

# *NSW Electoral Commission*

Data Assurance

19 October 2016

## Calculation of NSW Electoral Commission service charge to local government



Mr Trevor Follett  
Director Finance and CFO  
NSW Electoral Commission  
Level 25, 201 Kent Street  
Sydney NSW 2000

19 October 2016

Dear Trevor

**Subject: Calculation of Local Government Election (“LGE”) cost and administration charge**

In accordance with our engagement letter dated 18 May 2016, we are pleased to present our report which considers the calculation of a per elector rate to be charged to local government to recover the expected administrative cost that the NSW Electoral Commission (“NSW EC”) will incur to facilitate for the 2016 Local Government Elections.

Our approach in the development of this report included consultations with your Finance and Elections teams. The consultations enabled us to understand the structure of the financial accounts, develop calculation methodology and assemble assumptions on which to allocate costs.

We would like to thank your staff for their assistance with completing this piece of work.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Shinfield', written in a cursive style.

Stuart Shinfield  
Partner

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171  
DX 77 Sydney, Australia  
T +61 2 8266 0000, F +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

## *Scope of analysis*

We have been engaged by NSW EC to perform an independent study on the calculation of NSW EC's administration charge to local government for conducting the 2016 Local Government Elections ("LGE"). This charge covers the cost of head office staff members (and allocated overhead) from the Elections branch that oversee and manage the LGE, but whose costs are not directly charged to and recovered from councils. The scope of this engagement does not include the direct costs associated with the 2016 LGEs that are directly charged and recouped from councils.

We have investigated the following areas:

- The allocable cost pool (by separating non-allocable costs from total costs)
- The derivation of the key cost driver in use (an hourly rate);
- Estimated time spent by employees that are indirect but allocable; and
- The allocation of charges to individual councils

Due to the timing of the council amalgamations, there is a requirement to hold two tranches of elections for local government. The incremental cost for the additional effort to hold a two-tranche election is not intended to be charged on to the impacted councils. A consistent methodology used for the preceding Local Government Election has been applied to calculate the indirect cost of the 2016 LGEs.

During the progress of this analysis PwC has consulted with NSW EC team members from whom information was obtained. PwC has not performed an audit or review of any new or existing financial or operational information that may have formed inputs or part of the calculation of the result. Accordingly, we do not give any assurance in relation to the assumptions or results of this report. The decision to apply any of the calculated results will remain with NSW EC management.

## Findings

The scope of this engagement is to calculate only the allocable indirect costs that relate to the 2016 LGEs so that they can be recovered from the relevant councils via an administration charge.

The costs of administering LGEs can be classified as direct or indirect. The direct costs include those separately identifiable costs attributable to each council, for example, casual staff who work on at polling stations on polling day. These costs have historically been directly charged to each council and this method will continue for the 2016 LGEs. These costs have not been considered in this analysis.

Indirect costs include the cost of the Elections branch within NSW EC (the head office staff members who work on the 2016 LGE), and also a portion of overhead costs relating to the Election branch for the administration services performed by other NSW EC branches (such as IT services performed by the IT branch).

The 2016 LGEs (to be held on 10 September 2016) spans the 2016 and 2017 financial years as does its running costs. In relation to our analysis, this two year period forms our **reference period**.

**\$12.12m**

Total Elections branch cost (including allocated overhead) over the reference period.

**\$2.93m**

Total indirect cost of the 2016 LGEs over the reference period.

**12,604**

Expected hours to be spent by Elections branch staff on the Baseline LGEs over the reference period.

**\$197**

Administration charge for each hour of the Elections branch staff to recoup the \$2.93m.

**Per elector charge** to recover the allocable indirect costs of the 2016 LGE (estimated) in Local Government areas that have elected to use NSW EC services for the 2016 LGEs:

**\$0.55**

Per elector for **non-contested** LGEs

or

**\$0.70**

Per elector for **contested** LGEs

Note: \$0.55 represents the per elector charge require to recover the indirect costs of the 2016 LGE up to 15 Aug 2016 – which represents 78.5% of total costs. The remaining \$0.15 recovers costs to be incurred after 15 Aug 2016. This is explained in detail on page 8.

# Methodology

We have adopted the methodology summarised below to calculate the indirect cost of the 2016 LGEs. The methodology is explained in detail on the following pages.

## 1 Split recurrent costs into Service Delivery or Overhead

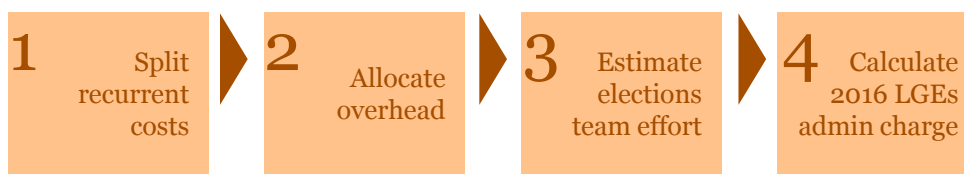
The Net Cost of Service budget for NSW Electoral Commission is split into Specific Purpose Payments and Recurrent activities. Only recurrent activities were considered in our analysis.

Branches were identified as being either Service Delivery or Overhead.

## 2 Allocate Overhead to Service Delivery

We identified three Service Delivery branches (including the Elections branch), and six overhead branches. The cost of the Elections branch as a proportion of the total service delivery cost was calculated monthly during the reference period.

On average, **38% of Service Delivery costs** relates to the Election branch. The total cost from the six identified Overhead branches was allocated to the Elections branch, calculated and applied on a monthly basis.



## 3 Estimate elections team effort for the 2016 LGEs

Through consultation with the Director of Elections, we obtained estimates of monthly effort that each team member in the Elections branch will contribute to the planning and delivery of the 2016 LGE.

The percentage of Elections Full Time Equivalent (“FTE”) effort over the course of the reference period was calculated and applied monthly, but was on average **28% of total FTE in the Elections branch.**

## 4 Calculate the Baseline LGEs administration charge

The total cost of the Elections branch (including allocable overhead) over the reference period was calculated to be **\$12.12m** (Step 1 and Step 2 combined).

Using the monthly calculated LGEs percentage of elections team effort from **Step 3** and the monthly cost of the elections team (with allocated overhead) from **Step 2**, **the 2016 LGEs indirect costs were calculated to be \$3.32m.**

The 2016 LGE recurrent and indirect cost from **Step 4** is divided by the total number of electors to calculate the charge per elector. **The calculated per elector charge for the Baseline LGEs (estimated) in Local Government areas that have elected to use NSW EC services: \$0.70.** This rate is reduced to **\$0.55** for uncontested councils who are only required to cover costs up until the date nominations close in mid-August 2016, by which time they discover that they do not need to proceed to an election.

# 1. Split recurrent costs into Service delivery or Overhead

Monthly financial results (11 months actual and 1 month budget) for FY16 were obtained from the Financial Controller and inflated by **2.5%** (as advised by the Financial Controller) to estimate a budget for FY17. The two financial years of monthly results reflect the two year period that the 2016 LGEs span over our reference period. The charge per elector to recover the indirect cost for 2016 is calculated based on the cost to run a single election for all electorates. These figures have not been reviewed or audited by PwC.

The financial results provide a breakdown of the net cost of services for the organisation. The budget accounts are split into two types of costs; Recurrent costs and Specific Purpose Payments. The recurrent costs represent the ongoing, business as usual costs incurred by the NSW Electoral Commission. A portion of the Recurrent costs relate to services provided by the Elections branch and are not directly recouped from local governments for conducting elections.

The Specific Purpose Payments are the costs that are directly associated with a particular project or service delivery, and are recovered directly as incurred. These costs are excluded from this analysis. Revenue and expense accounts associated with commercial activities have also been excluded as these costs are funded by external revenue.

## Recurrent cost breakdown for the reference period

|                                    |                             |                           |                |
|------------------------------------|-----------------------------|---------------------------|----------------|
| Finance - Depreciation<br>(\$8.8M) | IT<br>(\$5.7M)              | Executive<br>(\$5.2M)     | <b>\$46.2m</b> |
| EF Disclosure<br>(\$7.8M)          | Finance<br>(\$4.3M)         | Central Costs<br>(\$2.9M) |                |
| Elections<br>(\$6.4M)              | Roll management<br>(\$2.9M) | Legal<br>(\$2.4M)         |                |

|                  |               |   |
|------------------|---------------|---|
|                  | \$m           |   |
| Service delivery | 17.0          | The branches within NSW EC structure can be divided into two categories: service delivery branches and overhead branches. Service delivery branches perform service activities (ie, running elections, maintaining the electoral roll etc) and therefore contain costs reflecting this. |
| Overhead         | 29.2          |   |
| <b>Total</b>     | <b>\$46.2</b> |   |

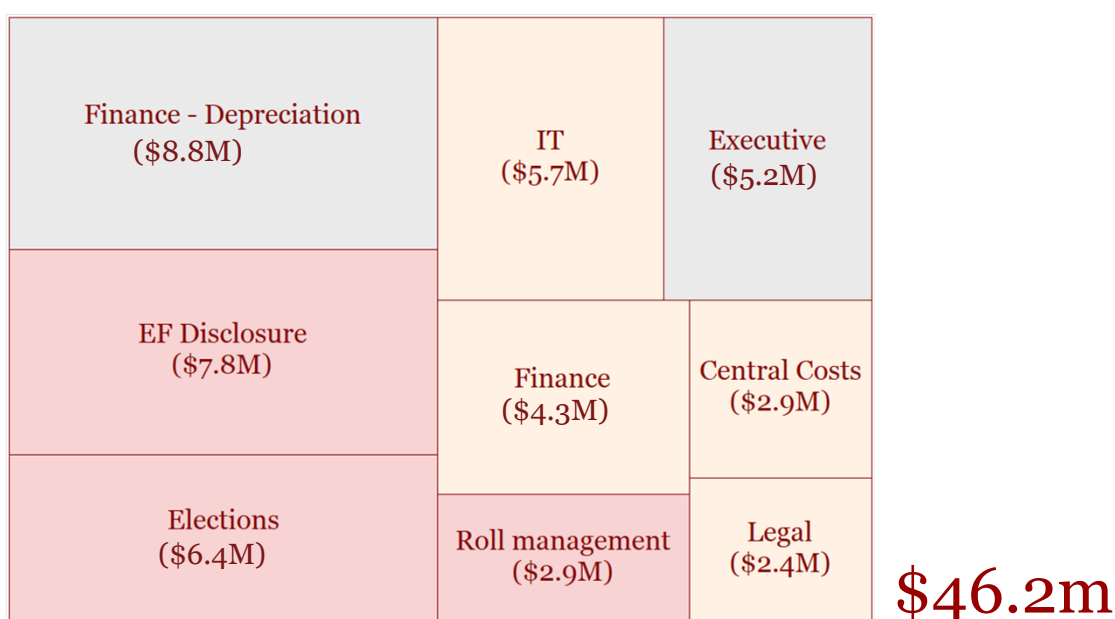
Overhead branches provide administrative and support services to NSW EC service delivery branches. The total cost pool of overhead branches is **\$29.2m** over the reference period.

## 2. Allocate overhead to Service Delivery

As the objective of this engagement is to calculate the operational costs associated with the delivery of the 2016 Local Government Election, there are certain cost items that should be excluded from the allocation.

- Executive costs are funded by Treasury predominantly for other services that the NSW EC perform and therefore should not be charged to local governments.
- Depreciation is not operational in nature as it reflects the cost of capital equipment which has been previously funded. These costs have been excluded from the allocation of Overheads to Service Delivery.

### Recurrent cost breakdown for the reference period



|                        |               |
|------------------------|---------------|
|                        | \$m           |
| Service delivery       | 17.0          |
| Allocable overhead     | 15.2          |
| Non-allocable overhead | 14.0          |
| <b>Total</b>           | <b>\$46.2</b> |

The allocable overhead cost pool for the reference period is **\$15.2m**.

The service delivery cost pool for the reference period is **\$17.0 m**. The Election branch is allocated overhead costs based on its proportion of monthly service delivery costs.

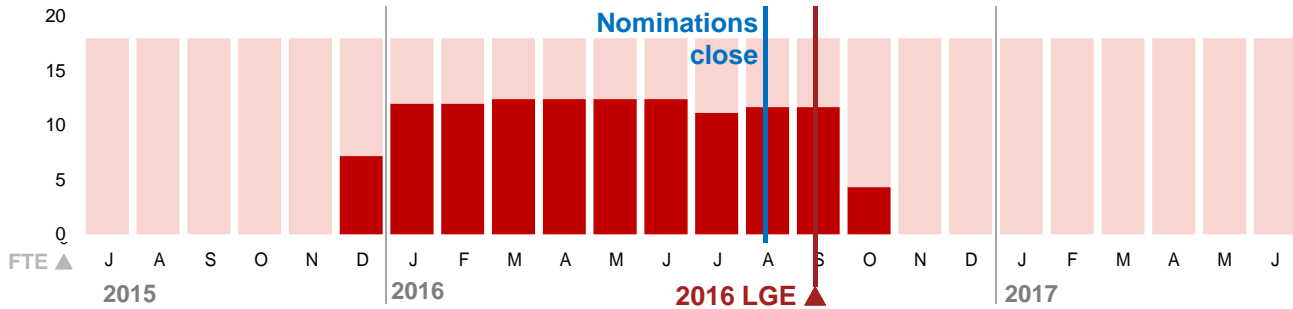
Over the reference period, the Elections branch contributes 38% to the total service delivery cost pool as shown in the table below.

| Service delivery branch | Cost of branch    | % of service delivery cost pool | Allocable overheads | Total             |
|-------------------------|-------------------|---------------------------------|---------------------|-------------------|
| Elections               | 6,409,093         | 38%                             | 5,715,091           | 12,124,184        |
| EF Disclosure           | 7,743,854         | 45%                             | 6,905,319           | 14,649,173        |
| Roll Management         | 2,891,233         | 17%                             | 2,578,159           | 5,469,391         |
| <b>Total</b>            | <b>17,044,179</b> | <b>100%</b>                     | <b>15,198,569</b>   | <b>32,242,748</b> |

The total cost of the Elections branch (including allocable overhead) over the reference period was calculated to be **\$12.12m**, which is comprised of \$6.41m of branch costs and \$5.72m allocated overhead.

### 3. Estimate elections team effort for the 2016 LGE

A resource planning model was obtained from the Director of Elections that detailed, for each grade of staff and each month in the reference period, a percentage of effort to be spent on the 2016 LGE. This was used to calculate the planned monthly full time equivalent staffing required to deliver the 2016 LGE.



Over the reference period, an average of **27.7% of FTE effort in the Elections branch** was direct to the 2016 LGE.

It is noted that at the point of **nominations closing** in mid-August 2016, if an LGA has fewer nominees than available positions, the LGE is deemed to be not contested and no election is held. From this point onwards, there are only very limited services provided by the NSW Electoral Commission to the LGA. Therefore, an adjusted rate has been calculated that only takes into account costs up until mid-August. Costs after this date are only to be shared by contested LGEs. Based on the insignificant quantity of uncontested wards for the 2012 LGE (representing 1.9% electors) and the expected quantity of uncontested wards for the 2016 LGE (currently expected to be less than 1%) – NSW EC management expects this to affect a small number of LGAs.

### 4. Calculate the Baseline LGEs administration charge

#### Calculation summary

*Service delivery costs for over the reference period*

|  |                   |               |                   |
|--|-------------------|---------------|-------------------|
| Elections                                      | 6,409,093         | 37.6%         | 6,409,093         |
| EF Disclosure                                  | 7,743,854         | 45.4%         |                   |
| Roll Management                                | 2,891,233         | 17.0%         |                   |
| <b>Service delivery cost pool:</b>             | <b>17,044,179</b> | <b>100.0%</b> |                   |
| Total allocable overheads:                     | 15,198,569        | 37.6%         | 5,715,091         |
| <b>Total indirect cost of Elections Branch</b> |                   |               | <b>12,124,184</b> |
| Total Elections effort (hrs)                   | 60,640            | 100.0%        |                   |
| Elections LGE effort (hrs)*                    | 16,805            | 27.7%         |                   |
| <b>Cost of LGE (Calculated monthly)*:</b>      |                   |               | <b>3,317,581</b>  |

Cost per hour: \$ 197

Cost per elector: **\$0.70**

\* % displayed is a yearly average. Results are calculated monthly

The cost per elector of **\$0.70** has been calculated using the total number of electors within the 146 electorates that have elected to use NSW EC services for the 2016 LGEs. The total number of electors within these electorates was 4.7m as at 21 June, 2016.

The indirect cost of the Baseline LGEs was calculated monthly by multiplying the monthly Elections branch cost (from **Step 2**) by the percentage of Elections branch effort spent each month on the 2016 LGEs (from **Step 3**).

Based on the monthly FTE figures for the Elections branch, the **calculated administration charge per hour of an Elections branch staff member working on the 2016 LGEs is \$197**. This is based on the following assumptions:

- 52 weeks in a year, 35 hours in a week for permanent employees (40 for contractors)
- 9 public holidays a year
- 15 days of leave (including Annual leave, LSL days, sick days parental/compassionate leave) (10 for contractors)
- 85% utilisation (to factor in administration time and time not spent working on projects)
- A split of 89% permanent to 11% contractor staff mix (based on current staff mix)

