

Public Inquiry into the Norfolk Island Regional Council

Statement of Andrew Roach

I, **Andrew Blair Roach**, of 9 New Cascade Road, Norfolk Island, General Manager of Norfolk Island Regional Council, state:


1. I have held the position of General Manager of the Norfolk Island Regional Council (**Council**) since my appointment on 6 January 2020.
2. I have 30 years' experience working in Local Government across Australia. I have previously held the position of Chief Executive Officer or General Manager at four regional councils, and Chief Financial Officer at one regional council.
3. My tertiary qualifications include:
 - (a) Bachelor of Business (Accounting) from Charles Sturt University;
 - (b) Graduate course in Corruption and Anti-corruption at the Australian National University; and
 - (c) Graduate course in Planning Development & Regulation at UNSW.
4. I am also a graduate of the Company Directors Course, Australian Institute of Company Directors.
5. Annexed and marked **AR-1** is a copy of my current CV.

Purpose of this statement

6. I am providing this statement to the Public Inquiry into the Norfolk Island Regional Council (**Inquiry**) in response to a request from the Solicitor Assisting the Inquiry dated 14 May 2021. The letter from the Solicitor Assisting provided me with a list of questions that are to be used as a guide for preparing my statement. The letter also noted that my statement need not be confined to the matters covered in the list of questions and could cover any matter relevant to the Inquiry's Terms of Reference.
7. In the time available, I have responded as best as I am able to the questions I have been asked (see particularly paragraphs 36 to 252 below) and also provided further evidence of matters relevant to the Inquiry's Terms of Reference.

Appointment

8. The Council was established on 1 July 2016 and since that time consisted of five Councillors (including the Mayor) who are elected for a four-year term. In my experience the Council is unique in that it provides local government services, runs several business enterprises and is contracted to provide Commonwealth funded "State-type services" such as land titles registration, motor vehicle and drivers licensing, courts and legal services, companies' registration and ports management.





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9. Council operates under the applied NSW local government framework, comprising the *Local Government Act 1993 (NSW) (NI)* (**applied Local Government Act**) and the *Local Government (General) Regulation 2005 (NSW)(NI)*, as well Norfolk Island continued laws.
10. I was appointed to the role of General Manager of Council on 6 January 2020 for a three-year term, pursuant to section 334 of the applied Local Government Act.
11. Pursuant to section 355 of the applied Local Government Act, I have the following responsibilities:
 - (a) to implement, without undue delay, lawful decisions of the Council;
 - (b) to advise the Mayor and the governing body on the development and implementation of the strategic plans, programs, strategies and policies of the Council;
 - (c) to advise the Mayor and the governing body on the appropriate form of community consultation on the strategic plans, programs, strategies and policies of the Council and other matters related to the Council;
 - (d) to prepare, in consultation with the Mayor and the governing body, the Council's community strategic plan, community engagement strategy, resourcing strategy, delivery program, operational plan and annual report;
 - (e) to ensure that the Mayor and other councillors are given timely information and advice and the administrative and professional support necessary to effectively discharge their functions;
 - (f) to exercise any of the functions of the Council that are delegated by the council to the General Manager;
 - (g) to appoint staff in accordance with the organisation structure determined under Chapter 11 of the applied Local Government Act and the resources approved by the Council;
 - (h) to direct and dismiss staff; and
 - (i) to implement the Council's workforce management strategy.
12. I also hold powers and functions delegated to me by Council as provided for in the *Norfolk Island (Local Government Act 1993 (NSW) (NI)) Direction and Delegation 2017 (No.2)*, and sections 377 and 379 of the applied Local Government Act. By these delegations, I am empowered to exercise functions as General Manager, to exercise Council's powers, functions, duties and authorities contained in legislation, and to exercise functions of the Council as specified in:
 - (a) the applied Local Government Act and related Acts and Local Government Regulations; and
 - (b) other Acts under which Council has powers, authorities, duties and functions.


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13. Annexed and marked **AR-2** is a copy of *Norfolk Island (Local Government Act 1993 (NSW) (NI)) Direction and Delegation 2017 (No.2)*.
14. Annexed and marked **AR-3** is a copy of Council's Delegations of Authority - General Manager, as recorded in the minutes of the Extraordinary Council Meeting of 6 January 2020.

Immediate challenges upon my appointment

15. A key focus of my first year as General Manager has been managing the Island's response to the COVID-19 pandemic. A State of Emergency was declared on Norfolk Island on 17 March 2020 - just over two months after my appointment. The Island was in lockdown for the month of April 2020, and Council's efforts were directed at implementing an emergency response framework.
16. The effect of COVID-19 on Council's normal operations, as identified in the Audit Reports, was a drop of approximately \$4 million in its normal annual revenue. Between 17 March 2020 and early June 2020, a travel ban was in place whereby only essential staff and residents were able to travel to the Island. In a normal year, this is the Island's peak tourism period.
17. By 31 March 2020, flights had reduced to two per week, and this remained the case until mid-October. This drastic reduction in the number of planes landing at Norfolk Island reduced the landing fees which Council has been able to recover.
18. Tourism is a key source of revenue and the pandemic has significantly reduced the number of visitors. Council is reliant upon revenue from services it provides on a user-pays basis, such as electricity and wastewater. An associated impact of the travel ban was a significant decline in revenue from these sources.
19. Once I had developed a good understanding of Council's operations, and once it was clear that the pandemic would last several months, I realised Council's financial position was precarious. As early as 20 April 2020, I approached the Department of Infrastructure, Transport, Regional Development and Communications (**Department**) for emergency funding. Council's financial and asset position must be viewed with this context in mind.
20. Annexed and marked **AR-4** is a copy of email correspondence between myself and Nicole Pearson of the Department between 22 and 24 April 2020.

Audit Reports

21. The key steps that I have taken to address Council's financial difficulties have been to call for external audits, review the recommendations and then develop an approach for implementing the recommendations. As a result of the 113 External Audit Findings (**EAFs**), Council now has a blueprint for its recovery.
22. On 23 June 2020 I held a meeting with the Mayor and Councillors recommending that an independent, external audit into Council's operations be conducted.
23. On 24 June 2020, Council unanimously resolved that there should be a full audit of the finances and governance of the Council's operations, under Division 2A and Division 3 of Part 3 of Chapter 13 of the applied Local Government Act, and where appropriate to provide advice on possible improvements to Council's arrangements.




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24. The audits were conducted in August and September 2020. Council received the draft Audit Reports on 23 October 2020 and final versions on 18 November 2020.
25. Annexed and marked **AR-5** is a copy of:
 - (a) the Nexia report on the Independent Audit of Financial Performance on behalf of the Department of Infrastructure, Transport Regional Development and Communications dated 30 October 2020 (**Nexia Report**); and
 - (b) the Grassroots report on the Norfolk Island Regional Council Independent Governance and Financial Audit dated 15 November 2020 (**Grassroots Report**),

(**Audit Reports**).
26. The Audit Reports found that Council has struggled to operate efficiently since it was established on 1 July 2016 and identified significant shortcomings in a number of local government systems maintained by Council. The Audit Reports contained 113 recommendations:
 - (a) Recommendations 1- 84 are from the Grassroots Report; and
 - (b) Recommendations 85-113 are from the Nexia Report.
27. Since the delivery of the Audit Reports, I have led NIRC's framework response to the Nexia and Grassroots EAFs. Since the appointment of the Interim Administrator, Council has adopted all 113 recommendations contained in those reports and has instructed me to commence initial planning with scoping of the works/projects and development of the detailed business cases where necessary. This work is to be undertaken so that key deliverables, budget requirements and delivery timeframes can be clearly identified and agreed. This will enable priorities and partnership arrangements with the Commonwealth and other stakeholders to be negotiated and set, and a programme of works to be determined.
28. On 1 March 2021, I prepared a schedule of business papers on various EAFs to be presented at Council meetings between April and July 2021. This schedule was distributed to Council's Managers on 8 March 2021.
29. Annexed and marked **AR-6** is a copy of the email distributing the External Audit Findings - Schedule of Business Papers for April to July 2021 Council meetings.
30. I have prepared an EAF Plan which sets out for each of the 113 EAFs:
 - (a) the alignment of the EAFs with the Community Strategic Plan and 9 Point Action Plan, adopted in March 2020;
 - (b) Key focus areas;
 - (c) Priority and assessment (short, medium or long-term);
 - (d) Estimated costs (and whether internal or unfunded); and
 - (e) My comments.


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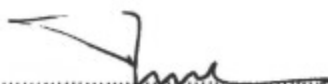
31. I have allocated a number of the EAFs to relevant Managers for implementation. Annexed and marked **AR-7** is a copy of the EAF Plan as at 22 March 2021.
32. Implementation of the EAFs has commenced with a priority to progress those findings assessed as being deliverable within 1 to 12 months. Work is also underway on those EAFs assessed as deliverable in the medium to longer term. These items will progressively be added to the forward programme as detailed planning occurs. The works programme reflects a total of 29 EAFs being assessed over the period from April to July 2021. I have designated a Responsible Officer for each aspect of the works program. I have proposed to present Council with a quarterly progress report as to the status of implementing the EAFs.
33. On 7 April 2021, I provided to Council a forward programme of reports to be provided on various EAFs in the period from April to July 2021.
34. Annexed and marked **AR-8** is a copy of this forward programme of reports as recorded in the agenda of the Ordinary Council Meeting of 7 April 2021.

RESPONSE TO QUESTIONS FROM SOLICITOR ASSISTING INQUIRY

35. My response to the list of questions provided to me by the Solicitor Assisting the Inquiry on 14 May 2021 is as follows.

Formal Matters

1. **Establish:**
- (a) **Current staff structure – identify organisational charts and personnel with key areas of responsibility**
36. As General Manager, I report to the Councillors. I am supported by six Managers:
- (a) Manager People and Culture;
 - (b) Manager Corporate and Finance;
 - (c) Manager Economic Development;
 - (d) Manager Services;
 - (e) Manager Planning and Environment; and
 - (f) Manager Customer Service.
37. I am also supported by a Media and Executive Assistant. Council's legal and internal audit functions are outsourced to external providers.
38. This organisational structure was adopted on 1 June 2020. Annexed and marked **AR-9** is the report given to Council on the organisational restructure, and Council's resolution adopting the report, as recorded in the Agenda and Minutes of the Extraordinary Council Meeting of 1 June 2020. The report sets out the former and new organisational structure, although the Manager Commercial Services position has subsequently been abolished.



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(b) Current Financial Position**(i) Identify current position by reference to expected financial position for year ended 30 June 2021**

39. The most recent quarterly review provided at the February 2021 Council meeting projected a surplus for the year ending 30 June 2021 of close to \$1 million. This anticipated short-term turn-around was largely due to the one-off \$3 million payment provided by the Department in December 2020. Council adopted this report.
40. Annexed and marked **AR-10** is a copy of the quarterly budget review as reported to Council on 24 February 2021.

(ii) Budget for 2021/22**1. What stage is the budget at?**

41. The 2021/22 Operational Plan and Budget is near finalisation. The following steps have occurred and are proposed to occur in the preparation of the Operational Plan and Budget:
- (a) the Draft Operational Plan and Budget has been prepared by myself, the Managers and Council's governance team;
 - (b) it is proposed that myself and the Managers will brief the Interim Administrator on the final Draft Operational Plan and Budget on 4 June 2021; and
 - (c) it is proposed that the Interim Administrator for Council will adopt the final Draft Operational Plan and Budget at an Extraordinary Council Meeting on 7 June 2021.
42. The Draft Operational Plan and Budget will then be the subject of a 28-day community consultation period. Upon conclusion, myself and the Managers will review the community's feedback and provide a briefing to Council. Subject to any amendments, it is anticipated that the Operational Plan 2021/22 and Budget will be adopted by the Interim Administrator for Council at an Extraordinary Council Meeting on 5 July 2021.

2. What is the process for developing the budget?

43. For the 2020/21 and 2021/22 budgets I have implemented a budget process.
44. Annexed and marked **AR-11** is a copy of the NIRC 2020/21 Budget Process that I prepared.
45. For 2021/22 I have prepared a detailed timeline for the preparation of the Operational Plan and Budget. The key steps are as follows:
- (a) each Manager is required to prepare their component of the Operational Plan and submit to the Governance team;
 - (b) each Manager is to complete a draft budget for their portfolio;
 - (c) these budgets are collated and submitted as a consolidated draft document to the General Manager for review and feedback;



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- (d) the General Manager, Managers and Council's Governance team finalise the draft Operational Plan and provide a briefing to Council;
 - (e) Council adopts the Final Draft Operational Plan at an Extraordinary Council Meeting;
 - (f) The Final Draft Operational Plan is placed on public exhibition for a period of 28 days; and
 - (g) following a review of community feedback, Council adopts the Operational Plan by Extraordinary Council Meeting.
46. Annexed and marked **AR-12** is a copy of the Timeline for Preparation of NIRC Operational Plan and Budget 2021-22.

3. What are the key legacy issues that confront the NIRC at this time?

47. The key legacy issues confronting NIRC at this time are a lack of continuous review of its expenditure levels, its limited revenue streams and asset management issues.
48. In respect of Council's revenue streams, Council has a relatively small rating base, with rates and annual charges representing only 5-6 percent of total revenue. As such, there is a great reliance on service fees from the Commonwealth (pursuant to the Service Delivery Agreement), and financial assistance grants and other revenue, to fund Council's operations. As noted in the Nexia Report, the reliance on operating grants has steadily increased over the last four years and now represents approximately 30 percent of Council's total revenue. Given Council's reliance on the tourism economy, it is evident that the COVID-19 pandemic has heavily impacted Council's revenues and operating result.
49. In respect of asset management, as a result of Council's assets being independently valued and correctly recorded, a significant increase in the depreciation value of Council's assets has occurred during the 2020/2021 financial year. As discussed later in this statement, many of Council's assets are ageing and will require significant maintenance in the years ahead.
50. In other words, the Council has inherited a large number of ageing assets which are expensive to maintain or replace, but where the Council does not have ready access to recurrent income or other funding appropriate to maintaining or replacing assets of this kind.

4. Is the budget able to meet the reasonable needs associated with the NIRC assets?

51. Council's limited budget is not able to meet the reasonable needs associated with its assets. Council's asset management system shows that a significant commitment is required to improve assets to an acceptable operational level in the next 1 to 2 years. In particular, significant funding - beyond Council's budget - is required to urgently upgrade the Island's roads and some of its buildings.
52. One aspect of this is that the present structure of the Service Delivery Agreement with the Commonwealth provides funding for the cost of the provision of services, but does not take into account the costs of maintaining assets necessary for the provision of those services.



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53. Since my appointment we have uncovered the difficult financial position facing the Council and have been taking steps to rectify this position.

5. How does the current budget process prioritise expenditure, particularly with regard to ongoing asset management requirements – put another way is the budget able to meet the legitimate needs of the residents/ratepayers?


54. The current position is that Council's budget is necessarily directed at essential services and is unable to address the backlog of issues relating to asset management.
55. Council is unique as it provides not only traditional local government services, but also runs several business enterprises and is contracted to provide Commonwealth funded State services such as land titles registration, motor vehicle and drivers licensing, courts and legal services, companies registration and ports management. It also operates the utilities and communication services for the Island.
56. There is a need for Council's revenue to meet the costs of the core services it provides. However, Council receives only \$1.2 million from rates and last year received only \$5 million from Financial Assistance Grants and amounts obtained under the Service Delivery Agreement, while its expenditure on core services is substantially more than the amount it receives from grants.

(c) Current Assets

(i) Identify all key assets – i.e. those that require ongoing maintenance and investment – together with your best estimate of the cost of meeting that need

57. Council's key assets consist of:

- (a) Bridges;
- (b) Buildings (specialised);
- (c) Furniture fittings;
- (d) Intangibles;
- (e) Office equipment;
- (f) Other infrastructure;
- (g) Other structures;
- (h) Plant and equipment;
- (i) Roads;
- (j) Sewerage pump station;
- (k) Sewerage treatment.



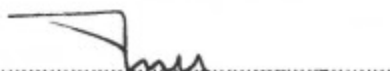
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58. On 19 May 2021, I caused to be prepared an asset renewal schedule based on the data held in Council's asset management system, demonstrating the estimated cost to renew Council's existing assets over the next 10 years. The asset management system's model is run from the most recent evaluation of Council's assets (30 June 2020).
59. The spreadsheet shows an estimated renewal cost of approximately \$47 million over the next 10 years, with a cost of approximately \$15 million in 2023.
60. The 2021 and 2022 renewals have been rolled up into 2023 as the 2021 renewals are not part of the current capital works programme and it is anticipated that there will be no renewal work undertaken in 2022.
61. Annexed and marked **AR-13** is a copy of Council's current asset renewals spreadsheet.
- (ii) **What was state of those assets when you were appointed – can you point to any reports that usefully record that?**
62. In January 2020 Australis Asset Advisory Group (**Australis**) was engaged to conduct a comprehensive assessment of the value (as at 30 June 2020) of Council's buildings, airport, communications, fuel, electricity, roads, water and sewer, waste and other infrastructure assets. Minor asset classes such as plant and equipment were not required to be revalued.
63. I note that the Inquiry has been provided with the Australis Report pursuant to the Summons to Produce No. NIRC/2.
64. The report found that the state of Council's assets was at level 3 - poor. Using a cost approach, the assessment of Fair Value for the specified assets as at 30 June 2020 and exclusive of GST is as follows:

Asset Category	Fair Value	Annual Depreciation
Buildings	\$13,543,159	\$752,351
Airport Infrastructure	\$93,072,855	\$2,716,555
Fuel Infrastructure	\$2,133,847	\$81,833
Communication Infrastructure	\$7,284,147	\$511,180
Electricity Infrastructure	\$14,954,346	\$515,579
Roads Infrastructure	\$17,843,798	\$906,161
Water Infrastructure	\$206,486	\$11,684
Wastewater Infrastructure	\$3,531,879	\$114,126
Waste Infrastructure	\$641,045	\$45,053
Other Structures	\$329,322	\$14,904


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Total	\$153,540,884	\$5,669,426
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65. The 2020 revaluation is expected to increase the depreciation charge for those assets by approximately \$2 million, an increase of 46 percent on the budgeted value in 2020/21.

(iii) How much does each asset reasonably require in terms of maintenance spending?

66. While Council is now able to accurately list depreciation for each of its assets, it is still working on accurately costing a maintenance schedule and preparing a capital works schedule.

67. Council now has an accurate picture of the depreciation schedule for all of its assets.

(iv) To what extent have you been able to meet these requirements in the current financial year?

68. Since my appointment, Council has completed significant upgrades to its roads, with 11km of its 78km road network resealed (14 percent in one year) at a cost of approximately \$5 million paid from Council's cash reserves. Council's commitment to these works pre-dated my appointment, and was made in November 2019.

69. Council has now completed the upgrade of the airport runway and ancillary works, as of October 2020.

70. Council has also installed 2MW of battery for the electricity service (as of December 2020) and upgraded its mobile telecommunications network to 3G/4G.

(v) What was the annual maintenance shortfall/gap/deficit?

71. As noted above, Council is yet to produce an accurate schedule for maintenance.

(d) Asset management delegations

(i) Who makes the key decisions?

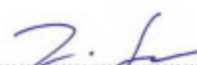
72. A number of managers hold delegations in relation to asset management:

- (a) Manager Services;
- (b) Manager Corporate and Finance; and
- (c) Manager Planning & Environment.

73. These delegations are limited to \$75,000 (in the case of the Manager Services), \$50,000 (in the case of the Manager Corporate) and \$20,000 (in the case of Manager Planning & Environment). Where it is proposed to make expenditure that is greater than these amounts, I must sign off on the decisions. My delegations are limited to Council's adopted budget. As a result, I am responsible for most key asset management decisions.



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74. I note the Inquiry has been provided with Council's instrument of delegation, pursuant to NIRC/5.

(e) **Financial Management delegations**

(i) **Who makes the key decisions?**

75. Annexed and marked **AR-14** is a copy of Council's Financial Expenditure Delegations spreadsheet as at 31 March 2020.

(f) **Current Income Sources**

(i) **Rates**

1. **Rating provisions and processes – are there relevant guideline and policies – are they publicised?**

76. Council levies land rates annually in July each year. Council publishes a rate paper in May each year, which is available on its website.

77. Annexed and marked **AR-15** is a copy of Council's current rate paper, pursuant to its resolution of 5 May 2021.

2. **Establish to what extent NIRC has the ability to make decisions in the rating process**

78. Only Council's governing body has the ability to make decisions in the rating process, although the General Manager and Managers are able to make recommendations. Under section 377 of the applied Local Government Act, the Council is unable to delegate (to the General Manager or otherwise) its functions in respect of making a rate, or a determination under section 459 as to the levying of a rate.

3. **Who sets policy when it comes to policies surrounding rating?**

79. It is Council that sets the policies surrounding rating, although the proposed rating model is prepared by the General Manager.

80. Pursuant to section 494(1) of the applied Local Government Act, Council is required to make and levy an ordinary rate for each year on all rateable land in its area. It is for Council to decide how the ordinary rate is distributed across four categories under which a property may be rated, pursuant to section 493 (residential, business, farmland and mining - noting there are no properties on the Island categorised as mining).

4. **Did the policy regarding rating change during your time as General Manager? If so, in what way?**

81. Council's policy regarding rating has changed during my time as General Manager.

82. Council's proposed rating model for 2021/22 is based on an increase of 10 percent. In previous years, the rating yield has been an increase of 3.6 percent (2018/19), decrease of 2.6 percent (2019/20) and increase of 1.75 percent (2020/21).


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83. The Long-Term Financial Plan 2020-2029 (**LTFP**), adopted in 2019, makes the assumption that there will be an annual increase in the rating yield of 1.5 percent in the Plan timeframe.
84. On 5 May 2021 a report was made to Council on the proposed rating model. Council, through the Interim Administrator, resolved to endorse the placing of the proposed 2021/22 rating model with a yield percentage increase on public exhibition for a period of 28 days. The report, and Council's resolution, as recorded in the Agenda and draft Minutes of the Ordinary Council Meeting of 5 May 2021, are annexed and marked **AR-16**.
85. It was recommended that Council adopt this model because a 1.5 percent increase would not be sufficient to maintain existing services to meet the needs of the community, let alone maintain and renew Council's assets and infrastructure.
86. To determine a fair and equitable increase in the rating yield for the 2021/2022 financial year, I worked with the Manager Corporate and Finance and referenced as a guide:
- (a) the maximum rate increases (rate peg) set by the NSW Independent Pricing and Regulatory Tribunal (**IPART**); and
 - (b) the Australian consumer price index for March 2021, which has increased by 1.1 percent from the corresponding quarter in the previous year (March 2020 - 116.6). Anecdotally the equivalent Norfolk Retail Price Index has risen by significantly more than 1.1 percent, due but not limited to, increases in freight costs in the same period.
87. Noting that a 1.5 percent increase barely covers inflation, a 5 percent increase will raise an additional \$60,000, and a 10 percent increase will raise an additional \$120,000, an increase of 10 percent was recommended for 2021/22. This will result in the majority of rate payers (77 percent) paying an additional sum, ranging from \$35.63 to \$58.90 in 2021 – 2022 (equivalent to between \$0.69 and \$1.13 extra a week).
88. The increase in the Rating Yield Percentage being proposed is for 2021-22 only. As part of the preparation of the 2021-22 budget, the Council's existing LTFP will be updated. This will include a review of the assumptions that are used to develop the financial plan forecasts, such as future rate yield percentage increases. It is anticipated to present this to Council by December 2021.
- 5. Compare the processes and policies on NI with those in previous Councils in which you have worked.**
89. In my experience, a "rule of thumb" adopted by most councils is that between 30 to 50 percent of revenue is sourced from rates. In this respect, NIRC differs greatly, in that rates and annual charges make up 5 to 6 percent of its annual income. In part this is the product of the relationship between the relatively small size of the permanent population of Norfolk Island and the size of the Council budget given the broader responsibilities it has.
90. The budget development process that I have implemented at Council (including the presentation of a rates paper in May) is standard across the Councils I have worked at. As NIRC is a small council, the timeframe is somewhat condensed. A key change I have implemented is making each Manager responsible for preparing a budget for their portfolio. In my view, it is vital that each Manager have a detailed understanding of the resources they can work with.




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(ii) **Other relevant income – what is available and what is the process of obtaining?**

91. Council's current annual revenue is approximately \$30 million.
92. Council's income can be broken down into the following categories:
- (a) rates and annual charges;
 - (b) user charges and fees;
 - (c) interest revenue;
 - (d) other revenue; and
 - (e) grants and contributions.
93. While, as found in the Nexia Report, Council's income from rates has remained steady between 2017 and 2021,
- (a) income from user charges, fees and other revenue has decreased from 75 percent in 2017 to 64 percent in 2020, and is projected to be 59 percent for 2021; and
 - (b) income from grants and contributions provided for operating purposes has increased from 18 percent in 2017 to 30 percent in 2020, and is projected to be 34 percent in 2021.
94. As income from user charges and fees is Council's main source of funding, the COVID-19 pandemic has led to increased reliance on Commonwealth funding. After six weeks of being in a State of Emergency, it became clear to me that urgent funding was required.
95. On 22 April 2020, I had discussions with the Department to seek urgent funding for the Council. I advised that COVID-19 had significantly affected Council, in that:
- (a) all of Council's 76 casual staff had received their last pay and had been retained on the books, but had been advised that there were no casual hours until further notice;
 - (b) I had commenced discussions with Council around offering redundancies, and estimated the need to find approximately \$2 million in costs until 30 June (equating to 20-24 staff);
 - (c) that, due to commitments made before my commencement, there were cost overruns to the airport reseal project resulting from COVID-19, namely:
 - (i) that the secured \$43 million amount in funding was subject to liquidated damages due to COVID-19 delays, at a cost of approximately \$140,000 per day; and
 - (ii) that Council faced incurring biosecurity costs totalling \$3 to 4 million, \$2 to \$3 million in additional works already agreed, and \$5 million paying to Boral in respect of road works to be completed while on the Island,



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representing total costs to be borne by Council of \$10-12 million, which would deplete Council's reserves;

- (d) that landing fees would be approximately \$1 million less than budgeted, over four months.

96. I advised that, if Council could not find the additional revenue, and assuming we met all our contracted commitments for the airport and road works, then our financial position would be precarious.

97. Annexed and marked **AR-4** is a copy of my correspondence with Nicole Pearson of the Department in April 2020.

98. In August 2020, I again approached the Department to request funding and provided revised figures regarding the effect of COVID-19 on Council's finances. I noted that:

- (a) Council had agreed in October 2019 to pay up to \$4.6 million in respect of biosecurity costs for the airport upgrade, to be met from Council's cash reserves. As at August 2020, Council had paid \$2.6 million, had been invoiced for \$1.1 million and was facing a potential final claim of \$1 million;
- (b) Council had paid liquidated damages to Boral of \$1.1 million as a result of delays caused by COVID-19;
- (c) Council's total loss of income as at 30 June 2020 was \$1.9 million;
- (d) expenditure remained at the same levels until 30 June 2020, when a redundancy program was enacted. Expenditure had been cut by \$2.5 million to correct our course; and
- (e) Council's cash position has been reduced as at 30 June 2020 by \$12.6 million.

99. Annexed and marked **AR-17** is a copy of my correspondence with Nicole Pearson of the Department in August 2020.

(iii) Commonwealth Service Delivery Agreement – is this budget neutral – how?

100. The SDA is budget neutral in that the Council charges the Commonwealth its costs of performing the services. This includes a 10 percent management fee, which covers the cost of all Council staff when interacting with State delivery services, such as the Courts, land titles office, land registry and sea freight.

101. However, the costs of performing the services does not include capital costs associated with the maintenance and renewal of assets.

102. Annexed and marked **AR-18** is a copy of the schedule of services to the SDA as extended on 30 June 2020.

2. Current expenditure

- (a) Identify heads of expenditure**



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103. Council's expenditure, as recorded in the 2020-2021 Operational Plan, can be categorised as:
- (a) Employee benefits;
 - (b) Materials and contracts;
 - (c) Depreciation;
 - (d) Other expenses; and
 - (e) Allocation of overheads.
- (b) Volatility in expenditure and hence budget position – why?**
104. The COVID-19 pandemic has been a significant factor in Council's declining financial performance and has caused significant volatility.
105. However, the major cause of volatility in Council's expenditure and major reason for Council's diminished cash and working capital positions is the level of Council funds that have been spent or committed to major projects against a revenue based which is not materially increasing (but has in fact reduced – in part because of COVID-19).
106. On 21 April 2020, I conducted a review of Council's budget for the 2020/2021 financial year, and identified a revised revenue estimate of \$11.317 million (from what had been \$16.178 million) from Norfolk Island's airport, telecom, power, liquor, fuel, broadcast, roads and tourism. I identified the need to find \$4.861 million, to meet Council's projected expenditure.
107. I identified that Council's wages - a cost of \$9.672 million - constituted 37 percent of its \$26.096 million total revenue (including rates, fees for services and grants). In searching for solutions to the financial issues facing Council, I was also aware that Council has a number of contractual obligations that it cannot change. As a result, I commenced a review of Council's organisational structure with a hope of improving efficiency.
108. In 2016, when the Council was established, the organisational structure consisted of the General Manager with three direct reports:
- (a) Group Manager Services – responsible for Infrastructure services, Commercial services, Planning & Environmental services, and State Type Services;
 - (b) Group Manager Corporate/Chief Finance Officer – Customer, Finance, Legal, ICT and Record Services; and
 - (c) Executive Manager Organisational Development – Governance, Corporate Planning, Risk, Safety and Human Resource Services.
109. As a new General Manager it was within my purview to assess the operational aspects of Council's structure within the first 6 to 12 months, to ensure that it meets the objectives set for me by Council. In accordance with section 332 of the applied Local Government Act, Council must, after consulting the General Manager, determine the senior staff positions within the organisational structure of the Council.




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110. I identified a need to provide clearer lines of authority and accountability within the Council and externally in terms of responsibility for front line community engagement.
111. As a result of the review, I proposed that Council adopt a flatter structure consisting of seven managers reporting directly to the General Manager with the following discrete areas of responsibility:
- (a) People & Culture;
 - (b) Corporate & Finance;
 - (c) Commercial;
 - (d) Economic Development;
 - (e) Services;
 - (f) Planning & Environment; and
 - (g) Customer Service.
112. This organisational restructure was adopted on 1 June 2020. Annexed and marked **AR-9** is a copy of a report I gave to Council, setting out the former and new organisational structure, and Council's endorsement, as recorded in the Agenda and Minutes of the Extraordinary Council Meeting on 1 June 2020.
113. As part of the implementation of the new organisational restructure 20 permanent positions were made redundant resulting in a saving of \$2.2 million annually, as reported to Council at the meeting on 1 June 2020.
114. The restructure also involved the redundancy of Council's Internal Audit Officer on 24 June 2020, and outsourcing the internal audit function to an external provider. Council in reviewing this role determined that a full time employee was not necessary to undertake these functions and that a private firm could provide improved economies of scale.
115. Annexed and marked **AR-19** is a copy of Council's resolution as recorded in the Agenda and Minutes of the Ordinary Council Meeting on 24 June 2020.
116. As of 7 April 2021, the Manager - Commercial position has been abolished, with the workload to be shared between the Manager Economic Development, Manager Services and the Manager Corporate and Finance and resulting in further cost savings.
117. Annexed and marked **AR-20** is a copy of the report given to Council recommending the abolishment of this position and Council's resolution, as recorded in the Agenda and Minutes of the Ordinary Council Meeting on 7 April 2020.
3. ***How does expenditure compare to local government entities on the mainland?***
118. In my experience, it is more expensive for Council to deliver services than it would be for a mainland local government. Norfolk Island is reliant on imported goods, and the costs of importing freight are high.



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119. Council also has a relatively high level of staffing to service the size of its resident population. At present, Council employs 115 full time equivalent employees.
120. The Council also has broader responsibilities and therefore a broader range of expenses than many other local authorities.


Handover on Commencement

4. *When you were appointed General Manager of the NIRC, were you provided with any handover briefing by your predecessor or any other member of the NIRC staff?*

121. I received no handover documents nor briefing from my predecessor, and had received little information before I arrived at Norfolk Island. It was only due to my experience in local government that I knew who to ask for information within Council.

5. *What did that briefing involve?*

122. I read and researched extensively to gain a sense of the Council's financial position and operations. I met with each Councillor, to try to understand Council's issues.
123. On 5 February 2020, I organised a workshop between myself and the Councillors to develop a 9 point Strategic Action Plan, to provide me with focus on the core issues that required my attention for the term of my contract. The meeting was an open discussion forum, and allowed vigorous debate on a wide range of issues. The outcome of the Council workshop was the development of 9 key target areas.
124. Annexed and marked **AR-21** is a copy of a presentation titled "Strategic Action Plan Councillor Workshop Outcomes" that I gave to Council on 5 February 2020.
125. On 18 March 2020, I presented the Strategic Action Plan 2020-2024 for Council's endorsement. The Plan reflects a series of priorities for Council, including:
- (a) Target 1 - Water security, including a new wastewater treatment plant, reuse of treated effluent, enhanced desalination plant capacity, and improved storages;
 - (b) Target 2 - Renewable power, including the progression towards 100% renewable energy by 2024;
 - (c) Target 3 - Island freight, including deciding on port development and location, potential use of composite fibre technologies, development of a barge program to show commercial viability, improved biosecurity, and engagement with defence;
 - (d) Target 4 - Population strategy, including an assessment of resource capacity, potential planning amendments, contribution from the tourism industry, and cruise ship opportunities;
 - (e) Target 5 - Tourism regeneration, including airline services, accommodation accreditation, enhanced facilities and experiences, development of KAVHA, targeting of market segments, and many other initiatives;



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- (f) Target 6 - Defence capability, including potential as a Forward Pacific Port, rotation policy for visiting ships and submarines, undersea cable and development of data centre, and communications outpost/clear skies site;
- (g) Target 7 - Connectivity, including the connection of an undersea cable and development of a data centre, free public Wi-Fi spots, smart poles, open data platform, and day passes with Australian providers;
- (h) Target 8 - Environmental advancements, including endangered species, tree preservation, plans of management, improved waste management practices, improved eradication programs, enhanced integration within Council, and developing ecotourism benefits; and
- (i) Target 9 - Operational challenges, including local development matters, land rates debate, gravel quarry, asset and financial management plans, Council intranet, overcoming identified deficiencies, systems and reporting, and modernising records management.

126. The Strategic Action Plan was endorsed by Council on 18 March 2020 and provided to me as a set of targets to deliver during my three-year term. I note the Inquiry has been provided with the Strategic Action Plan pursuant to Summons to Produce No. NIRC/5.

6. *What were the budget processes at the time of appointment? Any comment on it?*

127. Council has provided a copy of its budget process documents used for the 2019/20 budget to the Inquiry in response to Summons to Produce No. NIRC/3.

128. I was unable to locate any budget process documents that would assist me with the preparation of the budget for 2020/2021. It was my understanding that the annual budget had to that point been prepared using a series of Excel spreadsheets and there was no formal documented process or manual to guide the preparation of the budget.

129. As a result, in drafting the Terms of Reference for the External Audits, I included a requirement to consider moving Council's budgeting process from spreadsheets to web-based solutions.

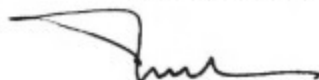
7. *Status of relevant policies on commencement referable to financial and asset management:*

(a) *performance management and reporting;*

130. Council has provided a copy of its performance management documents to the Inquiry in response to Summons to Produce No. NIRC/1. Council's performance management policies at the time of my appointment were a manual based system. It did not appear to me that the system had been used in the year before my appointment.

(b) *asset maintenance and enhancement;*

131. Council's publicly available Asset Management Policy was adopted on 27 June 2018. Pursuant to the policy, the General Manager has the overall responsibility for developing an Asset Management Strategy, Asset Management Plans (AMPs) and procedures, and reporting on the effectiveness of asset management to Council. The Policy sets out, at a high level, the content of AMPs.



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132. Annexed and marked **AR-22** is a copy of the Asset Management Policy.
133. Council has four AMPs, adopted in June 2019, for Buildings, Infrastructure, Roads and Fleet. Section 403 of the applied Local Government Act requires Council to have a resourcing strategy that incorporates asset management planning. I note that the Inquiry has been provided with the AMPs, in response to Summons to Produce No. NIRC/3.
134. As the Nexia Report notes, Council's current AMPs do not effectively address accepted minimum requirements in order to aid long term plans for asset rehabilitation/renewal and maintenance.
135. On my commencement, Council had an asset register in the form of a spreadsheet. Council had no enhancement plans or capital works plans that I could locate.

(c) funding decisions; and

136. On appointment, I could not find any policies and procedures for the preparation of business cases for new assets. There were example business cases for particular assets, e.g. the Balmoral report, in relation to the wastewater treatment plant.
137. I note Council has provided funding policies as they existed from time to time in response to Summons to Produce No. NIRC/1.

(d) risk management practices.

138. Council's publicly available Risk Management Policy was adopted on 19 September 2018. The policy is a high level document that sets out a risk management framework, based on the Queensland Department of Education's framework.

8. Your view on the adequacy of the existing policies at that time? Did you institute any changes to meet inadequacies as you saw them? What did you do?

139. Upon my appointment, I reviewed Council's policies. It was clear to me that the policies were very general and lacked the detail that was required.
140. In respect of the AMPs, I understand Council engaged external consultants to prepare these plans, but they were not fully implemented or used in practice on a regular basis. Upon my review, I identified that they contained language that was not relevant to Council and do not contain a depreciation schedule, capital works schedule, or maintenance schedule.
141. To address these inadequacies, I included in the Terms of Reference for the External Audits a requirement to consider and advise on Council's policies and procedures, in particular the extent to which they align with the requirements of the applied NSW local government framework.
142. Several EAFs identified changes to Council's policies that are required, and Council is in the process of implementing these changes. These changes include that a planned schedule be created for the ongoing review of NIRC Policies based on setting priority for topics, with a view to completing the full set by the end of 2021.



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9. What were the key issues surrounding financial and asset management at the time you were appointed?

143. Based on my experience in working for Councils over many years, I recognised that asset management is a key issue for the Council. During my interview for the position of General Manager, I commented on the poor state of the road network, the poor state of telecommunications I experienced, and the general condition of Council buildings I observed. Once I commenced in the role, I had the Managers take me on a tour of all facilities, met with operational staff, and spoke with them about their areas of control. I observed that a number of the assets of Council were in a poor state and extremely run down. I was aware that Council had committed itself to three large asset focussed projects, being the Airport runway, Mobile telecommunications upgrade to 3G/4G, and approximately 11km of road network. In my initial months before the pandemic took hold of our operations, I focussed on progressing these projects to ensure delivery on time and under budget.

144. My initial two months were also spent assessing the financial position of Council, its governance systems and its capabilities. During a number of workshops with Councillors, the Nine-point strategic plan (identified above) was developed and adopted to provide a defined plan of trying to fix the inadequacies I had identified during my initial assessment of the Council.

10. How well understood were they by councillors and NIRC?

145. Upon my appointment, it became clear to me that there was generally a limited understanding of Council's financial position, including by Councillors. Several members of Council staff indicated they had doubts about the Council's financial position, and asked me how Council was really doing.

11. Were they discussed at a governing body level?

146. I speak to the Councillors regularly about the Council's finances, and they have become very much aware of Council's financial position since my appointment. I hold weekly catch ups with the Mayor, fortnightly catch ups with the Councillors and monthly workshops with the Councillors.

147. As an example, on 27 May 2020, I gave a detailed briefing to the Councillors about Council's financial position and advised them that Council had a \$7.3 million cash deficit. I outlined the steps required to balance Council's budget, including the need to reduce expenditure by \$4 million. I proposed the organisational restructure as the way forward.

148. Additionally, investment reports detailing Council's cash position have been presented at both the February, April and May 2021 meetings.

Budget Processes

12. Describe the budget process at the time of your appointment?

149. There was little certainty regarding the budget process at the time of my appointment. The CFO had resigned during my first week, and there were no qualified accounting staff left in the finance team. My understanding is that the Senior Management team had little to no



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involvement with the development of the budget. There were little to no work papers, procedures or notes to follow.

150. The September 2019/20 Quarterly Budget review had been completed by the previous CFO off island, and no electronic record existed within NIRC's system to at least have a starting point. I immediately engaged a finance contractor who came to Norfolk for a 2 week period to complete the second Quarterly Budget review. The contractor had to reconstruct the September Quarter, to have a starting point for December.
151. In respect of Council's annual budget, Council's Operational Plan contains the activities to be carried out during the year, the revenue policy, rating structure, fees and charges and the annual budget. It is required to be developed annually, under section 405 of the applied Local Government Act.
152. I note that the Inquiry has been provided with policies of the Council and any documents recording the procedures or processes of the Council, as they existed from time to time, relating to the preparation of the Council's annual budgets during the Defined Period, pursuant to Summons to Produce No. NIRC/3.
13. ***How did it work?***
153. A finance contractor worked directly with each of the Managers to complete the December 2019 Quarterly Budget Review. The financial position of NIRC was stable at this point, prior to the pandemic arriving.
14. ***What involvement did Councillors have in that process?***
154. Councillors were not involved in this part of the process, other than receiving and analysing the report presented to them.
15. ***Describe the tension in getting the governing body to agree on the budget?***
155. With all budget discussions, Councillors took particular positions. For example, there were sometimes differing views regarding proposals to increase fees, charges and rates.
156. I have a positive working relationship with the Councillors, who have largely been prepared to make difficult decisions to improve Council's financial performance. Using the 27 May 2020 discussion as an example, the Councillors were initially reluctant to agree to an organisational restructure that would require 20 permanent positions being made redundant. However, they did subsequently agree with this approach.
157. When COVID-19 hit, at the Councillors' request I prepared a proposal to waive approximately \$500,000 in Council fees to assist members of the community during the State of Emergency. The estimated cost of the community assistance was reported to the Council meeting of 20 May 2020. Annexed and marked **AR-23** is a copy of the report, as recorded in the agenda of that meeting.
16. ***How has the budget process developed in the time that you have been General Manager?***
158. Council now has more participation from every member of the Senior Management team in the budget process. In particular, there is now more input from the Team leaders in financial



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decisions. This was encouraged by the Councillors, and supported by me as General Manager. We now have a defined timetable for the budget process, including workshops with elected members. I note that EAFs 98 to 100 recommended that:

- (a) the budgeting process should be formally documented and a budget handbook/manual developed that guides the development of the annual budget. Staff training should then be provided on the use of the manual and use of the manual monitored;
- (b) Budget managers across the Council should be involved in the budgeting process in order to provide input and confirm the veracity of assumptions applied; and
- (c) Budget managers should be provided with progressive management reporting and training to assist them in monitoring and managing their budget responsibilities

159. As a result, I took steps to develop the budget process outlined at paragraph 45 above.

17. *Describe the budgetary processes in place at the time of suspension*

160. Councillors were consistently consulted and engaged during the last 6 months with regards to NIRC's financial position. I held fortnightly meetings with the group, and financial challenges were always discussed.

18. *What role did Council take in the ongoing development of these policies over the time you worked with them? Give examples of particular issues that arose?*

161. As far as I am aware, Councillors have never really been involved in developing policies generally around the budget process. They have, however, had involvement in particular matters directly relating to the budget such as:

- (a) decisions about fees for electricity;
- (b) decisions about tag fees;
- (c) decisions about the development of an entry permit system to the Island during the pandemic; and
- (d) decisions about leaving rating increases at a flat 1.5 percent rate.

19. *What steps have been undertaken to review/develop relevant policies in the time that you have been the GM?*

162. As noted above, with the adoption of the EAFs, Council is taking steps to review its policies, including with respect to Council's budgetary processes.

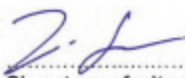
Performance Management and Reporting (referable to effective financial and asset management)

20. *Describe the current situation - what performance management issues were in existence at the time of your appointment?*

163. Since my appointment, Council has implemented a performance management system, Pulse.



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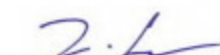


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164. I have also developed a Corporate Planning Framework, which - once implemented - will inform the development of a performance plan for all staff. Staff will be tasked with, and their performance assessed in relation to, the implementation of this framework. On 24 March 2021, I provided a briefing to Council's Management team on the framework.
165. Annexed and marked **AR-24** is a copy of the Corporate Planning Framework.
166. This framework can be summarised as:
- (a) preparing a new Community Strategic Plan, with a 20 year timeframe, 6 Strategic Directions and 13 objectives;
 - (b) a Corporate Plan (Delivery Program), with a 4 year timeframe and incorporating the 9 Point Plan, 6 Strategic Directions and 13 objectives;
 - (c) an Operational Plan, with a 1 year timeframe, that reflects the EAFs and the matters outlined above, with 5 functional areas:
 - (i) Corporate and finance;
 - (ii) Services;
 - (iii) Planning and Environment;
 - (iv) Economic Development; and
 - (v) Customer & Community.
 - (d) Performance plans and training plans.
167. Council's Long-Term Financial Plan and Asset Management Plan will also form part of this framework.
- 21. *Compare and contrast with the situation as you found it when you commenced your appointment***
168. I have considerably developed Council's performance management tools.
- 22. *To what extent did the governing body engage with these issues?***
169. The Councillors are only responsible for the performance management of the General Manager, as is required under the applied Local Government Act. There was no detailed engagement with me, nor did I seek it.
- 23. *What did you and the Council body to address these issues?***
170. Council engaged Local Government NSW Management Solutions to run the General Manager's performance review in October 2020.



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24. ***How have the performance management and reporting guidelines changed over time?***

171. See above.

25. ***Compare your experiences on NI with those in your previous appointments***

172. Council's systems for performance management are very basic compared with previous appointments I have held.

26. ***Any identified need for enhancement?***

173. The need for improvement of Council's performance management systems has been identified in the EAFs.

Asset maintenance and Enhancement (referable to financial and asset management)

27. ***Describe the current situation - what asset maintenance and enhancement issues were in existence at the time of your appointment?***

174. At the time of my appointment, there was no effective asset management and preventative maintenance program in place. Asset maintenance and capital replacement was largely reactive rather than proactive given limited budgets and resources and the generally poor condition of infrastructure and equipment.

175. During my term, Council has been engaged in a number of infrastructure projects requiring significant financial commitments.

176. As noted in the Nexia Report, prior to my commencement Council had committed \$3.1 million of its own funds across the Airport Pavement Repair and Resurfacing Project and Future Proofing Telecommunications Project. In late November 2019, Council negotiated an additional \$5 million road works contract. While these projects were necessary from an asset maintenance and renewals perspective, they have exhausted Council's cash reserves.

177. The key example is the airport reseal project. I am aware that on 20 February 2019, Council resolved to award a design and construct contract to Boral Resources Pty Ltd to reseal both runways, the taxiway, apron, and to replace runway lighting, at the Norfolk Island Airport.

178. Council resolved to contribute any shortfall of funding for the project, over and above the funding provided by the Commonwealth, by way of a loan from the Norfolk Island International Airport Government Business Enterprise. On 5 April 2019, the Commonwealth granted Council funding of \$43 million for the project, which was due to be completed in August 2020. The original project budget was \$44.976 million, with \$43 million to be contributed by the Commonwealth and \$1.976 million by Council.

179. I note that the Inquiry has been provided with correspondence between Council and the Commonwealth relating to the Airport pavement repair and resurfacing project, pursuant to Summons to Produce No. NIRC/7.

180. Council ultimately approved the following contracts with respect to the project:

- (a) Boral Resources - Runway reseal & lighting upgrade – contracted amount \$44.96 million;




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- (b) Boral Resources - Biosecurity costs associated with importation of rock resource – estimated amount \$4.2 million; and
- (c) Aileron Edge – Project Management on behalf of Council - \$0.2 million.

181. These commitments were made prior to my appointment.
182. The final project cost was \$47.83 million, resulting in a commitment of approximately \$5 million on Council's behalf.
183. Annexed and marked **AR-25** is a copy of the final report by provided to Council in respect of the airport runway project costings, as recorded in the agenda and minutes of the ordinary Council meeting of 7 April 2021.
- 28. Compare and contrast with the situation as you found it when you commenced your appointment**
184. At the time of my appointment, Council's asset management system was relatively basic. Delegated officers set up work orders for each capital project to keep track of expenditure allocated to these projects, coming from either the Plant, Payroll or Procurement systems. As the Council is relatively small, these projects are infrequent and therefore straightforward to manage. Project balances can be monitored as costs are incurred. However, there was no written policy documenting this. Upon completion, the expenditure was reviewed prior to being capitalised to the Asset Accounting sub system. This process and control ensured that all amounts that relate to capital expenditure are allocated to the correct asset class.
185. Council's policies referable to asset management and performance enhancement were reviewed as part of the External Audits. I note that the Nexia Report found that Council's Asset Management Plans were immature, when assessed against the Essential Elements of the *Integrated Planning and Reporting Manual for local government in NSW*. In particular Nexia found that:
- (a) the plans for buildings, infrastructure, and roads provide a definition of critical assets but the assets are not identified and risk management strategies are not documented;
 - (b) the AMPs did not satisfactorily include specific actions required to improve the council's asset management capability and projected resource requirements and timeframes;
 - (c) the AMPs provide very limited commentary on levels of service and note that customer expectations and desired service levels will be considered in later versions of the plans;
 - (d) the AMPs were unsatisfactory in terms of the requirement to contain long term projections of asset maintenance, rehabilitation and replacement costs; and
 - (e) the AMPs did not adequately report on the condition of these assets.
186. Council's existing asset management plans have not yet been updated, but I have implemented a computerised system that captures all of Council's assets.



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29. To what extent did the governing body engage with these issues?

187. See above. The Council supported and has been engaged with the recommendations from the Audit Reports.

30. What did you and the Council body do to address these issues?

188. As part of the Terms of Reference for the External Audits, I requested the External Auditors to consider:

- (a) Council's cash position, considering contractual commitments, overruns, legal disputes and COVID-19 impacts; and
- (b) current asset management plans and identification of any financial gap in the minimum accepted standard of assets (road, water, wastewater, buildings, footpaths, ancillary road assets, stormwater).

189. Several of the EAFs relating to asset management have been or are being addressed, including:

- (a) EAF 40: That NIRC enhance its asset management practices and project management capabilities to meet its ongoing needs once any adjusted structure and/or responsibilities for the organisation are known; and
- (b) EAF 92: The asset management system that is being purchased should be implemented as soon as practicable and be populated with the most current asset data available including asset specifications, costs, useful lives and conditions determined through the recent revaluation. Going forward, the data in the system should be maintained and updated as necessary.

190. Since my appointment:

- (a) I have implemented a computerised asset management system; and
- (b) Council's assets have been externally valued, so that the depreciation values may be accurately captured in Council's annual budget.


191. The upload of data to Council's asset management system is completed, with 11 asset classes uploaded.

31. How have the asset maintenance and enhancement guidelines changed over time?

192. To my knowledge there has been no significant change in Council's practices over its first four years. It would seem that there has been limited asset maintenance in this period.

32. Compare your experiences on NI with those in your previous appointments

193. See above.



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33. Any identified need for enhancement?

194. Overall, NIRC's asset base needs to be enhanced. The road upgrades completed last year are a great outcome, and the airport upgrade and the 4G install are positive. However, Norfolk Island's real challenge is power generation and distribution. These assets are really tired, so much so, that the transformers (6KVW) on the Island are almost impossible to source as the rest of the world are on larger ones (11KVW). The electricity network would cost \$10 million to \$12 million to upgrade to a decent standard,
195. I note that EAF 91 recommends that Council's Asset Management Plans should be reviewed and updated in accordance with the guidance provided in the Integrated Planning and Reporting Manual for local government in NSW.

Funding (referable to financial and asset management)

34. Describe the current situation - what funding issues were in existence at the time of your appointment?

196. It is projected that as at 30 June 2021, Council's revenue for the 2021/2022 financial year will consist of:
- (a) rates and annual charges;
 - (b) user charges, fees & other revenues;
 - (c) grants & contributions provided for operating purposes; and
 - (d) interest and investment revenue.
197. Council's income from rates and user charges is insufficient to cover its expenditure on service delivery. As such, the current position is that there is no real funding available for asset management, other than grants.

35. Compare and contrast with the situation as you found it when you commenced your appointment

198. There has been no change in this regard.

36. To what extent did the governing body engage with these issues?

199. The governing body has been engaged with these issues and aware that funding poses a significant problem. However, the governing body's ability to develop solutions to address these issues has to this point been limited.

37. What did you and the Council body to address these issues?

200. The key steps taken to address Council's funding issues have been the engagement of external auditors, and requests for funding from the Commonwealth.
201. On 27 May 2020, I gave a financial briefing to the Councillors and advised that Council was facing a cash deficit of \$7.3 million.

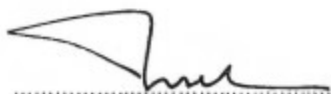


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202. On 23 June 2020 I held a meeting with the Mayor and Councillors recommending that forensic auditors be called in as a matter of urgency. On 24 June 2020, Council unanimously resolved that there should be a full audit of the finances and governance of the Council's operations, under Division 2A and Division 3 of Part 3 of Chapter 13 of the applied Local Government Act, and where appropriate to provide advice on possible improvements to Council arrangements.
203. Under the applied Local Government Act, a performance audit is to determine whether the Council is carrying out its activities effectively, economically and efficiently and in compliance with all relevant laws. The relevant audit powers under the Act sit with the Assistant Minister responsible for Norfolk Island and her delegates.
204. Council instructed me as a matter of priority to bring to Council for its endorsement terms of reference for the engagement of an appropriate consultant to conduct a full independent governance and financial audit of Council operations, and to request the Commonwealth Government to meet the audit cost.
205. I prepared Terms of Reference which were endorsed by Council at its Extraordinary Council meeting on 3 July 2020. I subsequently submitted the Terms of Reference to the Department.
206. Annexed and marked **AR-26** is a copy of the Terms of Reference and Council's resolutions of 24 June 2020 and 3 July 2020.
207. On 26 June 2020, I wrote to Rachel Bacon, Deputy Secretary, Regional and Territories Group at the Department. I advised of the content of Council's 24 June 2020 resolution, including that Council requested the September 2020 Council elections be delayed, to allow for the audit to be undertaken and a report received and adopted by the existing Council to allow the newly elected Council to enter their term unburdened by this process.
208. I formally requested that the Department consider funding the proposed audits.
209. Annexed and marked **AR-27** is a copy of my letter to Ms Bacon of 26 June 2020.
210. In August 2020, the Department engaged Grassroots and Nexia.
211. The audits were conducted in August and September 2020. During both audits, I provided a briefing to the auditors, participated in interviews and assisted Grassroots and Nexia to locate relevant documents.
212. Council received the draft Audit Reports on 23 October 2020 and final versions on 18 November 2020.
213. As noted above, the Audit Reports found that Council has struggled to operate efficiently since it was established on 1 July 2016 and reported many flaws within Council as a local government system.
214. While Council resolved to receive the Audit Reports, Council did not formally adopt the reports or any recommendations.
215. Upon receiving the Audit Reports, I conducted a review of the recommendations and prepared a summary table of the recommendations and estimated costings.



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216. The recommendations presented in the two Audit Reports are wide ranging and involve many areas of Council operations, including service delivery and commercial operations, legislative, regulatory and policy frameworks, and the short, medium and long term financial and environmental sustainability of the Council and the Island.
217. Based on a projected implementation timeframe for unfunded recommendations, my estimated costings in current and future years for implementing the recommendations are as follows.

Target	No. of recommendations	Estimated Cost
Short (1-3 months)	18	\$365,000
Medium (3-12 months)	57	\$10,115,000
Long (12 months plus)	38	\$33,530,000
TOTAL	113	\$44,010,000

218. I discussed the findings of the Audits with Council's Administrator and Sarah Vandenbroek, First Assistant Secretary, Territories Division at the Department at a meeting on 20 October 2020. These findings included the advice in the Nexia Report that Council was likely to be insolvent by December 2020.
219. On 26 and 27 October 2020 I met with the Councillors, Mayor and the Administrator to discuss the Audit Reports.
220. Council determined to make a formal funding request to the Department for \$10 million. At this time, the Councillors determined to make a request to delay the elections for another three months.

Proposed Service Changes

221. In November 2020, I prepared a report setting out service changes to be considered by Council in order to achieve potential savings of approximately \$7.5 million annually to its operational budget.
222. Council decided not to adopt this proposal. Instead Council decided to write to the Commonwealth on 12 November 2020 to request bridging finance.
223. On 4 December 2020, myself, the Mayor, the Island Administrator and the Councillors met with representatives from the Department to discuss Council's financial position and findings of the External Audits, as well as the possibility of bridging finance as requested on 12 November 2020.
224. Annexed and marked **AR-28** is a copy of the agenda for that meeting.
225. I provided my assessment of the list of recommendations from the two Audit Reports, with estimated costs totalling \$44 million.



 Andrew Roach



 Signature of witness

226. Annexed and marked **AR-29** is a copy of this report.
227. Council received short-term funding from the Commonwealth of \$3 million in December 2020, to secure payment of its employees' salaries. At this time, the Council was also given 28 days to show cause as to why it should not be suspended.
- 38. How have the funding guidelines changed over time?**
228. I understand that the financial assistance grant has changed each year of Council's existence, driven by a KPMG report on the funding calculation.
- 39. Compare your experiences on NI with those in your previous appointments**
229. Council is unique in that it receives funding through a Service Delivery Agreement with the Commonwealth.
230. Further, as Norfolk Island is governed by the Commonwealth, NIRC does not have access to any State grants. As a result, there is considerable funding that it cannot access. This is a key limitation in terms of Council's asset management, as a significant number of grants are provided at a State level (for example, roads).
231. Council is also limited by its lack of membership of a local government association. As an associate member of the Local Government Association of NSW, Council cannot vote or raise motions for debate, limiting its ability to push for legislative change.
232. Council's ability to contain operating expenditure within operating revenue (excluding capital grants and contributions) is much more limited than it has been for councils in my previous appointments.
233. Similarly, the degree of reliance on external funding (such as operating grants and contributions) is significantly higher than for the councils in my previous appointments. Council received significant amounts of additional grant funding in 2019 and 2020, and still did not meet the industry benchmark for those years.
- 40. Any identified need for enhancement?**
234. The EAFs have identified a need for enhancement of Council's funding sources. In particular, I note:
- (a) EAF 37: That DITRDC and NIRC jointly conduct a review of the terms of the Service Delivery Agreement to ensure resource capacity, fairness of requirements as well as providing adequate services to the community;
 - (b) EAF 38: That a strategic long-term (and funded) plan for the Island be developed in partnership between NIRC and the Commonwealth, with a focus on practical implementation and with the responsibilities of each party clearly outlined; and
 - (c) EAF 39: That NIRC and the Commonwealth consider the appropriateness of the infrastructure and service responsibilities of NIRC and make necessary adjustments to enhance its financial sustainability moving forward, with reference given to the outcomes of the Audit.



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Risk Management Practices (referable to financial and asset management)**41. Describe the current situation - what risk management issues were in existence at the time of your appointment?**

235. Council convenes an Audit and Risk Committee quarterly and its reports and minutes are submitted to the Council. The Committee is guided by an Audit Committee Charter adopted in December 2019, with the overall objective of providing independent assurance and assistance to the Council in fulfilling its corporate governance and oversight responsibilities.

236. These responsibilities include financial reporting, risk management and internal control, external and internal audit and compliance (including the Code of Conduct). The Committee works with myself and the management team to ensure appropriate internal risk and audit processes are established and working effectively.

237. The Audit Committee comprises an Independent Chair, two Independent Members and a Councillor.

42. Compare and contrast with the situation as you found it when you commenced your appointment

238. Following my appointment, it was not clear to me what steps were being taken by Council's internal audit committee to address risk management issues. While a risk management policy, framework and procedure was prepared and presented to Council's audit committee in draft form on 29 September 2018, my understanding was that it was never adopted in final form. Council has treated the 29 September 2018 version as if it had been formally adopted - I note this is the version available on Council's website.

239. Since my appointment I have attended all meetings of the Audit Committee, and have successfully proposed the appointment of two new, independent members to the Internal Audit Committee, both of whom are experienced local government practitioners, as well as extended the existing Chair's appointment, all for a period of two years.

240. Council appointed a new Internal Auditor/Risk Officer in July 2019. Following the departure of this officer an alternative approach has been adopted with the appointment of an externally contracted audit firm to provide internal audit services.

241. I have also engaged this firm to prepare an audit action plan for Council. Council adopted this plan in September 2020.

43. To what extent did the governing body engage with these issues?

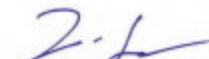
242. In my experience, the governing body has not engaged extensively on risk management issues.

44. What did you and the Council body to address these issues?

243. Aside from the measures outlined above, I have been focusing on rebuilding the finance team and have engaged an external consultancy firm to recruit new staff members. We now have a qualified Accountant as the Manager of Corporate & Financial Services, qualified Financial and Management Accountants, and two qualified Accounting Officers within the team. The team is



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also supported by a contractor who was a former local government Chief Financial Officer in Queensland for a six-month period. That takes the finance team to a full complement of 5 FTE staff, with the support of a short-term contractor.

244. This team is now working on implementing the following improvements and reports:

- (a) Quarterly Budget Review reports;
- (b) Monthly Investment reports;
- (c) Draft 2021/22 Operational Budget;
- (d) Asset Management System;
- (e) Review of the rating system; and
- (f) Review of the ledger structure.

45. How have the risk management guidelines changed over time?

245. I note that as recorded in minutes of the Audit Committee's meetings:

- (a) on 8 August 2018, the Audit Committee received and endorsed a draft Risk Management Policy, draft risk Management Framework and draft Risk Management Procedures and recommended that Council adopt these draft documents;
- (b) on 29 September 2018, Council adopted the draft policy, framework and procedures; and
- (c) on 15 October 2019, the Audit Committee deferred approval of the Policy and Procedure;
- (d) on 26 February 2020, the Audit Committee recommended approval of the Policy and Procedures for adoption by Council.


Annexed and marked **AR-30** are extracts from agendas and minutes of Audit Committee and Council meetings relating to adoption of a risk management policy.

46. Compare your experiences on NI with those in your previous appointments

246. Council's risk management policies are not as advanced as those existing at the Councils I have previously worked at.

47. Any identified need for enhancement?

247. A considerable concern that remains for Council is that the 2019/20 General Purpose Financial Reports and Annual Report have not been completed. Although Council staff have completed the required documents, they remain with Council's external Auditors, Pitcher Partners, who have yet to provide their Audit Certificate.


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248. I have taken steps to appoint experienced and qualified people to the Internal Audit Committee that will assist the change process, but without continued financial support from the Department, and/or a significant change in Council's revenue models, there is no short-term fix to the challenging financial position.

Conclusion

48. Why is NIRC unique?

249. Firstly, NIRC is unique in terms of the assets it manages and the services it provides. It manages an international airport, sea freight, and is responsible for services that would normally be provided by a State or Territory Government - such as Courts, licensing and land titles. It is my understanding that no other Councils in Australia have responsibilities such as these. NIRC is also unique in the sense that it is responsible for electricity generation and distribution, operates a telecom and gains significant revenue through the liquor bond.
250. Secondly, NIRC is geographically unique. While there are a number of remote local governments in Australia, resourcing decisions are particularly hard for NIRC in that it is a key employer on the Island - and staff are geographically limited in terms of finding other work. While Council employs the equivalent of 115 FTE staff, from an efficiency perspective this could be a smaller number.

49. What does this mean from the financial and asset management perspective?

251. Several of the EAFs recommend significant changes in respect of NIRC's State-type services. For example:
- (a) That the Commonwealth consider the transfer of responsibility for the infrastructure-based, non-traditional business enterprises out of NIRC given the significant financial sustainability risks placed on NIRC from their ongoing operation;
 - (b) That NIRC and the Commonwealth consider alternative arrangements for the electricity, telecom and sewerage utilities, which may involve one or more of the following:
 - (i) Establishment of a utilities arm covering electricity, telecom and/or sewerage (and potentially water supply if more centralised management and/or provision is required) that is the joint responsibility of NIRC and the Commonwealth but where the assets are not owned or funded in any way by NIRC. Governance of the utilities arm could be via a Board arrangement with representatives from both NIRC and the Commonwealth in addition to potential representation by industry experts (subject to a cost-benefit assessment given the limited scale and scope of operations on the Island). Commonwealth funding would be required to cover capital funding requirements and operational shortfalls on an ongoing basis to ensure affordability;
 - (ii) Transfer of responsibilities for electricity and/or sewerage to a State partner or similar, with the Commonwealth responsible for funding any operational shortfall on an ongoing basis to ensure service affordability and service charges comparable to other Australian jurisdictions; or



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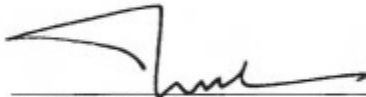
- (iii) Divestment of the telecom function to Telstra, with the Commonwealth ensuring appropriate service provision at an affordable price under a universal service obligation arrangement.

252. Importantly, I note that EAF 64 recommends that the Commonwealth and NIRC consider the available options to mitigate against the 'State Disconnect' that presently exists, including:

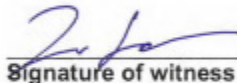
- (a) The provision of additional, specified annual operational and capital funding support to NIRC by the Commonwealth based on established benchmarks;
- (b) The establishment and delivery of an agreed long-term, funded program of infrastructure and service delivery between the Commonwealth and NIRC to meet compliance and service obligations; and
- (c) Delivery of financial and non-financial support via a State partner, with the Commonwealth compensating the State partner.

I make this Statement conscientiously believing the same to be true to the best of my memory, knowledge and belief.

Dated 24 May 2021



Andrew Blair Roach




Signature of witness

Witness' details:

Full name: Timothy Paul Gordon

Address: Level 28, Riparian Plaza, 71 Eagle Street, Brisbane QLD 4000

Telephone No: (07) 3292 7000

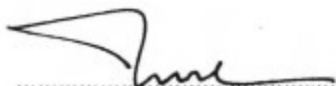


Andrew Roach

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List of Annexures to Statement of Andrew Roach

Annex	Document	Date
AR-1	CV of Andrew Roach	2021
AR-2	<i>Norfolk Island (Local Government Act 1993 (NSW) (NI)) Direction and Delegation 2017 (No.2)</i>	10 November 2017
AR-3	Council's General Manager delegations	6 January 2020
AR-4	Email chain between Mr Roach and Nicole Pearson of the Department of Infrastructure, Transport, Regional Development and Communications (DITRDC) regarding financial impact of COVID-19 and funding request	22 to 24 April 2020
AR-5	Independent Audit of Financial Performance Report prepared by Nexia Australia	30 October 2020
	Independent Governance and Financial Audit Report prepared by Grassroots Connections	15 November 2020
AR-6	Email from Margaret Hoekstra, Governance Coordinator, to Council's Managers, attaching: <ul style="list-style-type: none"> External Audit Findings - Schedule of Council Meeting Business Papers - April to July 2021 	8 March 2021
AR-7	External Audit Finding (EAF) Plan	22 March 2021
AR-8	Forward programme of EAF reports as recorded in the business papers for the Ordinary Council Meeting of 7 April 2021	7 April 2021
AR-9	Report given to Council on the organisational restructure, and Council's resolution adopting the report, as recorded in the Agenda and Minutes of the Extraordinary Council Meeting of 1 June 2020	1 June 2020
AR-10	Quarterly budget review as reported to Council	24 February 2021
AR-11	NIRC 2020/21 Budget Process	30 April 2020
AR-12	NIRC 2021/22 Budget Process	March 2021
AR-13	Assetfinda report: Estimated cost to renew existing assets	19 May 2021
AR-14	NIRC financial delegations	31 March 2020
AR-15	Proposed rating model for 2021-22	5 May 2021
AR-16	Report given to Council on proposed rating model for 2021-22 and Council's resolution adopting the model, as recorded in the agenda and draft minutes of the Ordinary Council Meeting of 5 May 2021	5 May 2021




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AR-17	Email chain between Mr Roach and Nicole Pearson of DITRDC regarding financial impact of COVID-19 and funding request	3 to 10 August 2020
AR-18	Service Delivery Agreement extension letter and Schedules	30 June 2020
AR-19	Council resolution - outsourcing of internal audit function	24 June 2020
AR-20	Report given to Council on removal of Manager Commercial Services position, and Council's resolution adopting the recommendation, as recorded in the Agenda and Minutes of the Ordinary Council Meeting of 7 April 2021	7 April 2021
AR-21	Presentation - Strategic Action Plan Councillor Workshop Outcomes	5 February 2020
AR-22	Asset Management Policy	27 June 2018
AR-23	Report given to Council on cost of community support package, as recorded in the minutes of the Ordinary Council Meeting of 20 May 2020	20 May 2020
AR-24	NIRC Corporate Planning Framework	24 March 2021
AR-25	Report given to Council on final costings of airport runway reseal project	5 May 2021
AR-26	Terms of Reference: Independent Governance and Financial Audit of NIRC Operations and Mayoral Minute of 24 June 2020, as adopted by Council	3 July 2020
AR-27	Letter from Mr Roach to Rachel Bacon, Deputy Secretary Regional and Territories Group, DITRDC regarding external audit	26 June 2020
AR-28	Service Delivery Agreement extension letter and Schedules	30 June 2020
AR-29	Assessment of External Audit findings prepared by Mr Roach	4 December 2020
AR-30	Extracts from agendas and minutes of Audit Committee and Council meetings relating to adoption of risk management policy	Various



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Andrew Roach



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