 to 10 | Playground equipment | 10 to 60 |
| Office furniture | 5 to 20 | Benches, seats etc. | 30 to 90 |
| Computer equipment | 3 | | |
| Vehicles | 5 to 20 | Buildings | |
| Heavy plant/road making equipment | 5 to 20 | Buildings | 10 to 200 |
| Other plant and equipment | 3 to 50 | | |
| Water and sewer assets | | Stormwater assets | |
| Dams and reservoirs | 25 to 200 | Drains | 80 |
| Treatment Plant structure | 15 to 200 | Culverts | 80 |
| Treatment Plant mech & elec | 20 to 25 | | |
| Pump Station structure | 15 to 200 | | |
| Pumps Station mech & elect | 20 to 25 | | |
| Reticulation pipes: PVC | 70 to 160 | Transportation Assets | |
| Reticulation pipes: Other | 70 to 160 | Kerb & Gutter | 85 |
| | | Footpaths | 25 to 75 |
| Transportation assets | | Minor & Major Culverts | 50 to 100 |
| Sealed roads: surface | 25 to 35 | | |
| Sealed roads: structure | 60 to 110 | Other infrastructure assets | |
| Unsealed roads | 25 to 35 | Bulk earthworks | Infinite |
| Bridge: concrete | 105 | Swimming pools | 40 to 120 |
| Bridge: timber | 85 | Other open space/recreational assets | 10 to 200 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment (continued)

Crown reserves

Crown reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under Section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed".

These Rural Fire Service assets are recognised as assets of the Council in these financial statements.

Note 10. Payables and borrowings

| \$ '000 | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|--|-----------------|---------------------|-----------------|---------------------|
| Payables | | | | |
| Goods and services – operating expenditure | 1,265 | – | 1,088 | – |
| Goods and services – capital expenditure | 2,270 | – | 1,892 | – |
| Accrued expenses: | | | | |
| – Salaries and wages | 375 | – | 355 | – |
| – Other expenditure accruals | 1,004 | – | 777 | – |
| Security bonds, deposits and retentions | 793 | – | 542 | – |
| Bank guarantees | 112 | 512 | 112 | 574 |
| Total payables | 5,819 | 512 | 4,766 | 574 |
| Income received in advance | | | | |
| Payments received in advance | 30 | – | 31 | – |
| Total income received in advance | 30 | – | 31 | – |
| Borrowings | | | | |
| Loans – secured ¹ | 2,486 | 23,414 | 2,289 | 24,900 |
| Total borrowings | 2,486 | 23,414 | 2,289 | 24,900 |
| TOTAL PAYABLES AND BORROWINGS | 8,335 | 23,926 | 7,086 | 25,474 |

(1) Loans are secured over the general rating income of Council.

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 20.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Payables and borrowings (continued)

| \$ '000 | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|--|---------------------|----------------------|---------------------|----------------------|
| (a) Payables and borrowings relating to restricted assets | | | | |
| Externally restricted assets | | | | |
| Water | 9 | – | 9 | – |
| Sewer | 1,437 | 13,762 | 1,382 | 15,039 |
| Other | 814 | – | 564 | – |
| Payables and borrowings relating to externally restricted assets | 2,260 | 13,762 | 1,955 | 15,039 |
| Total payables and borrowings relating to restricted assets | 2,260 | 13,762 | 1,955 | 15,039 |
| Total payables and borrowings relating to unrestricted assets | 6,075 | 10,164 | 5,131 | 10,435 |
| <u>TOTAL PAYABLES AND BORROWINGS</u> | <u>8,335</u> | <u>23,926</u> | <u>7,086</u> | <u>25,474</u> |

| \$ '000 | 2019 | 2018 |
|---|------------|------------|
| (b) Current payables and borrowings not anticipated to be settled within the next twelve months | | |
| The following liabilities, even though classified as current, are not expected to be settled in the next 12 months. | | |
| Payables – security bonds, deposits and retentions | 793 | 542 |
| Total payables and borrowings | 793 | 542 |

(c) Changes in liabilities arising from financing activities

| \$ '000 | as at 30/6/2018 | | | | | as at 30/6/2019 |
|-----------------|-----------------|----------------|-----------------------|-----------------------------|--------------------------|-----------------|
| | Opening Balance | Cash flows | Non-cash acquisitions | Non-cash fair value changes | Other non-cash movements | Closing balance |
| Loans – secured | 27,189 | (1,289) | – | – | – | 25,900 |
| TOTAL | 27,189 | (1,289) | – | – | – | 25,900 |

| \$ '000 | as at 30/6/2017 | | | | | as at 30/6/2018 |
|-----------------|-----------------|--------------|-----------------------|-----------------------------|--------------------------|-----------------|
| | Opening Balance | Cash flows | Non-cash acquisitions | Non-cash fair value changes | Other non-cash movements | Closing balance |
| Loans – secured | 25,572 | 1,617 | – | – | – | 27,189 |
| TOTAL | 25,572 | 1,617 | – | – | – | 27,189 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Payables and borrowings (continued)

| \$ '000 | 2019 | 2018 |
|--|------------|------------|
| (d) Financing arrangements | | |
| (i) Unrestricted access was available at balance date to the following lines of credit: | | |
| Bank overdraft facilities ¹ | 500 | 500 |
| Credit cards/purchase cards | 67 | 56 |
| Total financing arrangements | 567 | 556 |
| Drawn facilities as at balance date: | | |
| – Credit cards/purchase cards | 2 | 7 |
| Total drawn financing arrangements | 2 | 7 |
| Undrawn facilities as at balance date: | | |
| – Bank overdraft facilities | 500 | 500 |
| – Credit cards/purchase cards | 65 | 49 |
| Total undrawn financing arrangements | 565 | 549 |

(1) The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

Accounting policy for payables and borrowings

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Council comprise trade payables, bank and other loans and finance lease liabilities.

Payables

These amounts represent liabilities for goods and services provided to the council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Provisions

| \$ '000 | 2019 Current | 2019 Non-current | 2018 Current | 2018 Non-current |
|--|-----------------|---------------------|-----------------|---------------------|
| Provisions | | | | |
| Employee benefits | | | | |
| Annual leave | 1,814 | – | 1,811 | – |
| Long service leave | 2,845 | 237 | 2,537 | 212 |
| Other leave | 13 | – | 11 | – |
| Sub-total – aggregate employee benefits | 4,672 | 237 | 4,359 | 212 |
| Asset remediation/restoration: | | | | |
| Asset remediation/restoration (future works) | 1,643 | 3,517 | 1,117 | 1,831 |
| Sub-total – asset remediation/restoration | 1,643 | 3,517 | 1,117 | 1,831 |
| TOTAL PROVISIONS | 6,315 | 3,754 | 5,476 | 2,043 |

(a) Provisions relating to restricted assets

There are no restricted assets (external or internal) applicable to the above provisions

| \$ '000 | 2019 | 2018 |
|---------|------|------|
|---------|------|------|

(b) Current provisions not anticipated to be settled within the next twelve months

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

| | | |
|---------------------------------|--------------|--------------|
| Provisions – employees benefits | 2,559 | 2,392 |
| | 2,559 | 2,392 |

(c) Description of and movements in provisions

| \$ '000 | Other provisions | |
|--|----------------------|--------------|
| | Asset remediation | Total |
| 2019 | | |
| At beginning of year | 2,948 | 2,948 |
| Changes to provision: | | |
| – Revised costs | 2,163 | 2,163 |
| – Revised discount rate | 109 | 109 |
| Amounts used (payments) | (97) | (97) |
| Unwinding of discount | 37 | 37 |
| Total other provisions at end of period | 5,160 | 5,160 |
| 2018 | | |
| At beginning of year | 2,375 | 2,375 |
| – Revised costs | 533 | 533 |
| – Revised discount rate | 3 | 3 |
| Unwinding of discount | 37 | 37 |
| Total other provisions at end of period | 2,948 | 2,948 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Provisions (continued)

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the following tip and quarry assets:

| Asset/Operation | Estimated year of restoration | NPV of Provisions | |
|---|-------------------------------|-------------------|--------------|
| | | 2019 | 2018 |
| Landfills - Bora Ridge | 2019 | 1,020 | 1,117 |
| Landfills - Nammoona | 2020 | 3,264 | 1,031 |
| Quarries - Petersons | 2025 | 486 | 444 |
| Quarries - Woodview | 2025 | 389 | 356 |
| Balance at end of reporting period | | 5,160 | 2,948 |

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

On-costs

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation, payroll tax and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Provisions (continued)

Provisions for close-down and restoration, and environmental clean-up costs – tips and quarries

Restoration

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date, and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process, and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques, or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Other movements in the provisions for close-down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations, and revisions to discount rates, are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Close-down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close-down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments / decrements of non-current asset values due to their revaluation.

(b) Changes in accounting policies due to adoption of new accounting standards (not-retrospective)

During the year, Council adopted a number of new accounting standards. The impact of the adoption and associated transition disclosures are shown below.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

The Council has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2017. As part of the adoption of AASB 9, the Council adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

– AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.

– AASB 9 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

The key changes to Council's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except Council has not restated any amounts relating to classification and measurement requirements, including impairment, which have been applied from 1 July 2018.

Classification of financial assets

The financial assets of Council have been reclassified into one of the following categories on adoption of AASB 9, based primarily on the business model in which a financial asset is managed and its contractual cash flow characteristics are:

- measured at amortised cost
- fair value through profit or loss
- fair value through other comprehensive income – equity instruments

Measurement of equity instruments

All equity instruments of the Council are measured at fair value under AASB 9 whereas there was a cost exception under AASB 139 that allowed certain unlisted investments to be carried at amortised cost in the absence of a reliable measurement of fair value. Any difference in the previous carrying amount and the fair value is recognised in the opening retained earnings (or other component of equity, as appropriate) at 1 July 2018.

Equity instruments are no longer subject to impairment testing and therefore all movements on equity instruments, classified as fair value through other comprehensive income, are taken to the relevant reserve.

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost. This has resulted in the earlier recognition of credit loss (bad debt provisions).

Adjustments to the current year figures for the year ended 30 June 2019**Statement of Financial Position**

| \$ '000 | Original Balance 1 July, 2018 | Impact Increase/ (decrease) | Restated Balance 1 July, 2018 |
|--|--|--|--|
| Amounts restated through opening retained earnings on adoption of AASB 9 | 343,332 | 149 | 343,481 |
| Total equity | 766,443 | 149 | 766,592 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**Transition adjustments**

The table below illustrates the classification and measurement of financial assets and liabilities under AASB 9 and AASB 139 at 1 July 2018.

| \$ '000 | Classific- ation under AASB 139 | Classific- ation under AASB 9 | Carrying amount under AASB 139 | Reclassi- fication | Remeasu- rements | Carrying amount under AASB 9 |
|--|---------------------------------------|-------------------------------------|---|-----------------------|---------------------|---------------------------------------|
| Financial assets | | | | | | |
| Trade and other receivables | Loans and receivables | Amortised cost | 11,164 | — | 149 | 11,313 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 5,988 | — | — | 5,988 |
| Term deposits | FVTPL | Amortised cost | 26,000 | — | — | 26,000 |
| Managed Funds | FVTPL | FVTPL | 13,028 | — | — | 13,028 |
| Total financial assets under AASB 9 at 1 July 2018 | | | 56,180 | — | 149 | 56,329 |
| Financial liabilities | | | | | | |
| Trade payables | Other financial liabilities | Other financial liabilities | 5,340 | — | — | 5,340 |
| Secured bank loans | Other financial liabilities | Amortised Cost | 27,189 | — | — | 27,189 |
| Total financial liabilities under AASB 9 at 1 July 2018 | | | 32,529 | — | — | 32,529 |

Notes to the table above**Reclassification from 'Loans and receivables' to 'amortised cost'**

Trade and other receivables and cash and cash equivalents were both reclassified from loans and receivables to amortised cost. The re-classification resulted in a restatement of \$149,000 through opening retained earnings on adoption of AASB 9.

Reclassification from 'Fair Value through profit and loss' to 'amortised cost'

Term deposits that would previously have been classified as 'held to maturity' are now classified at 'amortised cost'. Council intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of these assets.

Reclassification from 'Other financial liabilities' to 'amortised cost'

Loans that would previously have been classified as 'other financial liabilities' are now classified at 'amortised cost'. There was no difference between the previous carrying amount and the revised carrying amount of these liabilities on adoption of AASB 9.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Statement of cash flows - additional information

| \$ '000 | Notes | 2019 | 2018 |
|---------|-------|------|------|
|---------|-------|------|------|

(a) Reconciliation of cash assets

| | | | |
|---|------|--------------|--------------|
| Total cash and cash equivalent assets | 6(a) | 8,172 | 5,988 |
| Balance as per the Statement of Cash Flows | | 8,172 | 5,988 |

(b) Reconciliation of net operating result to cash provided from operating activities

| | | | |
|---|--|---------------|---------------|
| Net operating result from Income Statement | | 10,312 | 5,680 |
| Adjust for non-cash items: | | | |
| Net losses/(gains) on disposal of assets | | 5,791 | 2,677 |
| Depreciation and amortisation | | 15,939 | 14,698 |
| Non-cash capital grants and contributions | | (1,865) | (1,549) |
| Opening retained earnings adjustment on adoption of AASB 9 | | 149 | – |
| Losses/(gains) recognised on fair value re-measurements through the P&L: | | | |
| – Investments classified as ‘at fair value’ or ‘held for trading’ | | (790) | (317) |
| Unwinding of discount rates on reinstatement provisions | | 146 | 40 |
| +/- Movement in operating assets and liabilities and other cash items: | | | |
| Decrease/(increase) in receivables | | (2,870) | 788 |
| Increase/(decrease) in provision for impairment of receivables | | (109) | 121 |
| Decrease/(increase) in inventories | | 173 | (328) |
| Decrease/(increase) in other current assets | | (83) | 121 |
| Increase/(decrease) in payables | | 177 | 119 |
| Increase/(decrease) in other accrued expenses payable | | 247 | (470) |
| Increase/(decrease) in other liabilities | | 188 | (35) |
| Increase/(decrease) in provision for employee benefits | | 338 | 251 |
| Increase/(decrease) in other provisions | | 2,066 | 533 |
| Net cash provided from/(used in) operating activities from the Statement of Cash Flows | | 29,809 | 22,329 |

(c) Non-cash investing and financing activities

| | | |
|--|--------------|--------------|
| Bushfire grants | 322 | 235 |
| Other dedications | 1,506 | 1,278 |
| Estimated future reinstatement costs | 37 | 36 |
| Total non-cash investing and financing activities | 1,865 | 1,549 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Interests in other entities

Joint arrangements

(a) Summarised financial information for individually immaterial joint ventures

Council has excluded the following Joint Venture from its consolidated financial statements as it is immaterial to the overall Financial Statements.

| \$ '000 | 2019 | 2018 |
|---|------|------|
| North East Weight of Loads Group (Policing vehicle weight limits to reduce road damage) | | |
| Aggregate carrying amount of individually immaterial joint ventures | 33 | 34 |

(b) Details

| | Principal activity | Place of business |
|----------------------------------|--|-------------------|
| North East Weight of Loads Group | Policing vehicle weight limits to reduce road damage | Ballina |

(c) Relevant interests and fair values

| \$ '000 | Interest in outputs | | Interest in ownership | | Proportion of voting power | |
|----------------------------------|---------------------|-------|-----------------------|-------|----------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| North East Weight of Loads Group | 10.5% | 10.0% | 32.5% | 27.0% | 13.0% | 13.0% |

(d) Summarised financial information for joint ventures

| \$ '000 | North East Weight of Loads Group | |
|--|----------------------------------|------------|
| | 2019 | 2018 |
| Statement of financial position | | |
| Current assets | | |
| Cash and cash equivalents | 229 | 207 |
| Other current assets | 57 | 60 |
| Non-current assets | 67 | 89 |
| Current liabilities | | |
| Other current liabilities | 246 | 228 |
| Net assets | 107 | 128 |
| Reconciliation of the carrying amount | | |
| Opening net assets (1 July) | 128 | 150 |
| Profit/(loss) for the period | (291) | (256) |
| Member contributions | 270 | 234 |
| Closing net assets | 107 | 128 |
| Council's share of net assets (%) | 32.5% | 26.8% |
| Council's share of net assets (\$) | 33 | 34 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Interests in other entities (continued)

| \$ '000 | North East Weight of Loads Group | |
|--|----------------------------------|--------------|
| | 2019 | 2018 |
| Statement of comprehensive income | | |
| Income | 259 | 250 |
| Interest income | 5 | 5 |
| Depreciation and amortisation | (23) | (23) |
| Other expenses | (531) | (488) |
| Profit/(loss) from continuing operations | (290) | (256) |
| Profit/(loss) for the period | (290) | (256) |
| Total comprehensive income | (290) | (256) |
| Share of income – Council (%) | 10.5% | 10.5% |
| Profit/(loss) – Council (\$) | (30) | (27) |
| Total comprehensive income – Council (\$) | (30) | (27) |

DRAFT

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Commitments

| \$ '000 | 2019 | 2018 |
|---------|------|------|
|---------|------|------|

(a) Capital commitments (exclusive of GST)

Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

Property, plant and equipment

| | | |
|--------------------------|--------------|--------------|
| Infrastructure – other | 878 | 6,943 |
| Plant and equipment | 276 | – |
| Total commitments | 1,154 | 6,943 |

These expenditures are payable as follows:

| | | |
|----------------------|--------------|--------------|
| Within the next year | 1,154 | 6,943 |
| Total payable | 1,154 | 6,943 |

Details of capital commitments

The capital commitments are comprised of (\$000's):-

- Truck mounted Street Sweeper \$276
- Evans Head STP Dewatering Equipment \$350
- Neileys Lagoon Road Bridge \$7
- Stan Payne Oval Roof \$179
- Shared pathway on Bruxner Highway and Summerland Way Casino \$342

(b) Operating lease commitments (non-cancellable)

As a lessee**a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:**

| | | |
|--|------------|------------|
| Within the next year | 339 | 427 |
| Later than one year and not later than 5 years | 519 | 482 |
| Total non-cancellable operating lease commitments | 858 | 909 |

b. Non-cancellable operating leases include the following assets:

Computer equipment

Heavy Plant - Komatsu graders

Contingent rentals may be payable depending on the condition of items or usage during the lease term.

As a lessor**a. Future minimum lease payments receivable under non-cancellable operating leases not recognised in the financial statements are receivable as follows:**

| | | |
|--|------------|------------|
| Within the next year | 452 | 443 |
| Later than one year and not later than 5 years | – | 452 |
| Total non-cancellable operating lease commitments | 452 | 895 |

b. Total Contingent rents recognised as income in the period

| | | |
|---|-----|-----|
| Contingent Rents recognised as income in the period | 903 | 874 |
|---|-----|-----|

c. Lessor's Leasing arrangements include the following:**Conditions relating to finance and operating leases:**

- All finance agreements are secured only against the leased asset.
- No lease agreements impose any financial restrictions on Council regarding future debt etc.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Contingencies and other assets/liabilities not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.
- Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.
- The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

Description of the funding arrangements.

Pooled employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

| | |
|------------|--|
| Division B | 1.9 times member contributions for non-180 Point Members; Nil for 180 Point Members* |
| Division C | 2.5% salaries |
| Division D | 1.64 times employee contributions |

*For 180 Point Members, Employers are required to contribute 7% of salaries to these members' accumulation accounts, which are paid in addition to members' defined benefits.

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2018 to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2018.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan

As stated above, each sponsoring employer (Council) is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Contingencies and other assets/liabilities not recognised (continued)

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$323,477.13. The last valuation of the Scheme was performed by Mr Richard Boyfield (FIAA) on 31 December 2018, and covers the period ended 30 June 2018.

The amount of additional contributions included in the total employer contribution advised above is \$210,000. Council's expected contribution to the plan for the next annual reporting period is \$356,996.96.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2019 is:

| Employer reserves only * | \$millions | Asset Coverage |
|-----------------------------|------------|----------------|
| Assets | 1,798.7 | |
| Past Service Liabilities | 1,784.2 | 100.8% |
| Vested Benefits | 1,792.0 | 100.4% |

* excluding member accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is estimated to be 0.53% as at 30 June 2019.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

The key economic long term assumptions used to calculate the present value of accrued benefits are:

| | |
|--------------------|-----------------|
| Investment return | 5.75% per annum |
| Salary inflation * | 3.5% per annum |
| Increase in CPI | 2.5% per annum |

* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group.

(ii) Self-Insurance: NORPOOL

Council has previously entered into an agreement with a number of Local Government Authorities to jointly manage certain civil liabilities of these Councils which may arise as a result of the exercise of their powers, authorities, duties or functions.

The insurance pool known as NORPOOL was wound up during the 2005/2006 financial year with surplus funds distributed to former members. There are no outstanding claims associated with NORPOOL, however if future claims arise then these will be the responsibility of the Council to whom the claims relate.

(iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Contingencies and other assets/liabilities not recognised (continued)

ASSETS NOT RECOGNISED

(i) Land under roads

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30/6/08.

DRAFT

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management

Risk management

Council's activities expose it to a variety of financial risks including (1) price risk, (2) credit risk, (3) liquidity risk and (4) interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

| \$ '000 | Carrying value 2019 | Carrying value 2018 | Fair value 2019 | Fair value 2018 |
|--|------------------------|------------------------|--------------------|--------------------|
| Financial assets | | | | |
| Measured at amortised cost | | | | |
| Cash and cash equivalents | 8,172 | 5,988 | 8,172 | 5,968 |
| Receivables | 14,141 | 11,164 | 14,140 | 11,164 |
| Investments | | | | |
| – 'Financial assets at amortised cost' / 'held to maturity' (2018) | 20,000 | – | 20,000 | – |
| Fair value through profit and loss | | | | |
| Investments | | | | |
| – 'Held for trading' | 18,528 | 39,028 | 18,528 | 39,028 |
| Total financial assets | 60,841 | 56,180 | 60,840 | 56,160 |
| Financial liabilities | | | | |
| Payables | 6,331 | 5,340 | 6,331 | 5,340 |
| Loans/advances | 25,900 | 27,189 | 26,972 | 27,014 |
| Total financial liabilities | 32,231 | 32,529 | 33,303 | 32,354 |

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) **'at fair value through profit and loss'** or (ii) **'available-for-sale'** – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council's finance area manages the cash and Investments portfolio with the assistance of independent advisors.

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by Local Government regulations.

The risks associated with the instruments held are:

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management (continued)

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

(a) Market risk – price risk and interest rate risk

The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

| \$ '000 | Increase of values/rates | | Decrease of values/rates | |
|--|--------------------------|--------|--------------------------|--------|
| | Profit | Equity | Profit | Equity |
| 2019 | | | | |
| Possible impact of a 10% movement in market values | 1,853 | – | (1,853) | – |
| Possible impact of a 1% movement in interest rates | 467 | – | (467) | – |
| 2018 | | | | |
| Possible impact of a 10% movement in market values | 1,303 | – | (1,303) | – |
| Possible impact of a 1% movement in interest rates | 450 | – | (450) | – |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management (continued)

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

The major risk associated with these receivables is credit risk - the risk that debts due and payable to Council may not be repaid in full.

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts - that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The level of outstanding receivables is reconciled monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors. There are no material receivables that have been subjected to a re-negotiation of repayment terms.

Credit risk profile

Receivables – rates and annual charges

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

| \$ '000 | Not yet overdue | < 1 year overdue | 1 - 2 years overdue | 2 - 5 years overdue | > 5 years overdue | Total |
|-----------------------|--------------------|---------------------|------------------------|------------------------|----------------------|-------|
| 2019 | | | | | | |
| Gross carrying amount | 2,598 | 596 | – | – | – | 3,194 |
| 2018 | | | | | | |
| Gross carrying amount | 2,782 | 694 | – | – | – | 3,476 |

Receivables - non-rates and annual charges

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses incorporate forward-looking information.

| \$ '000 | Not yet overdue | 0 - 30 days overdue | 31 - 60 days overdue | 61 - 90 days overdue | > 91 days overdue | Total |
|------------------------|--------------------|------------------------|-------------------------|-------------------------|----------------------|------------|
| 2019 | | | | | | |
| Gross carrying amount | 9,491 | – | – | – | 1,632 | 11,123 |
| Expected loss rate (%) | 1.24% | 0.00% | 0.00% | 0.00% | 3.60% | 1.59% |
| ECL provision | 118 | – | – | – | 59 | 177 |
| 2018 | | | | | | |
| Gross carrying amount | 6,707 | 1,267 | – | – | – | 7,974 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management (continued)

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types, maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

| \$ '000 | Weighted average interest rate | Subject to no maturity | ≤ 1 Year | payable in: 1 - 5 Years | > 5 Years | Total cash outflows | Actual carrying values |
|------------------------------------|---|------------------------------|--------------|-------------------------------|---------------|------------------------|------------------------------|
| 2019 | | | | | | | |
| Trade/other payables | 0.00% | 793 | 5,538 | – | – | 6,331 | 6,331 |
| Loans and advances | 4.58% | – | 3,631 | 14,526 | 13,751 | 31,908 | 25,900 |
| Total financial liabilities | | 793 | 9,169 | 14,526 | 13,751 | 38,239 | 32,231 |
| 2018 | | | | | | | |
| Trade/other payables | 0.00% | 542 | 4,798 | – | – | 5,340 | 5,340 |
| Loans and advances | 4.64% | – | 3,515 | 14,061 | 16,686 | 34,262 | 27,189 |
| Total financial liabilities | | 542 | 8,313 | 14,061 | 16,686 | 39,602 | 32,529 |

Loan agreement breaches

No breaches to loan agreements have occurred during the reporting year.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 26/06/2018 and is unaudited.

While the Income Statement included in this General Purpose Financial Statements must disclose the original budget adopted by Council, the Local Government Act 1993 requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Material variations represent those variances between the original budget figure and the actual result that amount to **10%** or more.

Variation Key: **F** = Favourable budget variation, **U** = Unfavourable budget variation.

| \$ '000 | 2019 Budget | 2019 Actual | 2019 ----- Variance ----- | |
|---|----------------|----------------|------------------------------|--------------|
| REVENUES | | | | |
| User charges and fees | 14,420 | 15,919 | 1,499 | 10% F |
| User charges and fees were over budget by \$1,499,000 (10%). This is mainly due to additional quarry royalties than budgeted of \$741,000 as well as additional RMS income than budgeted from State Roads Maintenance contract works of \$641,000. These works are subject to variation each year depending on the actual quantity of ordered works from RMS. | | | | |
| Interest and investment revenue | 1,037 | 1,732 | 695 | 67% F |
| Interest and investment revenue was over budget by \$695,000 (67%). During the year, Council received payments of \$194,000 in relation to former CDO investments (which were not anticipated or budgeted). In addition, Council reviewed its investment policy during the year. Council invested in TCorp's Medium Term Growth Fund which achieved higher yields than term deposits and other investments held by Council. Total fair value gains for the 2018/2019 were \$790,000. | | | | |
| Other revenues | 151 | 166 | 15 | 10% F |
| Over revenues were over budget by \$15,000 (10%). This was mainly due to insurance claims of \$85,000 being received, which are unbudgeted, partially offset by fines being under budget by \$66,000. | | | | |
| Operating grants and contributions | 8,513 | 9,731 | 1,218 | 14% F |
| Operating grants and contributions were over budget by \$1,218,000 (14%). In many instances, the actual amount of grants received depends upon decisions made by State and Federal Governments after the original budget was adopted and on the outcomes of various grant applications submitted throughout the year. The main variances included the Financial Assistance Grant being \$323,000 higher than the original budget, bushfire and emergency services grants being \$154,000 over budget and operating natural disaster grants \$112,000. | | | | |
| Capital grants and contributions | 12,089 | 17,647 | 5,558 | 46% F |
| Capital grants and contributions were over budget by \$5,558,000 (46%). In many instances, the actual amount of grants received depends upon decisions made by State and Federal Governments after the original budget was adopted and on the outcomes of various grant applications submitted during the year. The main increases included grant funding towards the renewal of Council's sports grounds, parks and facilities being \$2,279,000 over budget, dedicated assets of \$1,506,000 (unbudgeted), natural disaster grants of \$919,000 and developer contributions being over budget by \$700,000. | | | | |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Material budget variations

| \$ '000 | 2019 Budget | 2019 Actual | 2019 ----- Variance ----- |
|---------|----------------|----------------|------------------------------|
|---------|----------------|----------------|------------------------------|

EXPENSES

| | | | | | |
|--------------------------------------|---------------|---------------|----------------|--------------|----------|
| Depreciation and amortisation | 14,185 | 15,939 | (1,754) | (12)% | U |
|--------------------------------------|---------------|---------------|----------------|--------------|----------|

Depreciation and amortisation was over budget by \$1,754,000 (12%). This was mainly due to depreciation for Roads, Bridges and Footpaths being over budget by \$1,031,000. This was a result of the revaluation of this class of assets as at 30 June 2018. The changes were not able to be made prior to the adoption of the original budget but were updated in subsequent quarterly budget reviews. Useful lives were reassessed during the year and this resulted in a reduction to what was initially expected to be booked in depreciation of this asset class post the revaluation. Other increases included \$531,000 in asset reinstatement depreciation. This was due to a reassessment of the cost to rehabilitate Council's landfill at Nammonna.

| | | | | | |
|---|----------|--------------|----------------|----------|----------|
| Net losses from disposal of assets | – | 5,791 | (5,791) | ∞ | U |
|---|----------|--------------|----------------|----------|----------|

The net profit or loss from the disposal of assets is unknown at the time of setting the original budget. As a result, asset purchases and sales are budgeted for on a gross basis only. The net loss from the disposal of assets is \$5,791,000, details of which are disclosed in Note 5 of the General Purpose Financial Statements.

STATEMENT OF CASH FLOWS

| | | | | | |
|--|---------------|---------------|--------------|------------|----------|
| Net cash provided from (used in) operating activities | 24,961 | 29,809 | 4,848 | 19% | F |
|--|---------------|---------------|--------------|------------|----------|

Net cash provided from operating activities was over budget by \$4,848,000 (19%). This was mainly attributable to grants and contributions being over budget by \$3,605,000, along with operating expenses being under budget by \$1,111,000.

| | | | | | |
|--|--------------|----------------|--------------|-------------|----------|
| Net cash provided from (used in) financing activities | (370) | (1,289) | (919) | 248% | U |
|--|--------------|----------------|--------------|-------------|----------|

Net cash used in financing activities was over budget by \$919,000 (248%). Council had budgeted \$2,000,000 in loan borrowings for 2018/2019, however only borrowed \$1,000,000. The undrawn loan was in relation to deferred rehabilitation works at the Nammoona Landfill.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

– Infrastructure, property, plant and equipment – Financial assets

The fair value of assets and liabilities must be estimated in accordance with various accounting standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a 'level' in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(1) Assets and liabilities that have been measured and recognised at fair values

| 2019 | Notes | Fair value measurement hierarchy | | | | Total |
|--|-------|----------------------------------|--------------------------------------|---------------------------------------|---|---------|
| | | Date of latest valuation | Level 1 Quoted prices in active mkts | Level 2 Significant observable inputs | Level 3 Significant unobservable inputs | |
| Recurring fair value measurements | | | | | | |
| Financial assets | | | | | | |
| Investments | 6(b) | | | | | |
| ' Held for trading' | | 30/06/19 | – | 18,528 | – | 18,528 |
| 'Financial assets at amortised cost'/'held to maturity' (2018) | | 30/06/19 | – | 20,000 | – | 20,000 |
| Total financial assets | | | – | 38,528 | – | 38,528 |
| Infrastructure, property, plant and equipment | | | | | | |
| | 9 | | | | | |
| Plant & Equipment | | 30/06/19 | – | – | 13,053 | 13,053 |
| Office Equipment | | 30/06/19 | – | – | 234 | 234 |
| Furniture & Fittings | | 30/06/19 | – | – | 395 | 395 |
| Land: | | | | | | |
| – Operational Land | | 30/06/17 | – | – | 19,897 | 19,897 |
| – Community Land | | 30/06/17 | – | – | 8,527 | 8,527 |
| – Crown Land | | 30/06/17 | – | – | 19,289 | 19,289 |
| – Land Under Roads (post 30/06/08) | | 30/06/17 | – | – | 304 | 304 |
| Land Improvements – non depreciable | | 30/06/15 | – | – | 5,154 | 5,154 |
| Land Improvements – depreciable | | 30/06/15 | – | – | 14,961 | 14,961 |
| Buildings – Specialised | | 30/06/15 | – | – | 56,151 | 56,151 |
| Other Structures | | 30/06/15 | – | – | 21,613 | 21,613 |
| Infrastructure: | | | | | | |
| – Roads | | 30/06/18 | – | – | 224,717 | 224,717 |
| – Bridges | | 30/06/18 | – | – | 69,545 | 69,545 |
| – Footpaths | | 30/06/18 | – | – | 13,240 | 13,240 |
| – Bulk Earthworks (non depreciable) | | 30/06/18 | – | – | 63,935 | 63,935 |
| – Stormwater Drainage | | 30/06/19 | – | – | 50,510 | 50,510 |
| – Water Supply Network | | 30/06/17 | – | – | 72,447 | 72,447 |
| – Sewerage Network | | 30/06/17 | – | – | 112,228 | 112,228 |
| – Swimming Pools | | 30/06/15 | – | – | 5,975 | 5,975 |
| – Other Open Space/Recreational Assets | | 30/06/15 | – | – | 10,169 | 10,169 |
| – Library Books | | 30/06/19 | – | – | 345 | 345 |
| Total infrastructure, property, plant and equipment | | | – | – | 782,689 | 782,689 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

| | | Fair value measurement hierarchy | | | | |
|--|-------|----------------------------------|--------------------------------------|---------------------------------------|---|---------|
| 2018 | Notes | Date of latest valuation | Level 1 Quoted prices in active mkts | Level 2 Significant observable inputs | Level 3 Significant unobservable inputs | Total |
| Recurring fair value measurements | | | | | | |
| Financial assets | | | | | | |
| Investments | 6(b) | | | | | |
| – ‘Held for trading’ | | 30/06/18 | – | 39,028 | – | 39,028 |
| ‘Financial assets at amortised cost’/‘held to maturity’ (2018) | | | – | – | – | – |
| Total financial assets | | | – | 39,028 | – | 39,028 |
| Infrastructure, property, plant and equipment | | | | | | |
| | 9 | | | | | |
| Plant & Equipment | | 30/06/18 | – | – | 13,125 | 13,125 |
| Office Equipment | | 30/06/18 | – | – | 302 | 302 |
| Furniture & Fittings | | 30/06/18 | – | – | 421 | 421 |
| Land: | | | | | | |
| – Operational Land | | 30/06/17 | – | – | 20,246 | 20,246 |
| – Community Land | | 30/06/17 | – | – | 8,743 | 8,743 |
| – Crown Land | | 30/06/17 | – | – | 20,176 | 20,176 |
| – Land Under Roads (post 30/06/08) | | 30/06/17 | – | – | 277 | 277 |
| Land Improvements – non depreciable | | 30/06/15 | – | – | 4,944 | 4,944 |
| Land Improvements – depreciable | | 30/06/15 | – | – | 11,902 | 11,902 |
| Buildings – Specialised | | 30/06/15 | – | – | 52,579 | 52,579 |
| Other Structures | | 30/06/15 | – | – | 15,645 | 15,645 |
| Infrastructure: | | | | | | |
| – Roads | | 30/06/18 | – | – | 219,088 | 219,088 |
| – Bridges | | 30/06/18 | – | – | 68,286 | 68,286 |
| – Footpaths | | 30/06/18 | – | – | 11,720 | 11,720 |
| – Bulk Earthworks (non depreciable) | | 30/06/18 | – | – | 62,362 | 62,362 |
| – Stormwater Drainage | | 30/06/14 | – | – | 34,884 | 34,884 |
| – Water Supply Network | | 30/06/17 | – | – | 71,577 | 71,577 |
| – Sewerage Network | | 30/06/17 | – | – | 110,573 | 110,573 |
| – Swimming Pools | | 30/06/15 | – | – | 5,791 | 5,791 |
| – Other Open Space/Recreational Assets | | 30/06/15 | – | – | 7,816 | 7,816 |
| – Library Books | | 30/06/18 | – | – | 353 | 353 |
| Total infrastructure, property, plant and equipment | | | – | – | 740,810 | 740,810 |

Note that capital WIP is not included above since it is carried at cost.

(2) Transfers between level 1 and level 2 fair value hierarchies

The following transfers occurred between level 1 and level 2 fair value hierarchies during the year:

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

(3) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Financial assets

Investments at fair value through the profit and loss include the following:

| | |
|--|--------------|
| Term Deposits (maturity > 3 months) | \$20,000,000 |
| NSW Treasury Corporation - Cash Facility Trust | \$ 9,109,000 |
| NSW Treasury Corporation - Medium Term Growth Fund | \$ 9,419,000 |

Term deposits are carried at face value and interest is received on maturity.

For the NSW Treasury Corporation investments, Council receives a monthly statement quoting the unit price of the investments and any movement in fair value is recorded in the profit and loss. Investments with NSW Treasury Corporation are not within an active market and are therefore classified as level 2 inputs. There has been no change to the valuation process during the reporting period.

Infrastructure, property, plant and equipment (IPP&E)

Plant & Equipment, Office Equipment and Furniture & Fittings

Plant and equipment, office equipment and furniture and fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets (depreciated historical cost) is deemed to be fair value due to the nature of these items. Examples of assets within these classes are as follows:

- Plant and Equipment - Graders, trucks, rollers, tractors, mowers, cars and light commercial vehicles.
- Office Equipment - Computer equipment, photocopiers, projectors and other electronic office equipment.
- Furniture & Fittings - Chairs, desks, shelving, display systems.

The gross replacement cost of these assets are based on current market prices, which are based on observable inputs, however the pattern of consumption, remaining useful life and residual value is implicated by internal factors which are unobservable inputs placing these assets in level 3. There has been no change to the valuation process during the reporting period.

Land - Operational

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. Council obtains its fair values for operational land from an external valuer every 3 years.

Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset and cash flows from the future use and disposal.

Council's Operational Land was revalued as at 30 June 2017. This asset class is categorised as level 3 due to a number of the above-mentioned inputs used in the valuation requiring significant professional judgement, which are therefore unobservable. There has been no change to the valuation process during the reporting period.

Land - Community

Council's Community Land is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access. Many of these parcels of land have no feasible alternative use, such as parks and reserves. Community Land is valued using the 'Market Approach'.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Fair value is derived by adjusting observable market inputs using unobservable inputs. The resulting measurement is categorised within level 3. Community Land was revalued as at 30 June 2017. There has been no change to the valuation process during the reporting period.

Land - Crown

Council's Crown Land (including land managed by Council) by definition is land intended for public access and use or where other restrictions applying to the land create some obligation to maintain public access. Many of these parcels of land have no feasible alternative use, such as parks and reserves. Community Land is valued using the 'Market Approach'.

Fair value is derived by adjusting observable market inputs using unobservable inputs. The resulting measurement is categorised within level 3. Crown Land was revalued as at 30 June 2017. There has been no change to the valuation process during the reporting period.

Land Improvements (Non-Depreciable and Depreciable)

Land improvement assets include all works carried out to the land to improve its utility, service potential or make it ready for an identified use. Assets include landscaping, land forming, earthworks not integral to other assets, external playing surfaces and facilities internal infrastructure.

Land Improvements are valued by an external valuer every 5 years using the cost approach and the last valuation was performed by an external valuer as at 30 June 2015 using the cost approach. Unobservable inputs include patterns of consumption, asset conditions and remaining useful lives. These factors require extensive professional judgement, resulting in this asset class being classified as level 3. There has been no change to the valuation process during the reporting period.

Land Under Roads (post 30/06/08)

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051. Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 - Property, Plant and Equipment and Council recognised this for the first time in the 2010/2011 financial year. Land Under Roads has been revalued as at 30 June 2017 and the valuation was based on the average unit value of all rateable land within Council's area of control using values provided by the Valuer General, discounted by 90% to reflect restrictions on use of land under roads in-line with the englobo method. This asset class is classified as level 3 as significant inputs used in the valuation methodology are unobservable. There were no changes to the valuation process during the reporting period.

Buildings (Specialised)

Specialised buildings are valued using the cost approach and are valued by an external valuer every 5 years and the last valuation was performed by an external valuer as at 30 June 2015.

Unobservable inputs include patterns of consumption, asset conditions and remaining useful lives.

These factors require extensive professional judgement, resulting in this asset class being classified as level 3.

There has been no change to the valuation process during the reporting period.

Other Structures

These assets include all other structures not included in the category of Buildings. Examples include statues, fences, monuments and clocktowers. Other structures are valued using the cost approach and are valued by an external valuer every 5 years and the last valuation was performed by an external valuer as at 30 June 2015.

Unobservable inputs include patterns of consumption, asset conditions and remaining useful lives.

These factors require extensive professional judgement, resulting in this asset class being classified as level 3.

There has been no changes to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Roads, Bridges & Footpaths (including Bulk Earthworks)

This asset class includes the road formation (bulk earthworks), road pavement and road seal, along with other road assets including kerb and guttering, guardrail and roadside furniture including signs and other traffic management devices. A full revaluation of road assets is undertaken every 5 years. A revaluation was performed as at 30 June 2018.

Whilst units rates, based on square metres or similar capacity, can be supported by market evidence (level 2), other inputs (such as estimates of useful life, pattern of consumption and asset condition) require extensive professional judgement and impact significantly on the final determination of fair value. As such, this asset class is classified as being valued using level 3 inputs. Useful lives have been reviewed and updated during the reporting period. This has had the effect of reducing Council's depreciation expense by approximately \$1.7 million.

Stormwater Drainage

Drainage refers to the system for the collection, storage and removal of stormwater developed and maintained by Council. These assets include pipelines, pits, headwalls and other drainage structures. The full revaluation of Stormwater Drainage assets is undertaken every 5 years. A revaluation was performed as at 30 June 2019.

Whilst units rates, based on square metres or similar capacity, can be supported by market evidence (level 2), other inputs (such as estimates of useful life, pattern of consumption and asset condition) require extensive professional judgement and impact significantly on the final determination of fair value. As such, this asset class is classified as being valued using level 3 inputs. There has been no change to the valuation process during the reporting period.

Water Supply Network

Water Supply Network assets include water pipelines, treatment plants, reservoirs, pump stations, water meters and connections etc. Water Supply Network assets are valued by an external valuer every 5 years using the cost approach. In between full revaluations, these assets are indexed each year in line with the NSW Reference Rates Manual as published by the NSW Office of Water. Water Supply Network Assets were revalued as at 30 June 2017.

Whilst the units rates based on linear metres of certain diameter pipes and prices per unit per pit or similar capacity can be supported by market evidence (level 2), other inputs (such as estimates of useful life, pattern of consumption and asset condition) require extensive professional judgement and impact significantly on the final determination of fair value. As such, this asset class is classified as being valued using level 3 inputs. There has been no change to the valuation process during the reporting period.

Sewerage Network

Sewerage Network assets include sewerage pipelines, treatment works, pump stations, manholes and sewerage connections. Sewerage Network assets are valued by an external valuer every 5 years using the cost approach. In between full revaluations, these assets are indexed each year in line with the NSW Reference Rates Manual as published by the NSW Office of Water. Sewerage Network Assets were revalued as at 30 June 2017.

Whilst the units rates based on linear metres of certain diameter pipes and prices per unit per pit or similar capacity can be supported by market evidence (level 2), other inputs (such as estimates of useful life, pattern of consumption and asset condition) require extensive professional judgement and impact significantly on the final determination of fair value. As such, this asset class is classified as being valued using level 3 inputs. There has been no change to the valuation process during the reporting period.

Swimming Pools

These assets include all structures located within the facility. These assets are valued by an external valuer every 5 years using the cost approach and the last valuation was performed by an external valuer as at 30 June 2015.

Unobservable inputs include patterns of consumption, asset conditions and remaining useful lives.

These factors require extensive professional judgement, resulting in this asset class being classified as level 3.

There has been no change to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Other Open Space/Recreational Assets

These assets include all structures within Council's sports grounds, parks and reserves. This asset class is valued by an external valuer every 5 years using the cost approach and the last valuation was performed by an external valuer as at 30 June 2015. Unobservable inputs include patterns of consumption, asset conditions and remaining useful lives. These factors require extensive professional judgement, resulting in this asset class being classified as level 3. There has been no change to the valuation process during the reporting period.

Other Assets (Library Books)

These assets include library books, journals, magazines, CD's, DVD's etc. Library books are valued at cost but are disclosed at fair value in the notes due to the nature of these items.

The gross replacement cost of these assets are based on current market prices, which are based on observable inputs, however the pattern of consumption and remaining useful life are implicated by internal factors which are unobservable inputs placing these assets in level 3. There has been no change to the valuation process during the reporting period.

DRAFT

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

(4) Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

| \$ '000 | Plant and equipment | Office equipment | Furniture and fittings | Operational Land | Community Land |
|--|------------------------|---------------------|---------------------------|---------------------|-------------------|
| 2018 | | | | | |
| Opening balance | 11,932 | 241 | 459 | 23,955 | 8,710 |
| Purchases (GBV) | 3,128 | 139 | 37 | – | – |
| Disposals (WDV) | (392) | – | – | (4,504) | – |
| Depreciation and impairment | (1,543) | (78) | (75) | – | – |
| Revaluation increments to equity (ARR) | – | – | – | 795 | 33 |
| Closing balance | 13,125 | 302 | 421 | 20,246 | 8,743 |
| 2019 | | | | | |
| Opening balance | 13,125 | 302 | 421 | 20,246 | 8,743 |
| Purchases (GBV) | 2,106 | 8 | 45 | 150 | – |
| Disposals (WDV) | (548) | – | – | (869) | – |
| Depreciation and impairment | (1,630) | (76) | (71) | – | – |
| Revaluation increments to equity (ARR) | – | – | – | 370 | (216) |
| Closing balance | 13,053 | 234 | 395 | 19,897 | 8,527 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

| \$ '000 | Land under Roads post 30/6/08 | Land improv- ements non- depreciable | Land improv- ements depreciable | Buildings specialised | Other structures |
|--|-------------------------------------|--|---------------------------------------|--------------------------|---------------------|
| 2018 | | | | | |
| Opening balance | 248 | 4,373 | 11,484 | 52,016 | 10,104 |
| Transfers from/(to) another asset class | — | — | 13 | — | — |
| Purchases (GBV) | 29 | 440 | 174 | 324 | 4,787 |
| Disposals (WDV) | — | — | — | — | (1,116) |
| Depreciation and impairment | — | — | (255) | (1,070) | (178) |
| Revaluation increments to equity (ARR) | — | 131 | 313 | 1,398 | 319 |
| Transfers from/(to) Capital Work in Progress | — | — | 271 | 3 | 1,729 |
| Impairment loss recognised in equity | — | — | (98) | (92) | — |
| Closing balance | 277 | 4,944 | 11,902 | 52,579 | 15,645 |
| 2019 | | | | | |
| Opening balance | 277 | 4,944 | 11,902 | 52,579 | 15,645 |
| Transfers from/(to) another asset class | — | — | (89) | — | — |
| Purchases (GBV) | 27 | 2 | 2,600 | 2,797 | 5,799 |
| Disposals (WDV) | — | — | (79) | (929) | (547) |
| Depreciation and impairment | — | — | (265) | (1,107) | (273) |
| Revaluation increments to equity (ARR) | — | 208 | 489 | 2,142 | 624 |
| Transfers from/(to) Capital Work in Progress | — | — | 403 | 669 | 365 |
| Closing balance | 304 | 5,154 | 14,961 | 56,151 | 21,613 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

| \$ '000 | Roads | Bridges | Footpaths | Bulk earthworks (non-depreciable) | Stormwater drainage |
|--|----------------|---------------|---------------|-----------------------------------|---------------------|
| 2018 | | | | | |
| Opening balance | 152,992 | 58,526 | 11,955 | 73,631 | 34,142 |
| Purchases (GBV) | 3,850 | 409 | 222 | 361 | 158 |
| Disposals (WDV) | (893) | (54) | (204) | — | — |
| Depreciation and impairment | (5,257) | (782) | (289) | — | (564) |
| Revaluation increments to equity (ARR) | 60,098 | 10,677 | 36 | (11,630) | 1,148 |
| Transfers from/(to) Capital Work in Progress | 628 | 26 | — | — | — |
| Reinstatement costs for impaired assets | 2,936 | 134 | — | — | — |
| Impairment reversal recognised in equity | 4,734 | (650) | — | — | — |
| Closing balance | 219,088 | 68,286 | 11,720 | 62,362 | 34,884 |
| 2019 | | | | | |
| Opening balance | 219,088 | 68,286 | 11,720 | 62,362 | 34,884 |
| Transfers from/(to) another asset class | — | — | 89 | — | — |
| Purchases (GBV) | 6,061 | 400 | 716 | 17 | 231 |
| Disposals (WDV) | (2,184) | (254) | (93) | (16) | (52) |
| Depreciation and impairment | (5,967) | (1,160) | (229) | — | (575) |
| Revaluation increments to equity (ARR) | 5,370 | 1,686 | 290 | 1,572 | 16,022 |
| Transfers from/(to) Capital Work in Progress | 1,883 | 29 | 747 | — | — |
| Reinstatement costs for impaired assets | 376 | 557 | — | — | — |
| Impairment reversal recognised in equity | 90 | — | — | — | — |
| Closing balance | 224,717 | 69,544 | 13,240 | 63,935 | 50,510 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

| \$ '000 | Water supply network | Library books | Sewerage network | Swimming pools | Other open space/recreation |
|--|----------------------|---------------|------------------|----------------|-----------------------------|
| 2018 | | | | | |
| Opening balance | 71,035 | 372 | 109,890 | 6,754 | 7,632 |
| Transfers from/(to) another asset class | — | — | — | — | (13) |
| Purchases (GBV) | 770 | 87 | 671 | 14 | 182 |
| Disposals (WDV) | (256) | (24) | (134) | (8) | (38) |
| Depreciation and impairment | (1,433) | (82) | (2,121) | (115) | (195) |
| Revaluation increments to equity (ARR) | 1,456 | — | 2,266 | 181 | 203 |
| Transfers from/(to) Capital Work in Progress | 5 | — | 1 | — | 44 |
| Impairment loss recognised in equity | — | — | — | (1,035) | — |
| Closing balance | 71,577 | 353 | 110,573 | 5,791 | 7,815 |
| 2019 | | | | | |
| Opening balance | 71,577 | 353 | 110,573 | 5,791 | 7,815 |
| Purchases (GBV) | 1,298 | 94 | 1,658 | 23 | 1,934 |
| Disposals (WDV) | (282) | (21) | (185) | (2) | (246) |
| Depreciation and impairment | (1,355) | (81) | (2,181) | (119) | (243) |
| Revaluation increments to equity (ARR) | 1,121 | — | 1,748 | 282 | 312 |
| Transfers from/(to) Capital Work in Progress | 88 | — | 615 | — | 596 |
| Closing balance | 72,447 | 345 | 112,228 | 5,975 | 10,168 |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

| \$ '000 | Crown Land | Total |
|--|---------------|-----------------|
| 2018 | | |
| Opening balance | 19,573 | 670,024 |
| Purchases (GBV) | — | 15,782 |
| Disposals (WDV) | — | (7,623) |
| Depreciation and impairment | — | (14,037) |
| Revaluation increments to equity (ARR) | 603 | 68,027 |
| Transfers from/(to) Capital Work in Progress | — | 2,707 |
| Reinstatement costs for impaired assets | — | 3,070 |
| Impairment reversal recognised in equity | — | 4,084 |
| Impairment loss recognised in equity | — | (1,225) |
| Closing balance | 20,176 | 740,809 |
| 2019 | | |
| Opening balance | 20,176 | 740,809 |
| Purchases (GBV) | — | 25,966 |
| Disposals (WDV) | (893) | (7,200) |
| Depreciation and impairment | — | (15,332) |
| Revaluation increments to equity (ARR) | 6 | 32,026 |
| Transfers from/(to) Capital Work in Progress | — | 5,395 |
| Reinstatement costs for impaired assets | — | 933 |
| Closing balance | 19,289 | 782,687 |

b. The valuation process for level 3 fair value measurements

Fair Value Hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurement by level of input, using the following 'hierarchy':

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3 - Unobservable inputs for asset or liability.

Fair Valuation Techniques

The valuation techniques prescribed by AASB 13 can be summarised as:

'Cost Approach': A valuation technique that reflects the amount that would be required to replace the service capacity of an asset (current replacement cost).

'Income Approach': A valuation technique that converts future amounts (cash inflows/outflows) to signal the current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about these future amounts.

'Market Approach': A valuation technique that uses prices and other relevant information, generated by market transactions involving identical or comparable (similar) assets, liabilities or a group of assets and liabilities such as a business.

Valuation Techniques used to derive Level 2 and Level 3 Fair Values

Where Council is unable to derive Fair Valuations using quoted market process of identical assets (ie Level 1 inputs), Council instead utilises a spread of both observable inputs (Level 2 inputs) and unobservable inputs (Level 3 inputs).

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Level 2 valuation process for some asset classes where the basis was Cost Approach under Level 2 input, whereby maximising observable inputs and minimising unobservable inputs as below:

- Quoted prices for similar asset in active markets
- Current replacement cost concept
- Purchase price
- Useful life

Level 3 valuation process for some asset classes where the basis was Cost Approach. The inputs used for this technique were:

- Pattern of consumption
- Asset condition
- Unit rates
- Useful life

(5) Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.

DRAFT

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Related Party Transactions

(a) Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

| \$ '000 | 2019 | 2018 |
|--------------------------|------------|------------|
| Compensation: | | |
| Short-term benefits | 826 | 797 |
| Post-employment benefits | 58 | 58 |
| Other long-term benefits | 22 | 23 |
| Termination benefits | – | 52 |
| Total | 906 | 930 |

(b) Other transactions with KMP and their related parties

| Nature of the transaction | Ref | Value of transactions during year | Outstanding balance (incl. loans and commitments) | Terms and conditions | Provisions for impairment of receivables outstanding | Expense recognised for impairment of receivables |
|---|-----|-----------------------------------|---|----------------------|--|--|
| \$ '000 | | | | | | |
| 2019 | | | | | | |
| Employee expenses relating to close family members of KMP | 1 | 110 | – | | – | – |
| 2018 | | | | | | |
| Employee expenses relating to close family members of KMP | 1 | 102 | – | | – | – |

1 One (1) close family member of Council's KMP are employed by the council under the relevant pay award on an arm's length basis

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Related Party Transactions (continued)

(c) Other related party transactions

| | Value of transactions during year | Outstanding balance (incl. loans and commitments) | Terms and conditions | Provisions for impairment of receivables outstanding | Expense recognised for impairment of receivables |
|--|---|--|----------------------|---|---|
| \$ '000 | | | | | |
| 2019 | | | | | |
| Joint Venture - North East Weight of Loads Group | 28 | — | | — | — |
| 2018 | | | | | |
| Joint Venture - North East Weight of Loads Group | 25 | — | | — | — |

- 1 The principal activity of NEWLOG is the checking and enforcement of load weights carried by heavy vehicles on roads within the member council's boundaries. NEWLOG operates with the objective to generally advance the aims of reducing damage to Council and classified roads and promotion of road safety, by policing of vehicle weights as prescribed in the Acts and Regulations pertinent to overloading.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Statement of developer contributions

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

Summary of contributions and levies

| \$ '000 | as at 30/6/2018 | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | as at 30/6/2019 | |
|--|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | Opening Balance | Cash | Non-cash | | | | Held as restricted asset | Cumulative internal borrowings due/(payable) |
| Roads | 200 | – | – | 6 | – | – | 206 | – |
| Community facilities | 5 | – | – | – | – | – | 5 | – |
| Infrastructure | 2 | – | – | – | – | – | 2 | – |
| Community Services | 53 | – | – | 2 | – | – | 55 | – |
| Recreation & Civil Facilities | 1 | – | – | – | – | – | 1 | – |
| Rural Heavy Haulage | 1,347 | 1,642 | – | 45 | (1,201) | – | 1,833 | – |
| Quarry Roads | 71 | – | – | – | – | – | 71 | – |
| Bushfire | 9 | – | – | – | – | – | 9 | – |
| S7.11 contributions – under a plan | 1,688 | 1,642 | – | 53 | (1,201) | – | 2,182 | – |
| S7.12 levies – under a plan | 206 | 269 | – | 9 | (98) | – | 386 | – |
| Total S7.11 and S7.12 revenue under plans | 1,894 | 1,911 | – | 62 | (1,299) | – | 2,568 | – |
| S64 contributions | 4,904 | 395 | – | 148 | – | – | 5,447 | – |
| Total contributions | 6,798 | 2,306 | – | 210 | (1,299) | – | 8,015 | – |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Statement of developer contributions (continued)

| | as at 30/6/2018 | | | | | | as at 30/6/2019 | |
|--|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | Opening Balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
| \$ '000 | | Cash | Non-cash | | | | | |
| S7.11 Contributions – under a plan | | | | | | | | |
| CONTRIBUTION PLAN NUMBER 2 – EX RRSC | | | | | | | | |
| Roads | 117 | – | – | 3 | – | – | 120 | – |
| Infrastructure | 2 | – | – | – | – | – | 2 | – |
| Community Services | 53 | – | – | 2 | – | – | 55 | – |
| Recreation & Civil Facilities | 1 | – | – | – | – | – | 1 | – |
| Quarry Roads | 71 | – | – | – | – | – | 71 | – |
| Rural Heavy Haulage | 1,347 | 1,642 | – | 45 | (1,201) | – | 1,833 | – |
| Total | 1,591 | 1,642 | – | 50 | (1,201) | – | 2,082 | – |
| CONTRIBUTION PLAN NUMBER – Ex Copmanhurst | | | | | | | | |
| Roads | 83 | – | – | 3 | – | – | 86 | – |
| Community facilities | 5 | – | – | – | – | – | 5 | – |
| Bushfire | 9 | – | – | – | – | – | 9 | – |
| Total | 97 | – | – | 3 | – | – | 100 | – |
| S7.12 Levies – under a plan | | | | | | | | |
| CONTRIBUTION PLAN NUMBER 1 – Richmond Valley Council | | | | | | | | |
| Section 7.12 Levies | 206 | 269 | – | 9 | (98) | – | 386 | – |
| Total | 206 | 269 | – | 9 | (98) | – | 386 | – |

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Financial result and financial position by fund

| \$ '000 | General ¹ 2019 | Water 2019 | Sewer 2019 |
|--|------------------------------|---------------|---------------|
| Income Statement by fund | | | |
| Income from continuing operations | | | |
| Rates and annual charges | 16,573 | 1,396 | 6,973 |
| User charges and fees | 9,570 | 5,176 | 1,173 |
| Interest and investment revenue | 1,134 | 211 | 387 |
| Other revenues | 166 | – | – |
| Grants and contributions provided for operating purposes | 9,667 | 63 | 1 |
| Grants and contributions provided for capital purposes | 16,691 | 291 | 665 |
| Total income from continuing operations | 53,801 | 7,137 | 9,199 |
| Expenses from continuing operations | | | |
| Employee benefits and on-costs | 18,278 | 901 | 1,482 |
| Borrowing costs | 436 | – | 813 |
| Materials and contracts | 5,826 | 2,365 | 2,550 |
| Depreciation and amortisation | 12,354 | 1,369 | 2,216 |
| Other expenses | 3,826 | 1,335 | 283 |
| Net losses from the disposal of assets | 5,309 | 282 | 200 |
| Total expenses from continuing operations | 46,029 | 6,252 | 7,544 |
| Operating result from continuing operations | 7,772 | 885 | 1,655 |
| Net operating result for the year | 7,772 | 885 | 1,655 |
| Net operating result attributable to each council fund | 7,772 | 885 | 1,655 |
| Net operating result for the year before grants and contributions provided for capital purposes | (8,919) | 594 | 990 |

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Financial result and financial position by fund (continued)

| \$ '000 | General ¹ 2019 | Water 2019 | Sewer 2019 |
|--|------------------------------|---------------|----------------|
| Statement of Financial Position by fund | | | |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 5,019 | 1,157 | 1,996 |
| Investments | 22,666 | 5,453 | 9,409 |
| Receivables | 8,273 | 1,641 | 2,057 |
| Inventories | 1,249 | – | – |
| Other | 331 | – | – |
| Total current assets | 37,538 | 8,251 | 13,462 |
| Non-current assets | | | |
| Investments | 1,000 | – | – |
| Receivables | 1,156 | 451 | 563 |
| Inventories | 1,679 | – | – |
| Infrastructure, property, plant and equipment | 597,722 | 74,704 | 114,824 |
| Total non-current assets | 601,557 | 75,155 | 115,387 |
| TOTAL ASSETS | 639,095 | 83,406 | 128,849 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 5,650 | 9 | 160 |
| Income received in advance | 30 | – | – |
| Borrowings | 1,209 | – | 1,277 |
| Provisions | 6,315 | – | – |
| Total current liabilities | 13,204 | 9 | 1,437 |
| Non-current liabilities | | | |
| Payables | 512 | – | – |
| Borrowings | 9,652 | – | 13,762 |
| Provisions | 3,754 | – | – |
| Total non-current liabilities | 13,918 | – | 13,762 |
| TOTAL LIABILITIES | 27,122 | 9 | 15,199 |
| Net assets | 611,973 | 83,397 | 113,650 |
| EQUITY | | | |
| Accumulated surplus | 285,368 | 27,666 | 40,759 |
| Revaluation reserves | 326,605 | 55,731 | 72,891 |
| Council equity interest | 611,973 | 83,397 | 113,650 |
| Total equity | 611,973 | 83,397 | 113,650 |

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(a). Statement of performance measures – consolidated results

| \$ '000 | Amounts 2019 | Indicator 2019 | Prior periods 20182017 | | Benchmark |
|---|-----------------|-------------------|---------------------------|-----------|------------|
| 1. Operating performance ratio | | | | | |
| Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2} | (2,334) | (4.51)% | (7.31)% | 7.50% | >0.00% |
| Total continuing operating revenue excluding capital grants and contributions ¹ | 51,700 | | | | |
| 2. Own source operating revenue ratio | | | | | |
| Total continuing operating revenue excluding all grants and contributions ¹ | 41,500 | 59.84% | 64.04% | 68.13% | >60.00% |
| Total continuing operating revenue ¹ | 69,347 | | | | |
| 3. Unrestricted current ratio | | | | | |
| Current assets less all external restrictions | 27,590 | 3.05x | 3.40x | 3.48x | >1.50x |
| Current liabilities less specific purpose liabilities | 9,038 | | | | |
| 4. Debt service cover ratio | | | | | |
| Operating result before capital excluding interest and depreciation/impairment/amortisation ¹ | 14,854 | 4.20x | 0.93x | 5.02x | >2.00x |
| Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement) | 3,538 | | | | |
| 5. Rates, annual charges, interest and extra charges outstanding percentage | | | | | |
| Rates, annual and extra charges outstanding | 3,323 | 11.78% | 13.29% | 14.94% | <10.00% |
| Rates, annual and extra charges collectible | 28,209 | | | | |
| 6. Cash expense cover ratio | | | | | |
| Current year's cash and cash equivalents plus all term deposits | 28,172 | 9.08 mths | 7.81 mths | 7.00 mths | >3.00 mths |
| Monthly payments from cash flow of operating and financing activities | 3,103 | | | | |

(1) Excludes fair value adjustments, reversal of revaluation decrements, net gain on sale of assets, and net loss of interests in joint ventures and associates.

(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(b). Statement of performance measures – by fund

| \$ '000 | General Indicators ³ | | Water Indicators | | Sewer Indicators | | Benchmark |
|--|---------------------------------|-----------|------------------|------------|------------------|-----------|------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | |
| 1. Operating performance ratio | | | | | | | |
| Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2} | (11.58)% | (9.88)% | 12.80% | 7.49% | 12.16% | (8.07)% | >0.00% |
| Total continuing operating revenue excluding capital grants and contributions ¹ | | | | | | | |
| 2. Own source operating revenue ratio | | | | | | | |
| Total continuing operating revenue excluding capital grants and contributions ¹ | 49.86% | 53.45% | 93.92% | 97.05% | 91.75% | 95.12% | >60.00% |
| Total continuing operating revenue ¹ | | | | | | | |
| 3. Unrestricted current ratio | | | | | | | |
| Current assets less all external restrictions | 3.05x | 3.40x | 712.22x | 592.00x | 6.86x | 6.87x | >1.50x |
| Current liabilities less specific purpose liabilities | | | | | | | |
| 4. Debt service cover ratio | | | | | | | |
| Operating result before capital excluding interest and depreciation/impairment/amortisation ¹ | 5.67x | 2.12x | ∞ | ∞ | 1.99x | 0.33x | >2.00x |
| Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement) | | | | | | | |
| 5. Rates, annual charges, interest and extra charges outstanding percentage | | | | | | | |
| Rates, annual and extra charges outstanding | 5.03% | 6.31% | 23.36% | 24.81% | 22.40% | 23.76% | <10.00% |
| Rates, annual and extra charges collectible | | | | | | | |
| 6. Cash expense cover ratio | | | | | | | |
| Current year's cash and cash equivalents plus all term deposits | 6.99 mths | 8.67 mths | 17.23 mths | 14.80 mths | 11.83 mths | 4.30 mths | >3.00 mths |
| Payments from cash flow of operating and financing activities | | | | | | | |

(1) - (2) Refer to Notes at Note 23a above.

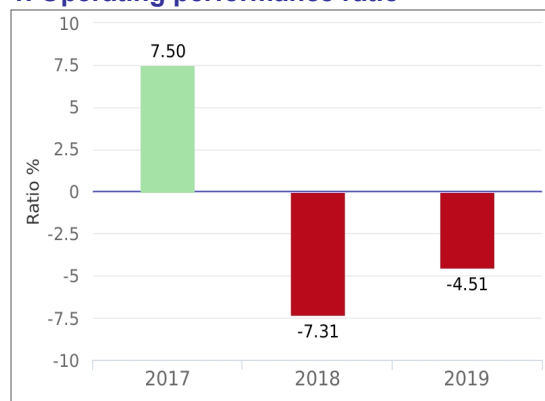
(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on 2018/19 result

2018/19 ratio (4.51)%

Council's operating performance ratio has improved to -4.51%. The approval of a further special rate variation of 5.5% per annum for the four year period 2019/2020 to 2022/2023 will help Council move this ratio closer to the benchmark of > 0.00%.

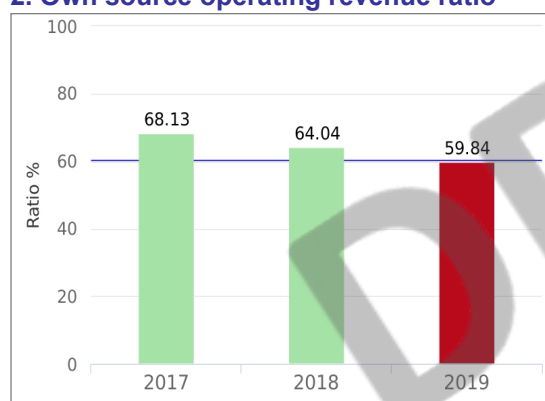
Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

Commentary on 2018/19 result

2018/19 ratio 59.84%

Council's own source operating revenue ratio is just below the benchmark of 60.00%. Council received a significant level of grant funding during 2018/2019, including funding for a number of one-off projects benefiting the community and local economy. Grant funding is expected to reduce in 2019/2020 and as a result, this ratio is expected to move back above the benchmark in 2019/2020.

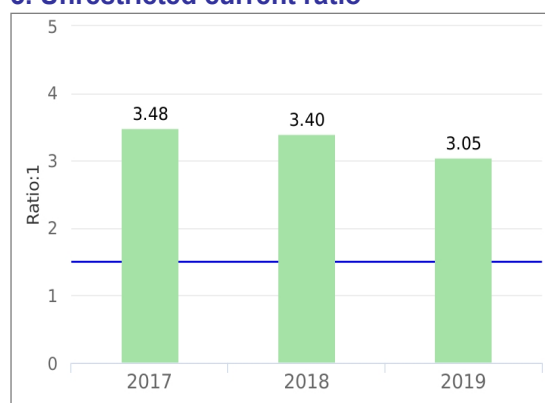
Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

Commentary on 2018/19 result

2018/19 ratio 3.05x

Council's unrestricted current ratio has decreased slightly to 3.05, which is well above the benchmark of 1.50. This ratio remains relatively consistent.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

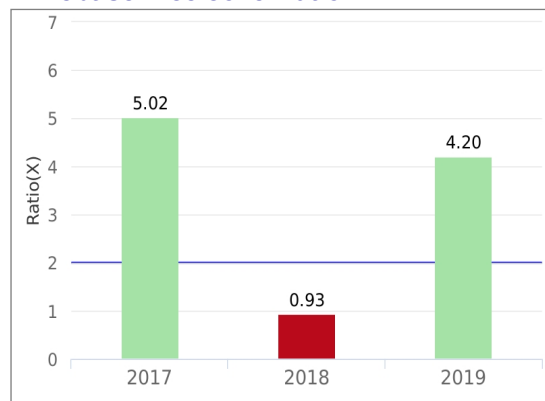
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2018/19 result

2018/19 ratio 4.20x

Council's debt service cover ratio for 2019 has improved to 4.20, above the benchmark of > 2.00 . In 2018, this ratio was affected by the refinancing of three loans, which led to savings of over \$536,000.

Benchmark: — $> 2.00x$

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

5. Rates, annual charges, interest and extra charges outstanding percentage



Purpose of rates, annual charges, interest and extra charges outstanding

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2018/19 result

2018/19 ratio 11.78%

There has been a further improvement in Council's rates, annual charges, interest and extra charges outstanding ratio, reducing 13.29% to 11.78%. In comparing this ratio to the benchmark, it is impacted by the fact that Council levies its water and sewerage annual charges in arrears. Council actively monitors and pursues outstanding balances through its debt recovery practices which is leading to the improvement in this ratio.

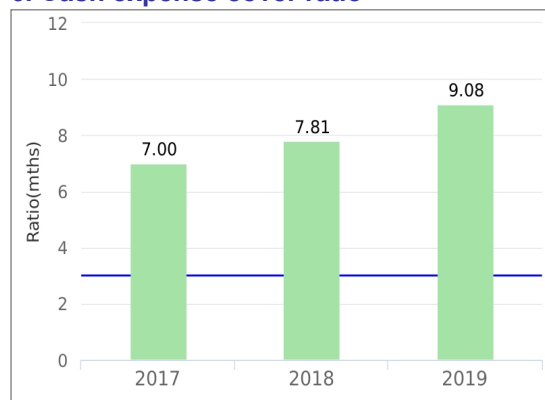
Benchmark: — $< 10.00\%$

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2018/19 result

2018/19 ratio 9.08 mths

Council's cash expense cover ratio is well above the benchmark of 3.0. This ratio was affected by the refinancing of three loans in 2018, leading to a significant improvement in 2019.

Benchmark: — $> 3.00mths$

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark

Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Council information and contact details

Principal place of business:

10 Graham Place
Casino NSW 2470

Contact details

Mailing Address:

Locked Bag 10
CASINO NSW 2470

Telephone: 02 6660 0300

Facsimile: 02 6660 1300

Opening hours:

Office Hours: 8:30am - 5:00pm
Cashier Hours: 8:30am - 4.30pm
Monday to Friday

Internet: www.richmondvalley.nsw.gov.au

Email: council@richmondvalley.nsw.gov.au

Officers

GENERAL MANAGER

Vaughan Macdonald

RESPONSIBLE ACCOUNTING OFFICER

Ryan Gaiter

Auditors

Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Elected members

MAYOR

Robert Mustow

Councillors

Steve Morrissey
Sam Cornish
Robert Hayes
Sandra Humphrys
Jill Lyons
Daniel Simpson

Other information

ABN: 54 145 907 009



Cr Robert Mustow
Mayor
Richmond Valley Council
Locked Bag 10
CASINO NSW 2470

Contact: Gearoid Fitzgerald
Phone no: 9275 7392
Our ref:

.... October 2019

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2019
Richmond Valley Council**

I have audited the general purpose financial statements (GPFS) of the Richmond Valley Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

| | 2019 | 2018 | Variance |
|--|-------------|-------------|-----------------|
| | \$m | \$m | % |
| Rates and annual charges revenue | 24.9 | 23.3 | 6.9% |
| Grants and contributions revenue | 27.4 | 21.0 | 30.5 |
| Operating result for the year | 10.3 | 5.7 | 80.7 |
| Net operating result before capital grants and contributions | (7.3) | (5.9) | 23.7 |

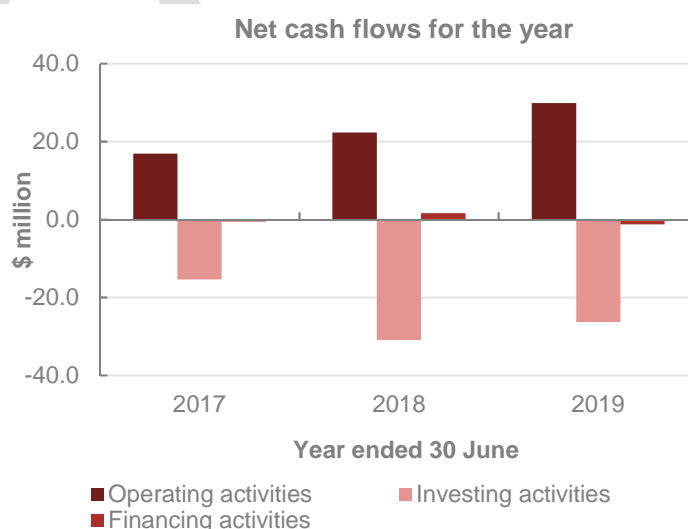
Council's operating result (\$10.3 million surplus including the effect of depreciation and amortisation expense of \$15.9 million) was \$4.6 million higher than the 2017–18 result.

The increase is largely attributable to the following:

- rates and annual charges revenue increased \$1.6 million
 - ordinary rates income increased by \$0.8 million. Council had an approved special general rate increase of 5.5 per cent for the 2018 – 19 year
 - annual charges income increased by \$0.8 million.
- grants and contributions revenue increased by \$6.4 million
 - grants and contributions for capital purposes increased by \$6.1 million. This was predominantly due to additional funding received towards the Northern Rivers Livestock Exchange Upgrade (increased by \$4.0 million), \$1.4 million towards the Casino Drill Hall and Amphitheatre project and \$1.4 million towards the Woodburn Riverside Precinct upgrade. Natural disaster funding decreased by \$2.2 million.
- Roads & Maritime Services NSW (RMS) charges increased by \$1.5 million. These fluctuate year to year based on the needs of the RMS
- employee costs increased by \$1.6 million
- borrowing costs decreased by \$1.7 million. Last year Council incurred \$1.5 million in extra break costs as part of refinancing some of its loans to achieve a better long term outcome
- depreciation and amortisation expense increased by \$1.2 million. Of this, \$1.0 million related to increased depreciation on roads/bridges/footpaths, as a result of the 30 June 2018 revaluation of transport assets in conjunction with a re-assessment of useful lives for these assets by an external expert
- net loss on disposals of assets increased by \$3.1 million. Council undertook a number of significant capital projects during 2018 – 2019. Some of these works involved demolishing existing assets so new assets could be constructed in their place. In addition, Council disposed of some parcels of Crown Land totalling \$0.9 million that were no longer deemed to be under Council's control.

STATEMENT OF CASH FLOWS

- Net cash provided by operating activities increased by \$7.5 million, predominantly due to higher capital grants received as set out above.
- Net cash used in investing activities decreased by \$4.6 million. Whilst net investments in infrastructure, property, plant and equipment increased by \$9.9 million in 2019, 2018 included a transfer to investments of \$13.0 million.
- Net cash used in financing activities increased by \$2.9 million. Only \$1.0 million in new loans were drawn in 2018-19.



FINANCIAL POSITION

Cash and investments

| Cash and investments | 2019 | 2018 | Commentary |
|-----------------------------|-------------|-------------|---|
| | \$m | \$m | |
| External restrictions | 28.7 | 25.6 | <ul style="list-style-type: none"> The increase in externally restricted cash and investments of \$3.1 million is predominantly due to increases of \$1.1 million for water supplies, \$0.8 million for domestic waste management and \$1.2 million for developer contributions. Internally restricted cash and investments has decreased by \$1.4 million. A decrease in the real estate and infrastructure reserve of \$2.0 million was most significant. |
| Internal restrictions | 18.0 | 19.4 | |
| Cash and investments | 46.7 | 45.0 | |

PERFORMANCE

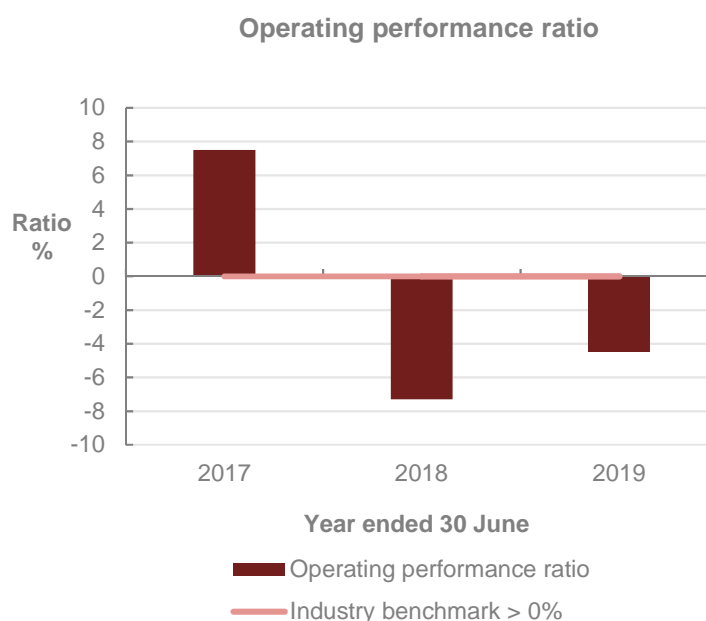
Operating performance ratio

Councils 'operating performance ratio' for the 2018-19 year was negative 4.51%.

Whilst Council's 'operating performance ratio' has improved from 2018, it is still below the industry benchmark of >0%.

The improvement is reflective of a reduction in Council's operating deficit before capital items.

The 'operating performance ratio' measures how well Council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, net losses/gains from disposal of assets and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.



Own source operating revenue ratio

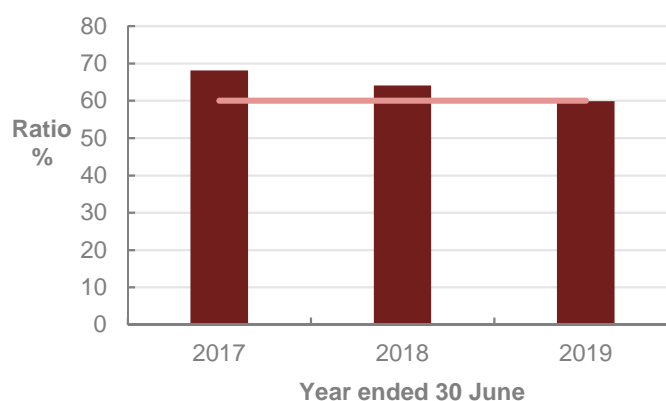
Council 'own source operating revenue ratio' is at 59.84%, just below the industry benchmark of >60%.

The ratio has been negatively impacted in recent years due to higher levels of capital grants and contributions.

Revenue streams, such as quarries, RMS charges, and the Northern Rivers Livestock Exchange, reduce the Council's reliance on government funding.

The 'own source operating revenue ratio' measures Council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.

Own source operating revenue ratio



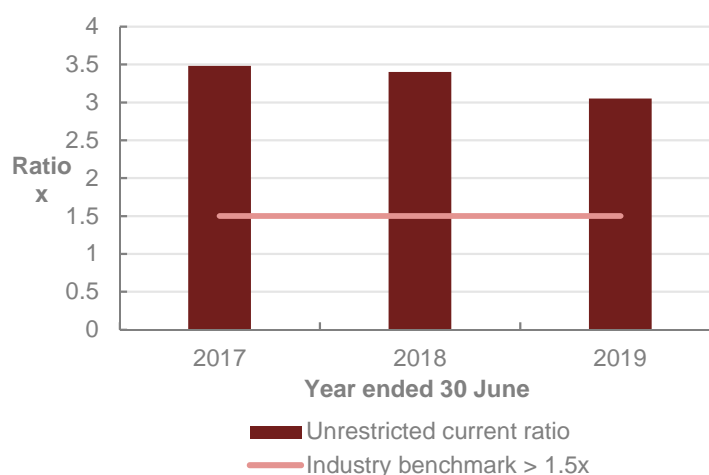
Unrestricted current ratio

Council's 'unrestricted current ratio' exceeds the industry benchmark, however has declined over the last two years. The reduction from the prior year is due to a decrease in unrestricted current assets.

Council has \$3.05 in liquid current assets for every \$1 of current liabilities.

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.

Unrestricted current ratio



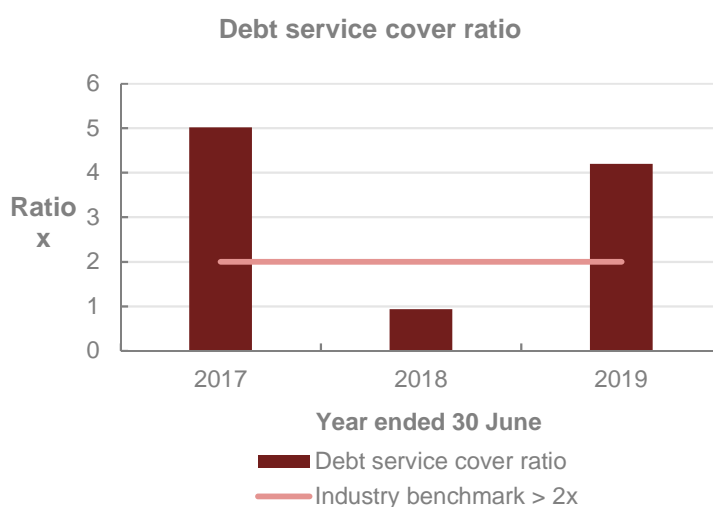
Debt service cover ratio

Council's 'debt service cover ratio' has improved to 4.20x and is well above the industry benchmark again.

Last year's decline was the result of refinancing of loans, which saw a large increase in principal repayments (although these were offset by proceeds from the refinanced loans, which are excluded from this ratio). Furthermore, Council incurred loan refinancing fees of \$1.5 million as part of this process.

Sewer fund 'debt service cover ratio' has improved from 0.33x in 2018 to 1.99x in 2019.

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.

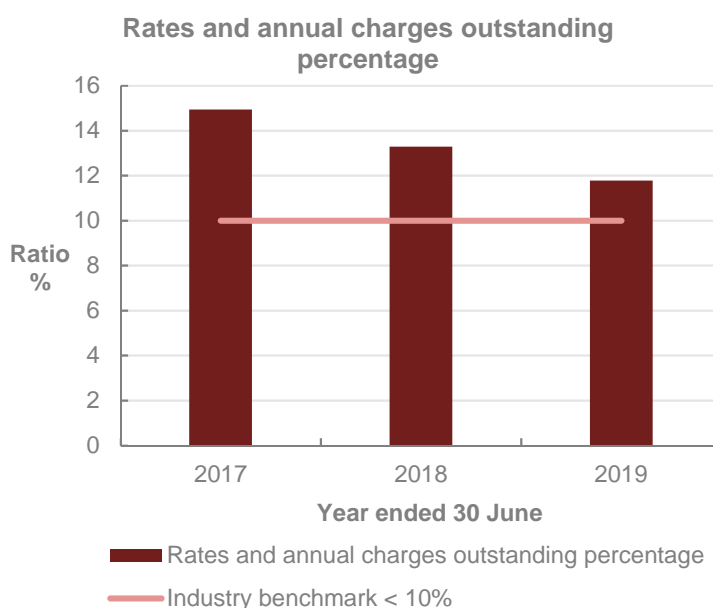


Rates and annual charges outstanding percentage

Council's 'rates and annual charges outstanding ratio' is at 11.78%. Despite continued improvement over the last two years, Council did not meet the industry benchmark on a consolidated basis.

General fund 'rates and annual charges outstanding ratio' is at 5.03%. The water and sewer fund ratios are higher than the general fund ratio (and industry benchmark) as Council levies annual charges in arrears for these funds.

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent for regional and rural councils.

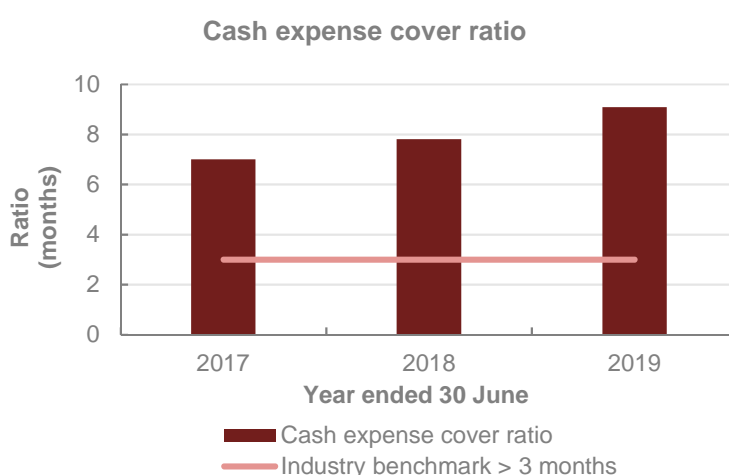


Cash expense cover ratio

Council continues to improve its 'cash expense cover ratio' and is well above the industry benchmark at 9.08 months.

The absence of last year's large loan repayments, as discussed above, resulted in an improved ratio.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.



Infrastructure, property, plant and equipment renewals

Council's asset renewal expenditure in the 2018 – 2019 financial year was \$17.0 million compared to \$13.6 million in the 2017 – 2018 financial year.

The increase in renewal expenditure has seen renewals exceeding the rate at which these assets are depreciating.

OTHER MATTERS

New accounting standards implemented

| Application period | Overview |
|---|--|
| AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures' | |
| For the year ended 30 June 2019 | <p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"> • a simplified model for classifying and measuring financial assets • a new method for calculating impairment • a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 12(b).</p> |

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.

Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

cc: Vaughan Macdonald, General Manager
Daniel Simpson, Chair of the Internal Audit Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment

DRAFT

DRAFT

Richmond Valley Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019



Special Purpose Financial Statements

for the year ended 30 June 2019

| Contents | Page |
|--|-----------|
| Statement by Councillors & Management | 3 |
| Special Purpose Financial Statements | |
| Income Statement – Water Supply Business Activity | 4 |
| Income Statement – Sewerage Business Activity | 5 |
| Income Statement – Petersons Quarry | 6 |
| Income Statement – Woodview Quarry | 7 |
| Statement of Financial Position – Water Supply Business Activity | 8 |
| Statement of Financial Position – Sewerage Business Activity | 9 |
| Statement of Financial Position – Petersons Quarry | 10 |
| Statement of Financial Position – Woodview Quarry | 11 |
| Note 1 – Significant Accounting Policies | 12 |
| Auditor's Report on Special Purpose Financial Statements | 15 |

Background

- i. These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
- ii. The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Special Purpose Financial Statements

for the year ended 30 June 2019

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government *Code of Accounting Practice and Financial Reporting*,
- the NSW Office of Water *Best-Practice Management of Water and Sewerage Guidelines*.

To the best of our knowledge and belief, these statements:

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 22 October 2019.

Robert Mustow
Mayor
22 October 2019

Steve Morrissey
Councillor
22 October 2019

Vaughan Macdonald
General Manager
22 October 2019

Ryan Gaiter
Responsible Accounting Officer
22 October 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

| \$ '000 | 2019 | 2018 |
|--|---------------|---------------|
| Income from continuing operations | | |
| Access charges | 1,396 | 1,245 |
| User charges | 5,057 | 4,689 |
| Fees | 119 | 99 |
| Interest | 211 | 160 |
| Grants and contributions provided for non-capital purposes | 63 | 78 |
| Total income from continuing operations | 6,846 | 6,271 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 901 | 913 |
| Materials and contracts | 2,365 | 2,170 |
| Depreciation, amortisation and impairment | 1,369 | 1,446 |
| Water purchase charges | 1,056 | 1,032 |
| Loss on sale of assets | 282 | 256 |
| Calculated taxation equivalents | 22 | 24 |
| Other expenses | 279 | 240 |
| Total expenses from continuing operations | 6,274 | 6,081 |
| Surplus (deficit) from continuing operations before capital amounts | 572 | 190 |
| Grants and contributions provided for capital purposes | 291 | 110 |
| Surplus (deficit) from continuing operations after capital amounts | 863 | 300 |
| Surplus (deficit) from all operations before tax | 863 | 300 |
| Less: corporate taxation equivalent (27.5%) [based on result before capital] | (157) | (52) |
| SURPLUS (DEFICIT) AFTER TAX | 706 | 248 |
| Plus opening accumulated surplus | 26,811 | 26,487 |
| Plus adjustments for amounts unpaid: | | |
| – Taxation equivalent payments | 22 | 24 |
| – Corporate taxation equivalent | 157 | 52 |
| Less: | | |
| Amount restated on adoption of AASB 9 | (30) | – |
| Closing accumulated surplus | 27,666 | 26,811 |
| Return on capital % | 0.8% | 0.3% |
| Calculation of dividend payable: | | |
| Surplus (deficit) after tax | 706 | 248 |
| Less: capital grants and contributions (excluding developer contributions) | (198) | (37) |
| Surplus for dividend calculation purposes | 508 | 211 |
| Potential dividend calculated from surplus | 254 | 105 |

Income Statement – Sewerage Business Activity for the year ended 30 June 2019

| \$ '000 | 2019 | 2018 |
|--|---------------|---------------|
| Income from continuing operations | | |
| Access charges | 6,973 | 6,707 |
| User charges | 1,053 | 1,050 |
| Fees | 120 | 139 |
| Interest | 387 | 292 |
| Grants and contributions provided for non-capital purposes | 1 | 76 |
| Total income from continuing operations | 8,534 | 8,264 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 1,482 | 1,661 |
| Borrowing costs | 813 | 2,154 |
| Materials and contracts | 2,550 | 2,572 |
| Depreciation, amortisation and impairment | 2,216 | 2,158 |
| Loss on sale of assets | 200 | 138 |
| Calculated taxation equivalents | 17 | 18 |
| Other expenses | 283 | 270 |
| Total expenses from continuing operations | 7,561 | 8,971 |
| Surplus (deficit) from continuing operations before capital amounts | 973 | (707) |
| Grants and contributions provided for capital purposes | 665 | 339 |
| Surplus (deficit) from continuing operations after capital amounts | 1,638 | (368) |
| Surplus (deficit) from all operations before tax | 1,638 | (368) |
| Less: corporate taxation equivalent (27.5%) [based on result before capital] | (267) | – |
| SURPLUS (DEFICIT) AFTER TAX | 1,371 | (368) |
| Plus opening accumulated surplus | 39,142 | 39,492 |
| Plus adjustments for amounts unpaid: | | |
| – Taxation equivalent payments | 17 | 18 |
| – Corporate taxation equivalent | 267 | – |
| Less: | | |
| Amount restated on adoption of AASB 9 | (38) | – |
| Closing accumulated surplus | 40,759 | 39,142 |
| Return on capital % | 1.6% | 1.3% |
| Calculation of dividend payable: | | |
| Surplus (deficit) after tax | 1,371 | (368) |
| Less: capital grants and contributions (excluding developer contributions) | (363) | (235) |
| Surplus for dividend calculation purposes | 1,008 | – |
| Potential dividend calculated from surplus | 504 | – |

Income Statement – Petersons Quarry

for the year ended 30 June 2019

| \$ '000 | 2019 Category 2 | 2018 Category 2 |
|--|--------------------|--------------------|
| Income from continuing operations | | |
| Fees | 1,399 | 1,307 |
| Interest | 61 | 53 |
| Grants and contributions provided for non-capital purposes | – | – |
| Total income from continuing operations | 1,460 | 1,360 |
| Expenses from continuing operations | | |
| Borrowing costs | 11 | 10 |
| Materials and contracts | 104 | 99 |
| Depreciation, amortisation and impairment | 31 | 31 |
| Other expenses | 10 | 5 |
| Total expenses from continuing operations | 156 | 145 |
| Surplus (deficit) from continuing operations before capital amounts | 1,304 | 1,215 |
| Surplus (deficit) from continuing operations after capital amounts | 1,304 | 1,215 |
| Surplus (deficit) from all operations before tax | 1,304 | 1,215 |
| Less: corporate taxation equivalent (27.5%) [based on result before capital] | (359) | (334) |
| SURPLUS (DEFICIT) AFTER TAX | 945 | 881 |
| Plus opening accumulated surplus | 2,376 | 2,311 |
| Plus adjustments for amounts unpaid: | | |
| – Corporate taxation equivalent | 359 | 334 |
| Less: | | |
| – Dividend paid | (1,226) | (1,150) |
| Closing accumulated surplus | 2,454 | 2,376 |
| Return on capital % | 114.8% | 108.8% |

Income Statement – Woodview Quarry

for the year ended 30 June 2019

| \$ '000 | 2019 Category 2 | 2018 Category 2 |
|--|--------------------|--------------------|
| Income from continuing operations | | |
| Fees | 559 | 1,283 |
| Interest | 40 | 29 |
| Total income from continuing operations | 599 | 1,312 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 62 | 78 |
| Borrowing costs | 8 | 8 |
| Materials and contracts | 388 | 656 |
| Depreciation, amortisation and impairment | 16 | 16 |
| Calculated taxation equivalents | 3 | 4 |
| Total expenses from continuing operations | 477 | 762 |
| Surplus (deficit) from continuing operations before capital amounts | 122 | 550 |
| Surplus (deficit) from continuing operations after capital amounts | 122 | 550 |
| Surplus (deficit) from all operations before tax | 122 | 550 |
| Less: corporate taxation equivalent (27.5%) [based on result before capital] | (34) | (151) |
| SURPLUS (DEFICIT) AFTER TAX | 88 | 399 |
| Plus opening accumulated surplus | 1,622 | 1,392 |
| Plus adjustments for amounts unpaid: | | |
| – Taxation equivalent payments | 3 | 4 |
| – Corporate taxation equivalent | 34 | 151 |
| Add: | | |
| Subsidy paid/contribution to operations | 134 | – |
| Less: | | |
| – Dividend paid | – | (324) |
| Closing accumulated surplus | 1,881 | 1,622 |
| Return on capital % | 11.5% | 50.0% |

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

| \$ '000 | 2019 | 2018 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 1,157 | 714 |
| Investments | 5,453 | 4,655 |
| Receivables | 1,641 | 1,656 |
| Total current assets | 8,251 | 7,025 |
| Non-current assets | | |
| Receivables | 451 | 536 |
| Infrastructure, property, plant and equipment | 74,704 | 73,855 |
| Total non-current assets | 75,155 | 74,391 |
| TOTAL ASSETS | 83,406 | 81,416 |
| LIABILITIES | | |
| Current liabilities | | |
| Payables | 9 | 9 |
| Total current liabilities | 9 | 9 |
| TOTAL LIABILITIES | 9 | 9 |
| NET ASSETS | 83,397 | 81,407 |
| EQUITY | | |
| Accumulated surplus | 27,666 | 26,812 |
| Revaluation reserves | 55,731 | 54,595 |
| <u>TOTAL EQUITY</u> | <u>83,397</u> | <u>81,407</u> |

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

| \$ '000 | 2019 | 2018 |
|---|----------------|----------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 1,996 | 1,413 |
| Investments | 9,409 | 9,206 |
| Receivables | 2,057 | 2,082 |
| Total current assets | 13,462 | 12,701 |
| Non-current assets | | |
| Receivables | 563 | 609 |
| Infrastructure, property, plant and equipment | 114,824 | 113,392 |
| Total non-current assets | 115,387 | 114,001 |
| TOTAL ASSETS | 128,849 | 126,702 |
| LIABILITIES | | |
| Current liabilities | | |
| Payables | 160 | 173 |
| Borrowings | 1,277 | 1,209 |
| Total current liabilities | 1,437 | 1,382 |
| Non-current liabilities | | |
| Borrowings | 13,762 | 15,039 |
| Total non-current liabilities | 13,762 | 15,039 |
| TOTAL LIABILITIES | 15,199 | 16,421 |
| NET ASSETS | 113,650 | 110,281 |
| EQUITY | | |
| Accumulated surplus | 40,759 | 39,142 |
| Revaluation reserves | 72,891 | 71,139 |
| TOTAL EQUITY | 113,650 | 110,281 |

Statement of Financial Position – Petersons Quarry

as at 30 June 2019

| \$ '000 | 2019 Category 2 | 2018 Category 2 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Investments | 2,183 | 2,063 |
| Total current assets | 2,183 | 2,063 |
| Non-current assets | | |
| Infrastructure, property, plant and equipment | 1,145 | 1,126 |
| Total non-current assets | 1,145 | 1,126 |
| TOTAL ASSETS | 3,328 | 3,189 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Provisions | 486 | 444 |
| Total non-current liabilities | 486 | 444 |
| TOTAL LIABILITIES | 486 | 444 |
| NET ASSETS | 2,842 | 2,745 |
| EQUITY | | |
| Accumulated surplus | 2,454 | 2,376 |
| Revaluation reserves | 388 | 369 |
| <u>TOTAL EQUITY</u> | <u>2,842</u> | <u>2,745</u> |

Statement of Financial Position – Woodview Quarry

as at 30 June 2019

| \$ '000 | 2019 Category 2 | 2018 Category 2 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Investments | 1,538 | 1,254 |
| Total current assets | 1,538 | 1,254 |
| Non-current assets | | |
| Infrastructure, property, plant and equipment | 1,129 | 1,115 |
| Total non-current assets | 1,129 | 1,115 |
| TOTAL ASSETS | 2,667 | 2,369 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Provisions | 389 | 356 |
| Total non-current liabilities | 389 | 356 |
| TOTAL LIABILITIES | 389 | 356 |
| NET ASSETS | 2,278 | 2,013 |
| EQUITY | | |
| Accumulated surplus | 1,881 | 1,622 |
| Revaluation reserves | 397 | 391 |
| <u>TOTAL EQUITY</u> | <u>2,278</u> | <u>2,013</u> |

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The *Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality* issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

a. Water Supplies

Comprising the whole of the operations and assets of the water supply systems, which service the towns of Broadwater, Casino, Coraki, Evans Head and Woodburn.

b. Sewerage Services

Comprising the whole of the operations and assets of the sewerage reticulation and treatment systems, which service the towns of Casino, Broadwater, Coraki, Evans Head, Rileys Hill and Woodburn.

Category 2

(where gross operating turnover is less than \$2 million)

a. Petersons Quarry

Providing high quality supplies of gravel, aggregate and other materials, for both Council's construction program and also for sale to the public.

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

b. Woodview Quarry

Providing high quality supplies of gravel, aggregate and other materials, for both Council's construction program and also for sale to the public.

Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars.

(i) Taxation equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Notional rate applied (%)

Corporate income tax rate – **27.5%**

Land tax – the first \$692,000 of combined land values attracts **0%**. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **5.45%** on the value of taxable salaries and wages in excess of \$850,000.

In accordance with the Department of Industry (DoI) – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the DoI – Water guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the DoI – Water guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 27.5% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

Operating result before capital income + interest expense

Written down value of I,PP&E as at 30 June

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30/6/19.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the DoI – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply or sewerage assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the DoI – Water.

Special Purpose Financial Statements

for the year ended 30 June 2019

Please upift Council's Audit Report PDF (opinion) for inclusion in the SPFS report (via the Home screen).

DRAFT

DRAFT

Richmond Valley Council

SPECIAL SCHEDULES
for the year ended 30 June 2019



Special Schedules
for the year ended 30 June 2019

| Contents | Page |
|--|------|
| Special Schedules | |
| Permissible income for general rates | 3 |
| Report on Infrastructure Assets - Values | 4 |

DRAFT

Permissible income for general rates for the year ended 30 June 2019

| \$ '000 | | Calculation 2019/20 | Calculation 2018/19 |
|---|-------------------------|------------------------|------------------------|
| Notional general income calculation ¹ | | | |
| Last year notional general income yield | a | 12,444 | 11,767 |
| Plus or minus adjustments ² | b | 46 | 57 |
| Notional general income | c = a + b | 12,490 | 11,824 |
| Permissible income calculation | | | |
| Special variation percentage ³ | d | 5.50% | 5.50% |
| Plus special variation amount | h = d x (c + g) | 687 | 650 |
| Sub-total | k = (c + g + h + i + j) | 13,177 | 12,474 |
| Plus (or minus) last year's carry forward total | l | 47 | 17 |
| Sub-total | n = (l + m) | 47 | 17 |
| Total permissible income | o = k + n | 13,224 | 12,491 |
| Less notional general income yield | p | 13,175 | 12,444 |
| Catch-up or (excess) result | q = o - p | 49 | 47 |
| Less unused catch-up ⁵ | s | (17) | — |
| Carry forward to next year ⁶ | t = q + r + s | 32 | 47 |

Notes

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.

Report on Infrastructure Assets

as at 30 June 2019

| Asset Class | Asset Category | Estimated cost | | 2018/19 Required maintenance ^a | 2018/19 Actual maintenance | Net carrying amount | Gross replacement cost (GRC) | Assets in condition as a percentage of gross replacement cost | | | | |
|---------------------------------|-------------------------|--|---|---|----------------------------------|------------------------|------------------------------------|--|--------------|--------------|--------------|-------------|
| | | Estimated cost to bring assets to satisfactory standard | to bring to the agreed level of service set by Council | | | | | 1 | 2 | 3 | 4 | 5 |
| Buildings | Buildings – specialised | 473 | 473 | 363 | 344 | 56,151 | 73,284 | 25.0% | 24.0% | 40.0% | 10.0% | 1.0% |
| | Sub-total | 473 | 473 | 363 | 344 | 56,151 | 73,284 | 25.0% | 24.0% | 40.0% | 10.0% | 1.0% |
| Other structures | Other structures | 10 | 10 | 129 | 137 | 21,613 | 23,381 | 88.0% | 11.0% | 1.0% | 0.0% | 0.0% |
| | Sub-total | 10 | 10 | 129 | 137 | 21,613 | 23,381 | 88.0% | 11.0% | 1.0% | 0.0% | 0.0% |
| Roads | Sealed roads | 4,323 | 4,323 | 1,758 | 1,962 | 204,442 | 285,066 | 25.0% | 42.0% | 26.0% | 7.0% | 0.0% |
| | Unsealed roads | 305 | 305 | 831 | 1,078 | 20,275 | 29,786 | 26.0% | 54.0% | 15.0% | 5.0% | 0.0% |
| | Bridges | 905 | 905 | 66 | 30 | 69,545 | 99,373 | 3.0% | 51.0% | 40.0% | 6.0% | 0.0% |
| | Footpaths | – | – | 40 | 22 | 13,240 | 15,707 | 78.0% | 22.0% | 0.0% | 0.0% | 0.0% |
| | Bulk earthworks | – | – | – | – | 63,935 | 63,935 | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| | Sub-total | 5,533 | 5,533 | 2,695 | 3,092 | 371,437 | 493,867 | 32.0% | 38.5% | 24.0% | 5.5% | 0.0% |
| Water supply network | Water supply network | 382 | 382 | 404 | 483 | 72,447 | 91,922 | 47.0% | 48.0% | 3.0% | 2.0% | 0.0% |
| | Sub-total | 382 | 382 | 404 | 483 | 72,447 | 91,922 | 47.0% | 48.0% | 3.0% | 2.0% | 0.0% |
| Sewerage network | Sewerage network | 3,129 | 3,129 | 973 | 838 | 112,228 | 143,330 | 44.0% | 35.0% | 13.0% | 8.0% | 0.0% |
| | Sub-total | 3,129 | 3,129 | 973 | 838 | 112,228 | 143,330 | 44.0% | 35.0% | 13.0% | 8.0% | 0.0% |
| Stormwater drainage | Stormwater drainage | 1,045 | 1,045 | 171 | 168 | 50,510 | 59,932 | 37.0% | 40.0% | 17.0% | 6.0% | 0.0% |
| | Sub-total | 1,045 | 1,045 | 171 | 168 | 50,510 | 59,932 | 37.0% | 40.0% | 17.0% | 6.0% | 0.0% |

Report on Infrastructure Assets (continued)

as at 30 June 2019

| Asset Class | Asset Category | Estimated cost | | 2018/19 Required maintenance ^a | 2018/19 Actual maintenance | Net carrying amount | Gross replacement cost (GRC) | Assets in condition as a percentage of gross replacement cost | | | | |
|--|-----------------------------|--|---|---|----------------------------------|------------------------|------------------------------------|--|--------------|--------------|-------------|-------------|
| | | Estimated cost to bring assets to satisfactory standard | to bring to the agreed level of service set by Council | | | | | 1 | 2 | 3 | 4 | 5 |
| Open space / recreational assets | Swimming pools | 1,479 | 1,479 | 11 | 3 | 5,975 | 8,368 | 32.0% | 41.0% | 19.0% | 8.0% | 0.0% |
| | Other Open Space/Recreation | 82 | 82 | 101 | 126 | 10,169 | 12,493 | 72.0% | 20.0% | 3.0% | 4.0% | 1.0% |
| | Sub-total | 1,561 | 1,561 | 112 | 129 | 16,144 | 20,861 | 56.0% | 28.4% | 9.4% | 5.6% | 0.6% |
| TOTAL - ALL ASSETS | | 12,133 | 12,133 | 4,847 | 5,191 | 700,530 | 906,577 | 37.2% | 36.9% | 20.0% | 5.8% | 0.1% |

(a) Required maintenance is the amount identified in Council's asset management plans.

Infrastructure asset condition assessment 'key'

| | | |
|---|----------------------------|---------------------------------------|
| 1 | Excellent/very good | No work required (normal maintenance) |
| 2 | Good | Only minor maintenance work required |
| 3 | Satisfactory | Maintenance work required |
| 4 | Poor | Renewal required |
| 5 | Very poor | Urgent renewal/upgrading required |

Report on Infrastructure Assets (continued)

as at 30 June 2019

| \$ '000 | Amounts 2019 | Indicator 2019 | Prior periods | | Benchmark |
|--|-----------------|-------------------|---------------|---------|-----------|
| | | | 2018 | 2017 | |
| Infrastructure asset performance indicators (consolidated) * | | | | | |
| Buildings and infrastructure renewals ratio ¹ | | | | | |
| Asset renewals ² | 15,558 | 117.78% | 86.18% | 82.94% | >=100.00% |
| Depreciation, amortisation and impairment | 13,209 | | | | |
| Infrastructure backlog ratio ¹ | | | | | |
| Estimated cost to bring assets to a satisfactory standard | 12,133 | 1.73% | 1.92% | 3.80% | <2.00% |
| Net carrying amount of infrastructure assets | 700,530 | | | | |
| Asset maintenance ratio | | | | | |
| Actual asset maintenance | 5,191 | 107.10% | 119.15% | 113.84% | >100.00% |
| Required asset maintenance | 4,847 | | | | |
| Cost to bring assets to agreed service level | | | | | |
| Estimated cost to bring assets to an agreed service level set by Council | 12,133 | 1.34% | 1.47% | 2.65% | |
| Gross replacement cost | 906,577 | | | | |

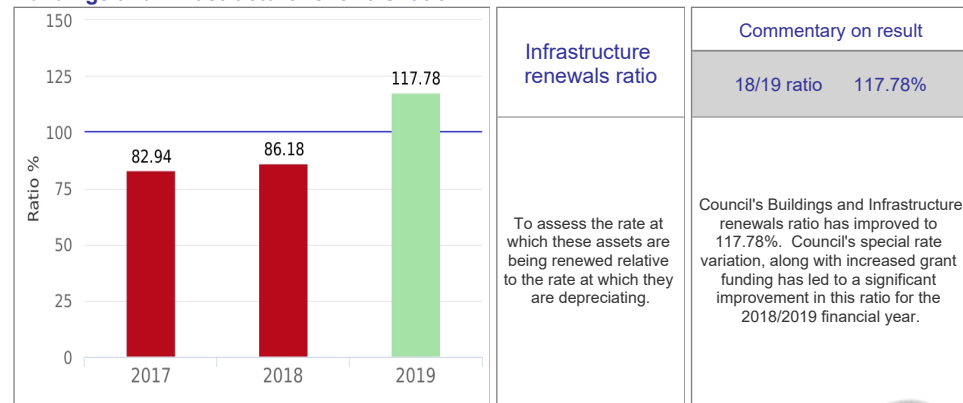
(*) All asset performance indicators are calculated using classes identified in the previous table.

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Report on Infrastructure Assets (continued) as at 30 June 2019

Buildings and infrastructure renewals ratio ¹



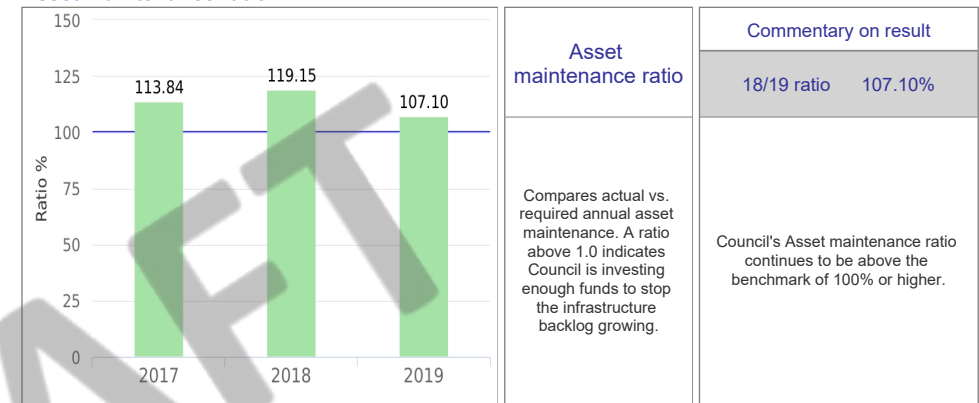
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Asset maintenance ratio



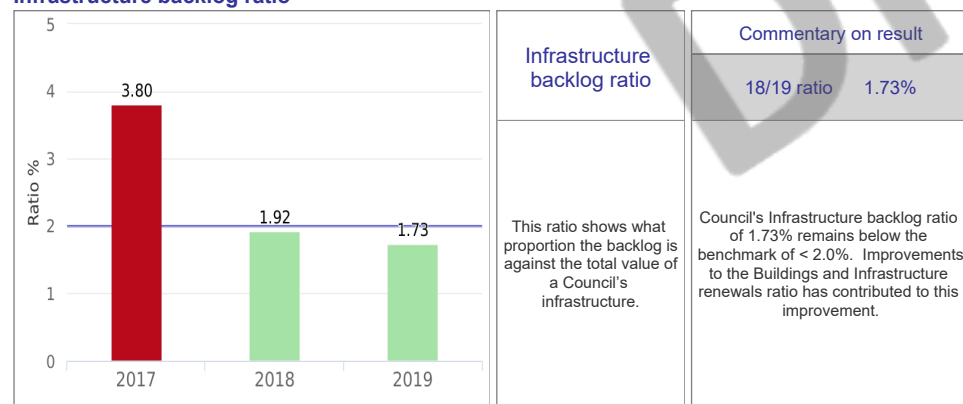
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Infrastructure backlog ratio ¹



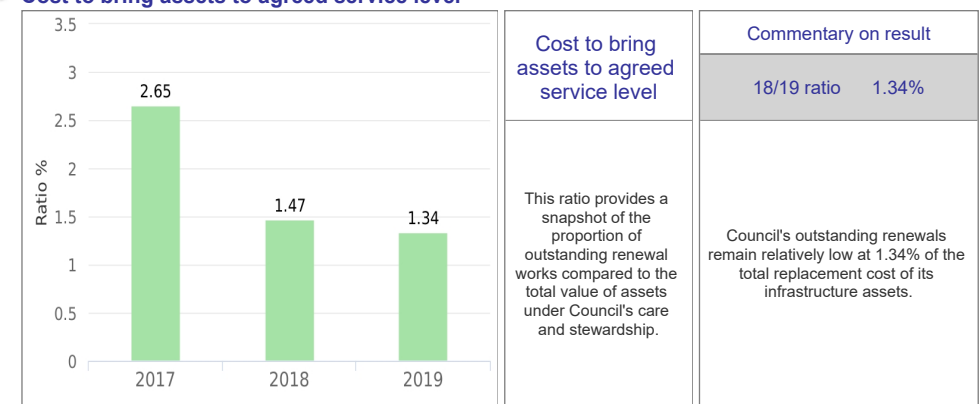
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio is outside benchmark

Cost to bring assets to agreed service level



(1) Excludes Work In Progress (WIP)

Report on Infrastructure Assets (continued)

as at 30 June 2019

| \$ '000 | General fund | | Water fund | | Sewer fund | | Benchmark |
|--|--------------|---------|------------|--------|------------|---------|-----------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | |
| Infrastructure asset performance indicators (by fund) | | | | | | | |
| Buildings and infrastructure renewals ratio ¹ | | | | | | | |
| Asset renewals ² | | | | | | | |
| Depreciation, amortisation and impairment | 134.59% | 101.07% | 70.18% | 49.34% | 72.81% | 51.77% | >=100.00% |
| Infrastructure backlog ratio ¹ | | | | | | | |
| Estimated cost to bring assets to a satisfactory standard | | | | | | | |
| Net carrying amount of infrastructure assets | 1.67% | 2.01% | 0.53% | 0.54% | 2.79% | 2.43% | <2.00% |
| Asset maintenance ratio | | | | | | | |
| Actual asset maintenance | | | | | | | |
| Required asset maintenance | 111.53% | 122.83% | 119.55% | 95.50% | 86.13% | 116.44% | >100.00% |
| Cost to bring assets to agreed service level | | | | | | | |
| Estimated cost to bring assets to an agreed service level set by Council | | | | | | | |
| Gross replacement cost | 1.28% | 1.52% | 0.42% | 0.43% | 2.18% | 1.92% | |

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.