



Norfolk Island Regional Council

**Independent Audit of Financial Operations
on behalf of the Department of Infrastructure, Transport,
Regional Development and Communications**

DRAFT - October 2020



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Executive Summary

The Department of Infrastructure, Transport, Regional Development and Communications engaged us to conduct a performance audit of the Norfolk Island Regional Council under Division 2A and Division 3 of Part 3 of Chapter 13 of the Applied Local Government Act in order to assist the Auditor-General to exercise their powers under that Act. The engagement covered the Council's financial performance for the period 1 July 2016 to 30 June 2020, cash and working capital positions, asset management plans, budgeting process and the use of the Civica Local Government System.

Conclusion

Whilst the COVID-19 pandemic has contributed greatly to Council's declining financial performance, the major impact on Council's diminished cash and working capital positions is the level of Council funds that have been spent or committed to major projects. When approving these projects, Council may not have fully understood the implications for Council's finances and how any potential overruns on these projects would be funded. Whilst the merits of the projects are not being questioned, nevertheless, Council's involvement in them and the overruns that ensued have caused Council to utilise the majority of its cash reserves.

Council's current asset management plans do not comply with accepted minimum requirements and do not contain sufficient information to guide long term plans for asset rehabilitation/renewal and maintenance.

Nothing has come to our attention to suggest widespread non-compliance with relevant laws in respect to the matters covered in this report.

Key findings

- Financial performance
 - Council's operating result before capital items deteriorated in 2019/20 to a deficit of \$1.8 million.
 - The budgeted operating result for 2020/21 is also a deficit before capital items of approximately \$121,000, however, this is subject to change following a major review as part of the first quarterly budget review for 2020/21.
 - User charges, fees and other revenue dropped by \$1.7 million for 2019/20, primarily due to the impact of the COVID-19 pandemic on tourism.
 - Council's funding result (i.e. funds moving in and out of Council) was a deficit of \$11.2 million for 2019/20, resulting in a fundamental decrease in Council's available working capital position.
 - Council's operating performance ratio of -6.56 for 2019/20 fell well short of the industry benchmark of 0% and is also forecast to be negative for 2020/21.
 - Council's percentage of outstanding rates and charges of 18% for 2019/20 did not meet the industry benchmark of less than 10% and is forecast to significantly worsen in 2020/21.
- Cash Position
 - Whilst Council held \$25.3 million in cash and investments as at 30 June 2020, most of the funds were restricted and committed to specific projects and liabilities.
 - Due to cost overruns for large projects and the level of committed funds, Council's unrestricted cash available to fund day to day operations was reduced to only \$646,000 as at 30 June 2020 (down from \$11.5 million for 2019).

- The adopted budget for 2020/21 has forecast the cash position at 30 June 2021 to be \$799,000. This is considered insufficient to fund current trust balances and liabilities for employee leave entitlements, and therefore, would be insufficient to fund day to day operations.
- Given the impact of the COVID-19 pandemic is ongoing and the nature of the current projects Council are undertaking, there is potential for Council to be in a negative cash position during 2020/21.
- Working Capital
 - Available working capital decreased during 2019/20 from \$13 million to \$1.75 million as at 30 June 2020.
 - The suggested minimum level of available working capital that Council should maintain is in the order of \$7 million.
 - As such, the current level of available working capital is inadequate to fund day to day operations and provide an appropriate buffer against unforeseen or unbudgeted circumstances.
- Asset Management
 - Current asset management plans do not effectively address accepted minimum requirements in order to aid long term plans for asset rehabilitation/renewal and maintenance.
 - An asset management system is not currently in use to maintain the required asset data. However, Council is purchasing a new cloud based asset management program.
 - Since Council was formed, its level of expenditure for buildings and infrastructure renewals has never met the industry benchmark.
 - The recent revaluation is expected to increase the depreciation charge for buildings and infrastructure assets by approximately \$1.85 million, meaning it will become even more challenging to achieve the industry benchmark for asset renewals.
 - The estimated cost to bring Council's existing buildings and infrastructure assets to a satisfactory standard is approximately \$10.3 million.
 - Based on this cost of \$10.3 million, Council's infrastructure backlog ratio is approximately 7% compared to the industry benchmark of less than 2%.
- Ledger Structure
 - As a system reporting tool is not in use, extensive data manipulation is required to meet some reporting requirements.
 - There is some inconsistency and redundant accounts within the current chart of accounts.
 - In the absence of staff training, there may be a lack of understanding across the organisation of which work orders to use when initiating transactions.
- Budgeting Process
 - Spreadsheets are used to prepare the annual budget and there is no formal documented process or manual in place to guide the preparation.
 - There appears to be little involvement of budget managers in the budgeting process, resulting in a lack of ownership and accountability to budgets.
 - There is a history of significant variances to original budgets.

- Local Government System and Processes
 - There is a general under-utilisation of the system, with system modules included in Council's contract that are not used.
 - There are a number of manual registers and control documents in use. E.g. the use of Excel spreadsheets used for the fixed assets register and for calculating and maintaining employee leave balances.

Recommendations

Council should consider the findings in this report and develop strategies and plans to address Council's deteriorating financial position. Staff training is required across a number of areas of the organisation including financial and asset management, capabilities and use of the system and related processes, and budgeting. Further details of recommendations in addressing the key findings are outlined in the relevant sections of this report. Section 8 of the report also provides suggestions for improvement we identified during the course of our engagement in respect to the use of the system and internal procedures.

1. Introduction

Background

The Norfolk Island Regional Council (Council) commenced on 1 July 2016 and consists of five Councillors who are elected for a four-year term. The Council is unique in that it provides local government services, 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.

The Council operates under the imposed 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 as Norfolk Island continued laws.

The day to day management of Council is the responsibility of the General Manager who reports to the Councillors. The current General Manager commenced in January 2020, and through a series of internal reviews, and addressing challenges that have arisen due to the COVID-19 pandemic, Council determined that there should be a full audit of the finances and governance of the Council's operations.

The relevant audit powers under the applied Local Government Act sit with the Commonwealth Minister responsible for Norfolk Island and their delegates. As such, the Department of Infrastructure, Transport, Regional Development and Communications have determined that a performance audit be conducted under Division 2A and Division 3 of Part 13 of the applied Local Government Act to cover governance, financial and operational matters as set out under the Scope of Audit section in the Terms of Reference.

This report covers the Financial Performance component of the Scope of Audit.

In the Mayoral Minute of 24 June 2020, the following challenges were noted that are relevant to the Financial Performance component of the Scope of Audit:

- Council has been provided poor information in many of their decision making processes by previous management.
- Existing contractual obligations will exhaust Council's entire cash position and our financial position for 30 June 2021 will be zero cash in reserve.
- Council's revenue streams are so reliant on the Tourism economy; and a review must be undertaken to improve resilience and sustainability.
- Council employees require training and support to make sure our systems are operationally efficient.

Scope and approach

In respect to Financial Performance, the Terms of Reference requires consideration and advice on:

- The financial performance of the Council for the following financial years: 2016-17; 2017-18; 2018-19; 2019-20, with consideration of the 2015 – 2016 final Administration Audit.
- Council's cash position, considering contractual commitments, overruns, legal disputes and Covid-19 impacts.
- The minimum level of working capital the Council should maintain.
- 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, and stormwater).
- Council's ledger structure and its effectiveness, including the use of work orders.
- Moving the budgeting process from spreadsheets to a web-based solution.

- Possible improvements to the Civica Local Government System and the use of the following models to optimise the efficiency of the Council's operations, being the Plant Asset system, the distribution of overheads, Stores system, Online Ordering, Purchase Cards, Operation of external trust accounts held by Council, Payroll System, and Asset Management.

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.

Our procedures included:

- Interviewing Council staff
- Consulting with relevant stakeholders
- Examining Council reports, policies and plans
- Reviewing and analysing financial information
- Examining reconciliations, schedules and supporting documentation.

Financial information covering a number of periods is presented throughout this report. This information has primarily been obtained from the audited financial statements. It should be noted that the financial information relating to the year ended 30 June 2020 has been obtained from the 2019/20 draft financial statements that have not yet been subject to external audit and are subject to change. Similarly, the projected financial information relating to the year ending 30 June 2021 has been obtained from the budgeted results contained in the adopted 2020/21 Operational Plan. We understand that the 2020/21 budget was prepared over a two week period in April 2020 with little input from budget managers. We were advised that some estimation of the impacts of the COVID-19 pandemic were factored into the 2020/21 budget, however, the first quarterly budget review for 2020/21 will be a major review. For example, the 2020 external valuation of Council's buildings and infrastructure assets was not finalised at the time the 2020/21 budget was prepared and the valuation indicates that Council's depreciation expense will increase by approximately \$1.85 million for 2020/21.

This report, and our findings and recommendations, should be read in light of the above information.

General observations

Since its formation, Council has experienced high levels of staff turnover; particularly of professional staff in the areas of finance, human resources, planning, and asset management. In respect to finance, there have been several Chief Financial Officers, with the longest tenure being approximately two years. There has also been high turnover of other accounting/finance officers that support the Chief Financial Officer position. We understand that two financial/management accountants with relevant local government experience have recently been appointed to support the current Chief Financial Officer. We also understand that Council's previous Asset Manager/Engineer left the organisation some nine months ago and has not yet been replaced. The high staff turnover appears to have created a lack of corporate and system knowledge across the organisation. During our review, it was noted that some requested information was either difficult to locate or could not be located by current staff.

Acknowledgments

We gratefully acknowledge the co-operation and assistance provided by the Council's General Manager, Chief Financial Officer, and other staff.

2. Financial Performance

Background

The Terms of Reference requires consideration of the financial performance of the Council for the following financial years: 2016-17; 2017-18; 2018-19; 2019-20, with consideration of the 2015-2016 final Administration Audit.

We have reviewed and analysed the audited financial statements for the years ended 30 June 2017, 2018 and 2019, the draft financial statements for the year ended 30 June 2020, the Operational Plan for the year ending 30 June 2021, and other information as considered necessary. In assessing Council's financial performance, we have considered Council's operating results and performance against industry benchmarks over the relevant period.

Income Statement

The Income Statement is one of the primary financial statements that shows the Council's profit or loss over a period of time. The profit or loss is determined by taking all revenues and subtracting all expenses. The Income Statement also discloses Council's original adopted budget to provide a comparison to actual results.

The table in Exhibit 1 sets out the Council's operating results for each year and the extent (%) that each category of revenue and expenses contributed to the total. The current forecast result for 2020/21 is also provided for information purposes (noting the comments in the Introduction section of the report).

Exhibit 1: Income Statement 2017-2021

Income Statement	2017		2018		2019		2020		2021	
	\$000	%	\$000	%	\$000	%	\$000	%	\$000	%
Revenues before capital items										
Rates & annual charges	1,177	5%	1,691	6%	1,603	6%	1,382	5%	1,506	6%
User charges, fees & other revenues	16,859	75%	18,898	71%	19,304	68%	17,580	64%	15,835	59%
Grants & contributions provided for operating purposes	4,073	18%	5,554	21%	6,902	24%	8,395	30%	9,050	34%
Interest & investment revenue	247	1%	299	1%	398	1%	259	1%	332	1%
	22,356	100%	26,442	100%	28,207	100%	27,616	100%	26,723	100%
Expenses										
Employee benefits & costs	7,316	31%	9,079	34%	10,172	36%	11,538	39%	10,545	39%
Materials, contracts & other expenses	11,964	50%	12,492	47%	13,081	47%	13,265	45%	11,971	45%
Depreciation & amortisation	4,605	19%	4,847	18%	4,841	17%	4,624	16%	4,328	16%
	23,885	100%	26,418	100%	28,094	100%	29,427	100%	26,844	100%
Net operating result before capital items	(1,529)		24		113		(1,811)		(121)	
Grants & contributions provided for capital purposes	-		-		13,500		33,833		8,164	
Net operating result	(1,529)		24		13,613		32,022		8,043	

Significant net operating surpluses were achieved for 2019 and 2020, however, these results were due to the receipt of significant amounts of grant funding for capital projects. As these funds can only be used for the specific capital projects for which the funds were provided, it is more relevant to consider Council's net operating result before capital revenue. Following a modest surplus before capital items in 2019, there has been a significant deterioration in the result for 2020; a deficit of \$1.8 million.

A generally accepted industry benchmark is to achieve a net surplus before capital items to allow Council to fund day to day operations and provide sufficient funds for maintaining and renewing Council's infrastructure, property, plant and equipment.

The decrease in the result before capital items for 2020 was largely driven by increased employment costs and reduced income from rates (\$221,000) and other revenues (\$1.7 million).

As Council has a relatively small rating base, with rates and annual charges representing only 5-6% of total revenue, there is a great reliance on operating grants (financial assistance and Service Delivery Agreement) and other revenue to fund Council's operations. The reliance on operating grants has steadily increased over the last four years and now represents approximately 30% of Council's total revenue. User charges, fees and sundry revenue for 2020 was down \$1.7 million to \$17.6 million, compared to a budget of \$22.4 million. 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. Sundry revenue is summarised in the Revenue section below.

Revenue

Exhibit 2 provides a summary of Council's revenue (excluding rates and grants) over the period under review and the movement in 2020 from the previous year.

Exhibit 2: Revenue excluding rates and grants 2017-2020

Revenue	2017		2018		2019		2020		2020 Movement	
	\$000	%	\$000	%	\$000	%	\$000	%	\$000	%
Excluding rates and grants										
Waste management	614	4%	693	4%	803	4%	817	5%	14	2%
Statutory/regulatory charges	1,915	11%	2,912	15%	2,519	13%	2,129	12%	(390)	(15)%
Aerodrome	1,807	11%	2,461	13%	3,230	17%	2,546	14%	(684)	(21)%
Quarry income	372	2%	146	1%	36	0%	240	1%	204	567%
Tourism/sales	46	0%	174	1%	200	1%	115	1%	(85)	(43)%
Electricity charges	2,338	14%	2,803	15%	3,202	17%	3,152	18%	(50)	(2)%
Lighterage charges	550	3%	618	3%	625	3%	468	3%	(157)	(25)%
Telecom sales	3,518	21%	3,603	19%	3,153	16%	2,772	16%	(381)	(12)%
E-Tops	350	2%	168	1%	23	0%	-	0%	(23)	(100)%
Gaming revenue	700	4%	124	1%	164	1%	165	1%	1	1%
Liquor Bond sales	3,949	23%	4,036	21%	4,091	21%	4,193	24%	102	2%
KAHVA sales/entry fees	285	2%	294	2%	292	2%	250	1%	(42)	(14)%
Rental income	111	1%	563	3%	564	3%	598	3%	34	6%
Others	304	2%	303	2%	402	2%	135	1%	(267)	(66)%
	16,859	100%	18,898	100%	19,304	100%	17,580	100%	(1,724)	(9)%

As noted above, Council's other revenue (excluding rates and grants) for 2020 was down \$1.7 million to \$17.6 million (2019 \$19.3 million) compared to a budget of \$22.4 million. Tourism related revenue has been particularly impacted by the COVID-19 pandemic. For example, airport revenue for 2020 was down approximately \$684,000 (21%) to \$2.5 million (2019 \$3.2 million) compared to a budget of \$3.4 million.

In March 2020, Council also announced that it would waive up to \$500,000 in Council fees to assist members of the community during the State of Emergency, which has also directly impacted Council revenues.

Funding Result

As the operating result shown in the Income Statement only accounts for operating income and expenditure, and in reviewing the overall financial performance of Council, it is useful to consider the total source of revenues and how they were applied during the year. The Funding Result represents the movement in Council's Available Working Capital balance during the year and is illustrated in Exhibit 3.

Exhibit 3: Funding result 2017-2020

Funding Result	2017	2018	2019	2020
	\$000	\$000	\$000	\$000
<i>Funds were provided by:-</i>				
Operating Result	(1,529)	24	13,613	32,022
Equity adjustment upon the adoption of new accounting standards	-	-	-	(2,500)
Add back non funding items:-				
- Depreciation & amortisation	4,605	4,847	4,841	4,624
- Loan waiver - Norfolk Island resurfacing	-	-	(10,900)	-
- Other items	(531)	-	-	365
	2,545	4,871	7,554	34,511
Decrease/Redemption of non-current investments	-	-	4,000	-
Transfers from externally restricted assets (net)	-	798	-	2,794
	2,545	5,669	11,554	37,305
<i>Funds were applied to:-</i>				
Purchase and construction of assets	(1,842)	(1,819)	(4,829)	(39,697)
Increase/purchase in non-current investments	-	(4,000)	-	-
Principal repaid on loans	(377)	(286)	(100)	-
Transfers to externally restricted assets (net)	(798)	-	(3,056)	-
Transfers to internal reserves (net)	-	(237)	(3,057)	(8,835)
	(3,017)	(6,342)	(11,042)	(48,532)
Increase/(Decrease) in Available Working Capital	(472)	(673)	512	(11,227)
Available Working Capital - Start of Year	13,610	13,138	12,465	12,977
Available Working Capital - End of Year	13,138	12,465	12,977	1,750

As can be seen from the table above, Council's funding result has been a deficit each year except 2019. These deficits represent reductions in Council's Available Working Capital, being the funds available to fund day to day operations.

After adding back non-cash items such as depreciation to the operating result, approximately \$37.3 million of funds were provided in 2020. These funds were applied to the purchase and construction of assets (including the airport pavement repair and resurfacing project) and setting aside internally restricted reserves to fund liabilities and ongoing capital works. The overall funding result was a deficit of \$11.2 million, leaving a balance of Available Working Capital of \$1.75 million at 30 June 2020. The balance of Available Working Capital is discussed later in the Working Capital section.

Statement of Cash Flows

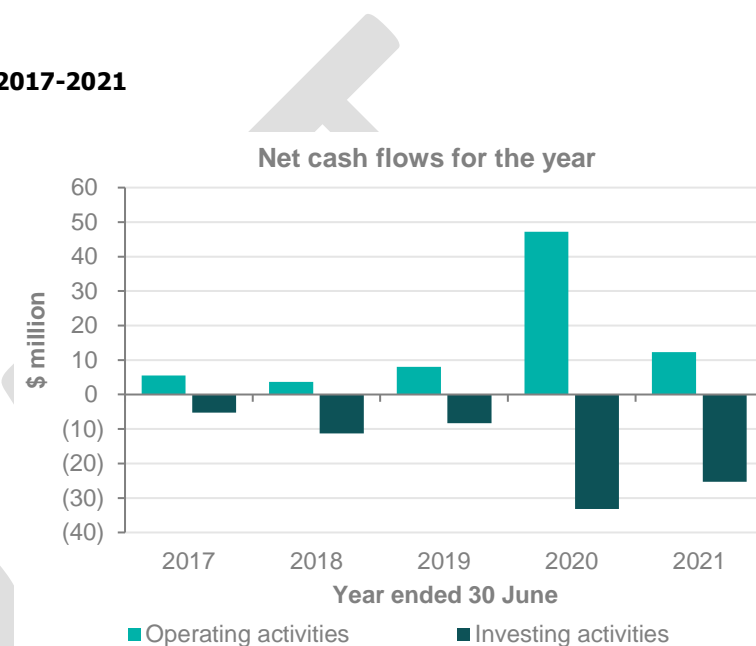
Exhibit 4: Statement of Cash Flows 2017-2021

The Statement of Cash Flows illustrates the flow of cash and cash equivalents moving in and out of Council during the year.

Cash flows are categorised into operating, investing and financing activities.

Investing activities primarily relate to the purchase/construction of infrastructure, property, plant and equipment.

Financing activities include the receipt and repayment of borrowings. These have not been included in the accompanying graph as financing activities are not significant to this Council.



The Statement of Cash Flows revealed that cash and cash equivalents increased by \$1.3 million to \$15.3 million as at the close of 2020. The graph above demonstrates the significant expenditure on the purchase and construction of assets during 2020 and budgeted for 2021.

In addition to cash and cash equivalents, Council also held investments in term deposits of \$10 million; giving a total of \$25.3 million of cash and investments as at 30 June 2020. Council's cash position is considered later in the Cash Position section.

Performance Measures

This section provides an overview of the Council's performance against industry benchmarks for six key performance measures.

- **Operating performance ratio**

Exhibit 5: Operating performance ratio 2017-2021

The 'operating performance ratio' measures the ability of Council to contain operating expenditure within operating revenue (excluding capital grants and contributions).

The industry benchmark is greater than 0%.



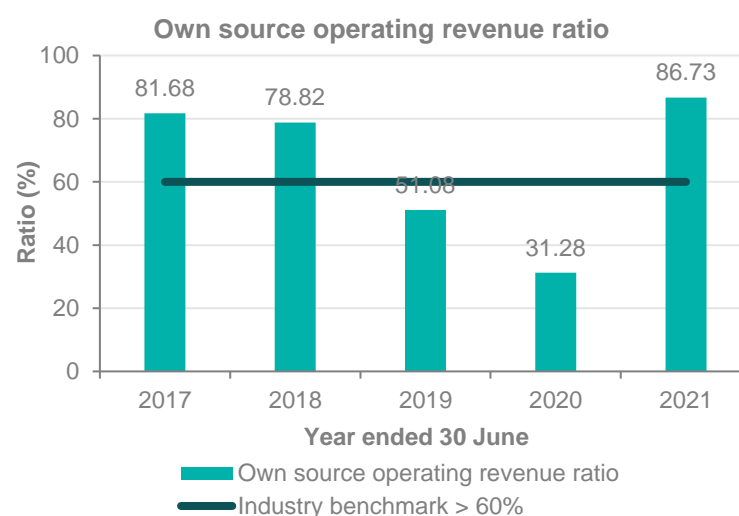
Whilst the industry benchmark was achieved in 2018 and 2019, Council did not meet the industry benchmark for 2020 due to the significant operating deficit before capital revenue that was recorded (as discussed in the Income Statement section). It is noted that Council's original budget for 2021 discloses a forecast deficit before capital items of \$121,000. Accordingly, the industry benchmark is not expected to be met for 2021.

- **Own source operating revenue ratio**

Exhibit 6: Own source operating revenue ratio 2017-2021

The 'own source operating revenue ratio' measures the Council's degree of reliance on external funding sources such as operating grants and contributions.

The industry benchmark is greater than 60%.



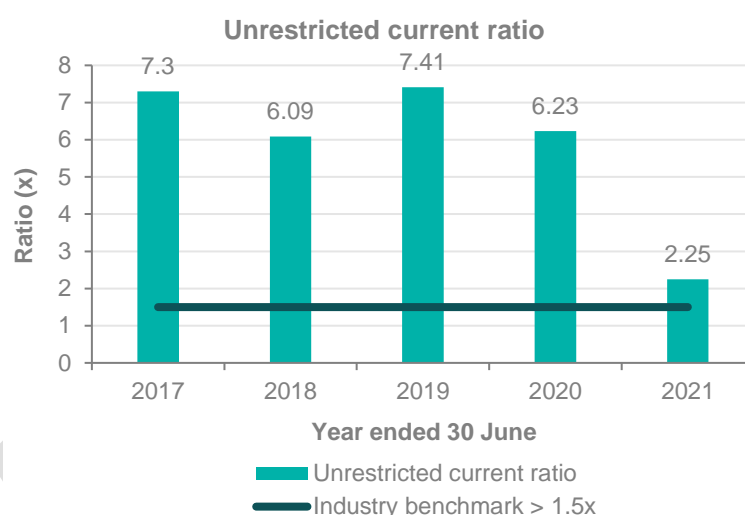
As this indicator fluctuates with movements in grants and contributions, and Council received significant amounts of additional grant funding in 2019 and 2020, Council did not meet the industry benchmark for those years.

- **Unrestricted current ratio**

Exhibit 7: Unrestricted current ratio 2017-2021

The 'unrestricted current ratio' is a liquidity ratio specific to local government and represents Council's ability to meet its short-term obligations as they fall due. Restrictions placed on funding sources (e.g. grants) complicate the traditional current ratio, so the unrestricted ratio is preferred as it excludes cash that cannot be used to meet Council's operating costs.

The industry benchmark is greater than 1.5 times.



Council has consistently exceeded the industry benchmark for this indicator. However, this indicator only takes into consideration externally imposed restrictions on the use of funds, hence, it is relevant to consider this indicator in conjunction with Council's overall cash and working capital positions, discussed later in this report. It is noted that the unrestricted current ratio is budgeted to drop significantly for 2021 as Council's funds are depleted.

- **Debt service cover ratio**

The 'debt service cover ratio' measures the availability of operating cash to service debt including interest, principal and lease payments. The industry benchmark is greater than 2 times.

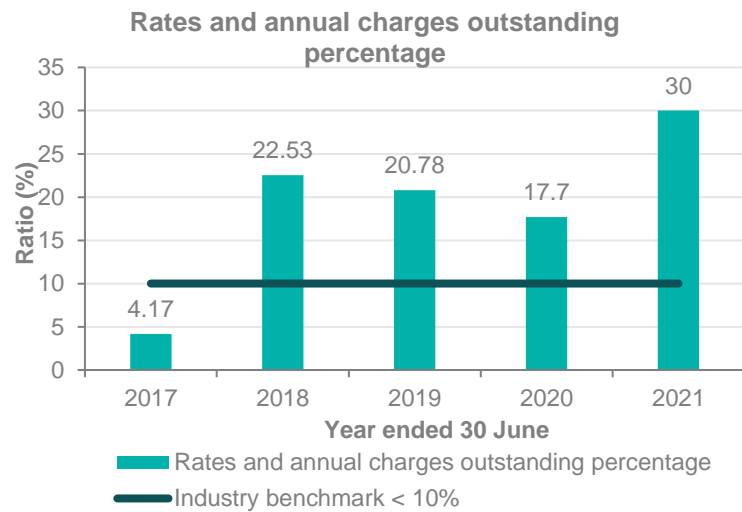
Council is currently free of debt. Accordingly, no further commentary on this performance measure is necessary.

- **Rates and annual charges outstanding percentage**

Exhibit 8: Rates and annual charges outstanding percentage 2017-2021

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of debt recovery efforts.

The industry benchmark for regional councils is less than 10%.



As at 30 June 2020, arrears of rates and annual charges stood at approximately \$321,000 (2019: \$419,000) and represented 18% (2019: 21%) of the amount collectible. Whilst this represents an improvement from the previous year, the percentage outstanding is well beyond the accepted industry benchmark of 10%.

It is also noted that revenue from rates and annual charges decreased by approximately \$221,000 during the financial year 2019/20. This would appear to be the main reason for the decrease in outstanding rates as opposed to improved collections.

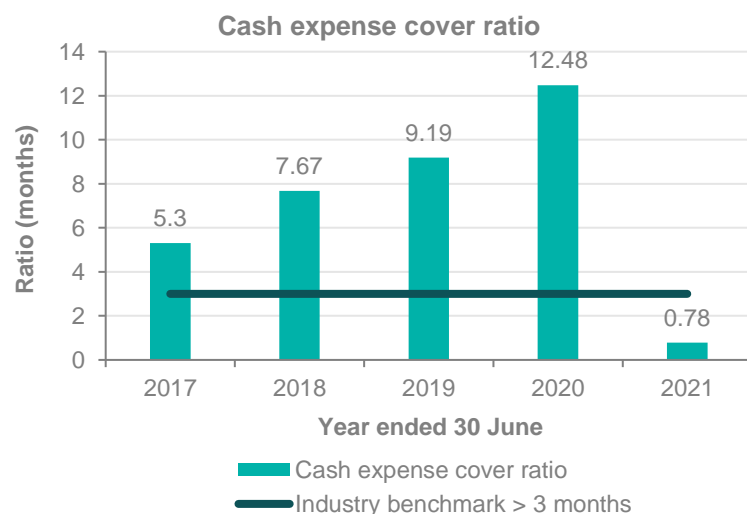
The budget adopted in the 2020/21 Operational Plan indicates that outstanding rates are forecast to increase. It is important that Council carefully monitor the accumulation of outstanding debts and perform appropriate collection activities.

- **Cash expense cover ratio**

Exhibit 9: Cash expense cover ratio 2017-2021

The 'cash expense cover ratio' is another liquidity ratio that indicates the number of months the Council can continue paying for its immediate expenses without additional cash inflow.

The industry benchmark is greater than 3 months.



Council has consistently exceeded the industry benchmark for this indicator due to the historically high levels of cash and cash equivalents held. It is noted, however, that the calculation of this indicator does not factor in any restrictions on the use of the funds. It also noted that this indicator is budgeted to fall well below the industry benchmark for 2021 as Council's cash reserves are spent.

Key findings

- Council's operating result before capital items deteriorated in 2019/20 to a deficit of \$1.8 million.
- The budgeted operating result for 2020/21 is also a deficit before capital items of approximately \$121,000, however, this is subject to change following a major review as part of the first quarterly budget review for 2020/21.
- User charges, fees and other revenue dropped by \$1.7 million for 2019/20, primarily due to the impact of the COVID-19 pandemic on tourism.
- Council's funding result (i.e. funds moving in and out of Council) was a deficit of \$11.2 million for 2019/20, resulting in a fundamental decrease in Council's available working capital position.
- Council's operating performance ratio of -6.56 for 2019/20 fell well short of the industry benchmark of 0% and is also forecast to be negative for 2020/21.
- Council's percentage of outstanding rates and charges of 18% for 2019/20 did not meet the industry benchmark of less than 10% and is forecast to significantly worsen in 2020/21.

Recommendations

- To achieve industry benchmarks and improve financial performance, Council should budget to achieve a net operating surplus before capital revenue.
- Given the current uncertainty over Council's revenue streams, Council should consider opportunities for reducing operating costs. We understand that Council has implemented an organisational restructure, including redundancies for twenty permanent roles and a significant reduction in casuals and non-replacement of some vacant positions. It is expected to generate cost savings of approximately \$2 million per annum. Council has also recently determined to purchase new batteries and generators for the Norfolk Island power house with a view to reducing diesel fuel costs.
- Council should carefully monitor the accumulation of outstanding rates and other debts and perform appropriate collection activities.

3. Cash Position

Background

The Terms of Reference requires consideration of Council's cash position, considering contractual commitments, overruns, legal disputes and COVID-19 impacts.

Cash and Investments

Exhibits 10 and 11 provide a summary of Council's cash position at each balance date since it was formed and the budgeted balance at 30 June 2021.

Exhibit 10: Cash and investments 2016-2021

Cash and Investments	1 July 2016	2017	2018	2019	2020	2021
	\$000	\$000	\$000	\$000	\$000	\$000
External Restrictions	-	798	841	3,056	12,562	-
Internal Restrictions	-	-	3,396	3,294	12,129	799
Unrestricted	9,191	12,425	10,536	11,473	646	-
Total cash and investments	9,191	13,223	14,773	17,823	25,337	799

Exhibit 11: Cash and investments 2016-2021

- External restrictions include unspent specific purpose grants and funds held in trust.
- Balances are internally restricted due to Council policy or decisions for forward plans including works program.
- Unrestricted balances provide liquidity for day-to-day operations.



Total cash and investments held at 30 June 2020 amounted to \$25.3 million. Of this balance, \$12.6 million represented externally restricted funds including unspent grant funding for the airport pavement repair and resurfacing project, desalination plant, hospital generator, and airport security equipment. These funds can only be used for those specific projects.

Council has also set aside its own funds in internal restrictions of \$12.1 million to fund liabilities (e.g. employment leave entitlements) and ongoing projects. These include \$4.2 million of Council funds to be put towards the airport pavement repair and resurfacing project, an additional \$3.9 million for road works, and \$734,000 for the Future Proofing Telecommunications project.

After subtracting both external and internal restrictions, the remaining balance represents unrestricted balances to fund day to day operations. Council has historically held a significant amount of unrestricted cash and investments since its formation. However, due to Council committing significant amounts of

its own funds (in addition to grant funding) to large projects and the impacts of the COVID-19 pandemic, Councils unrestricted cash and investments have been severely diminished and stood at \$646,000 at 30 June 2020.

Council's adopted 2021 budget projected Council's total cash to be only \$799,000 as at 30 June 2021. Based on the 2020 financial statements and current information available, this cash balance would not be sufficient to cover current trust balances and employee leave entitlements. Accordingly, there would be insufficient cash to fund day to day operations. It is also noted that the full financial impact of the ongoing COVID-19 pandemic is not fully known at this stage, so the 2021 projected cash position may be worse than budgeted for. Other factors relevant when considering Council's cash position are noted below.

Other factors

When assessing Council's ongoing cash position, the follows matters should be considered.

• Contractual commitments

The 2019/2020 financial statements disclose total capital commitments as at 30 June 2020 of \$13.1 million; to be funded from future grants (\$1.4 million), externally restricted funds (\$2.5 million) and internally restricted reserves (\$9.2 million). The majority of the capital commitments relate to the airport pavement repair and resurfacing project and additional road works, and the Future Proofing Telecommunications project. It is noted that the amounts to be funded from external restrictions and internal reserves have already been accounted for in the cash position for 2020 as noted above.

Subsequent to 30 June 2020, Council has signed a contract for new batteries for the Norfolk Island power house worth approximately \$1.9 million. The tender process for this commenced in June 2020 and Council is also considering purchasing 1 to 2 small generators for approximately \$300,000 as part of this project.

Council has also agreed to engage an external company to run the November election at a cost of \$150,000 that was not budgeted for.

• Overruns

Whilst known funding requirements for ongoing major projects have already been accounted for in Council's cash position as at 30 June 2020, it worth considering the impact of budget overruns that such projects have had on Council's finances.

Exhibit 12: Major project overruns

Project Overruns	Airport Pavement Repair and Resurfacing	Future Proofing Telecommunications
	\$000	\$000
Building Better Regions Funding (Commonwealth)	43,000	3,450
Norfolk Island Regional Council contribution (A)	1,976	1,150
Original project budget	44,976	4,600
Total project expenditure forecast (current)	48,962	5,310
Budget overruns borne by Council (B)	3,986	710
Total Council contribution (A) + (B)	5,962	1,860

As can be seen in the table above, Council had originally committed its own funds of \$3.1 million across the two projects. Project completion forecasts currently suggest that the total expenditure on these projects will exceed the original budgets by approximately \$4.7 million, meaning Council's total contribution will exceed \$7.8 million.

We understand that Council was also negotiating an additional \$5 million road works contract with the contractor for the airport pavement repair and resurfacing project in July 2019. Given the funds that Council has either spent or committed to spend across these projects amount to approximately \$12.8 million, it is clear that these projects have exhausted Council's cash reserves.

When approving these projects, Council may not have fully understood the implications for Council's finances and how any potential overruns on these projects would be funded. Management has recently prepared detailed project expenditure forecasts that have identified the cost overruns noted above.

- **Legal disputes**

We have not become aware of any significant outstanding legal disputes during our review that would significantly impact our findings.

- **COVID-19 impact**

Based on our review and discussions with management, the financial impact of the COVID-19 pandemic is reflected in the 2019/20 financial statements and the ongoing impact generally reflected in the adopted budget for 2020/21 budget. However, there is currently significant uncertainty regarding the impact on tourism and, therefore, Council's finances moving forward. We understand management are continuing to compile information for the first quarterly budget review which is expected to require significant changes to the 2020/21 budget.

Key findings

- Whilst Council held \$25.3 million in cash and investments as at 30 June 2020, most of the funds were restricted and committed to specific projects and liabilities.
- Due to cost overruns for large projects and the level of committed funds, Council's unrestricted cash available to fund day to day operations was reduced to only \$646,000 as at 30 June 2020 (down from \$11.5 million for 2019).
- The adopted budget for 2020/21 has forecast the cash position at 30 June 2021 to be \$799,000. This is considered insufficient to fund current trust balances and liabilities for employee leave entitlements, and therefore, would be insufficient to fund day to day operations.
- Given the impact of the COVID-19 pandemic is ongoing and the nature of the current projects Council are undertaking, there is potential for Council to be in a negative cash position during 2020/21.

Recommendations

- Council needs to restore its cash position to ensure it has sufficient cash to adequately cover trust balances and liabilities for employee leave entitlements, fund day to day operations and meet its obligations as they fall due. This may be achieved through:
 - Budgeting for and achieving cash surpluses
 - Ensuring expenditure budgets are closely monitored and managed
 - Carefully monitoring the accumulation of outstanding debts and ensuring appropriate recovery action is taken
 - Borrowing – whilst Council is currently debt free and does have the ability to borrow under the Local Government Act, it is not generally recommended to borrow for operational purposes. Any consideration of borrowing would also need to take into

account Council's ability to service the debt. It is also noted that borrowing is a charge on the income of Council and the current uncertainty over Council's income streams may limit the Council's ability to borrow.

- The receipt of an injection of additional government funding.
- Given that overruns on major projects have greatly contributed to the depletion of Council's reserves, it is important that:
 - Council ensure that it fully understands the implications on its finances in both the short and term before approving projects
 - Project budgets include an appropriate allowance for contingencies and how these would be funded
 - Projects budgets be carefully monitored and managed.

4. Working Capital

Background

The Terms of Reference requires consideration of the minimum level of working capital the Council should maintain.

Available working capital position

Available working capital is a liquidity measure determined by deducting all externally and internally restricted assets and liabilities from Council's net asset position.

Exhibit 13 summaries Council's available working capital position at each balance date since it was formed and the budgeted balance at 30 June 2021.

Exhibit 13: Available working capital position 2016-2021

Available Working Capital	1 July 2016	2017	2018	2019	2020	2021
	\$000	\$000	\$000	\$000	\$000	\$000
Net Current Assets (Working Capital) per Financial Statements	13,147	13,650	12,502	19,327	14,141	2,636
Add: Current loan repayments budgeted to pay	463	286	200	-	-	-
Less: Externally restricted net assets - current	-	(798)	-	(3,056)	(262)	-
Less: Internally restricted assets - current	-	-	(237)	(3,294)	(12,129)	(799)
Available Working Capital as at 30 June	13,610	13,138	12,465	12,977	1,750	1,837

As can be seen from the table above, Council's working capital position remained relatively stable from 2017 to 2019. Due to the factors outlined earlier in the report, Council's available working capital position dropped by approximately \$11.2 million to \$1.75 million at 30 June 2020.

It is noted that the determination of net assets and externally restricted net assets has changed for 2020 due to the adoption of new accounting standards. However, this has only impacted the categorisation of amounts between line items in the table above and does not alter the overall available working capital position.

Target minimum available working capital

The balance of Available Working Capital should be at a level to manage Council's day to day operations including the financing of debtors and inventories, and to provide a buffer against unforeseen and unbudgeted expenditures. Norfolk Island Regional 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. Taking this into consideration, it was considered appropriate to incorporate a significant buffer for unforeseen or unbudgeted circumstances in determining the minimum level of available working capital that Council should maintain.

Based on the above, it is suggested that Council maintain a minimum available working capital balance of approximately \$7 million. This is represented in the calculation in Exhibit 14.

Exhibit 14: Minimum working capital

Minimum Working Capital	2018	2019	2020
	\$000	\$000	\$000
Receivables	2,290	1,940	1,725
Inventories	2,004	2,104	2,033
	4,294	4,044	3,758
Unfunded bonds, deposits and retentions	675	409	433
	4,969	4,453	4,191
Buffer for unforeseen circumstances - 50%	2,485	2,227	2,096
Calculated Minimum Working Capital	7,454	6,680	6,287

Three year average: 6,807

Suggested minimum: 7,000

Exhibit 15: Available working capital

The accompanying graph shows Council's available working capital balance at each balance date compared to the minimum level suggested above.



As can be seen from the graph above, Council's available working capital balance dropped significantly during 2020 as funds were spent or committed to ongoing projects. The balance as at 30 June 2020 of \$1.75 million is well below the suggested minimum level of \$7 million. The adopted budget for 2021 suggests this will continue to be the case without intervention.

Key findings

- Available working capital decreased during 2019/20 from \$13 million to \$1.75 million as at 30 June 2020.
- The suggested minimum level of available working capital that Council should maintain is in the order of \$7 million.
- As such, the current level of available working capital is inadequate to fund day to day operations and provide an appropriate buffer against unforeseen or unbudgeted circumstances.

Recommendations

- Council needs to restore its working capital position to ensure it has sufficient resources to fund day to day operations and to provide a buffer against unforeseen and unbudgeted expenditures.

This may be achieved through:

- Budgeting for and achieving funding surpluses.
- Ensuring expenditure budgets are closely monitored and managed.
- Borrowing – whilst Council is currently debt free and does have the ability to borrow under the Local Government Act, it not generally recommended to borrow for operational purposes. Any consideration of borrowing would also need to take into account Council's ability to service the debt. It is also noted that borrowing is a charge on the income of Council and the current uncertainty over Council's income streams may limit the Council's ability to borrow.
- The receipt of an injection of additional government funding.

5. Asset Management

Background

The Terms of Reference requires consideration of 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, and stormwater).

Asset management plans

Section 403 of the Local Government Act requires councils to have a resourcing strategy that incorporates asset management planning. The Act specifically required Norfolk Island Regional Council to have a resourcing strategy by 1 January 2017. The following Asset Management Plans were adopted by Council in June 2019 for Buildings, Infrastructure, Roads, and Fleet.

The publication *Integrated Planning and Reporting Manual for local government in NSW* is a resource that can be used to assess the adequacy of Asset Management Plans. We have reviewed Council's four Asset Management Plans against the Essential Elements outlined in the manual and noted the following:

- *The Asset Management Strategy and Plan/s must be for a minimum timeframe of 10 years*
Level of compliance: satisfactory
Council's plans cover the period 2020 to 2029.
- *The Asset Management Strategy must include an overarching council endorsed Asset Management Policy*
Level of compliance: satisfactory
Council adopted its Asset Management Policy (policy 4.04) in 2018.
- *The Asset Management Strategy must identify assets that are critical to the council's operations and outline the risk management strategies for these assets*
Level of compliance: unsatisfactory
This has not been effectively addressed in the plans. 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.
- *The Asset Management Strategy must include specific actions required to improve the council's asset management capability and projected resource requirements and timeframes*
Level of compliance: unsatisfactory
This has not been effectively addressed in the plans.
- *The Asset Management Plan/s must encompass all the assets under a council's control*
Level of compliance: satisfactory
The plans for buildings and infrastructure include tables noting the asset classes covered by the plans. The plans for roads and fleet include detailed lists of assets.
- *The Asset Management Plan/s must identify asset service standards*
Level of compliance: unsatisfactory
The plans 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.

- *The Asset Management Plan/s must contain long term projections of asset maintenance, rehabilitation and replacement costs*

Level of compliance: unsatisfactory

The plans for buildings and infrastructure note this will be included in later versions of the plans. Graphs are provided for the projection of future projection of capital expenditure, however, these are quite limited. The plan for roads includes future budget allocations for maintenance and rehabilitation. However, it is unclear whether this is consistent with Council's budgets, and no supporting data could be located.

- *Councils must report on the condition of their assets in their annual financial statements*

Level of compliance: not compliant

The plans for buildings, infrastructure and fleet include high level tables noting the condition profile of various asset classes, however, no supporting data or workings could be located. The plan for roads includes a detailed table noting the conditions of road assets that appears to be based on 2017 inspections. It is noted that the external valuer engaged to value all classes of Council's infrastructure assets provided condition assessments as part of the process.

NSW councils are required to report the condition of assets via a *Report on infrastructure assets* included in the annual financial statements per the *Local Government Code of Accounting Practice and Financial Reporting*. As the Act and Regulation applicable to Norfolk Island Regional Council requires the adoption of all requirements in force in NSW, it would be expected that this report be prepared and included in the annual financial statements. It is noted that this report is not required to be audited and Council may not have historically maintained sufficient data to facilitate the preparation of the report.

Based on the above review of Council's Asset Management Plans against the Essential Elements of the *Integrated Planning and Reporting Manual for local government in NSW*, the status of Council's asset management strategies is considered immature.

2020 revaluation

Council engaged an external valuer to revalue Council's buildings and infrastructure asset classes during 2020 in accordance with accounting standards for the purposes of financial reporting for the year ended 30 June 2020. Minor asset classes such as plant and equipment were not required to be revalued.

The result of the revaluation is summarised in Exhibit 16.

Exhibit 16: Impact of 2020 asset revaluation

2020 Revaluation	Fair value	Pre- valuation net carrying amount	Increase in asset value	2021 Estimated depreciation	2020 Depreciation	Future increase in depreciation
Asset Class	\$000	\$000	\$000	\$000	\$000	\$000
Buildings	13,197	11,362	1,835	731	670	62
Other structures	5,972	1,121	4,850	249	86	162
Roads	103,995	58,941	45,054	3,376	1,852	1,524
Bridges	1,010	972	38	27	24	3
Sewerage network	3,539	3,128	411	114	107	8
Other infrastructure	25,872	23,186	2,685	1,150	1,060	90
	153,585	98,711	54,874	5,647	3,798	1,850

The asset classes shown above were revalued using a depreciated replacement cost approach and resulted in an overall increase in the carrying values of \$54.9 million to \$153.6 million. As the gross replacement of these assets have increased, the depreciation charge on the assets will increase. It is estimated that Council's annual depreciation expense will increase by \$1.85 million for 2020/21.

It is noted that the valuations above do not include capital work in progress (e.g. airport pavement resurfacing) of \$40.7 million. Once the capital works are finalised and depreciation commenced, there will be a further increase to Council's annual depreciation expense.

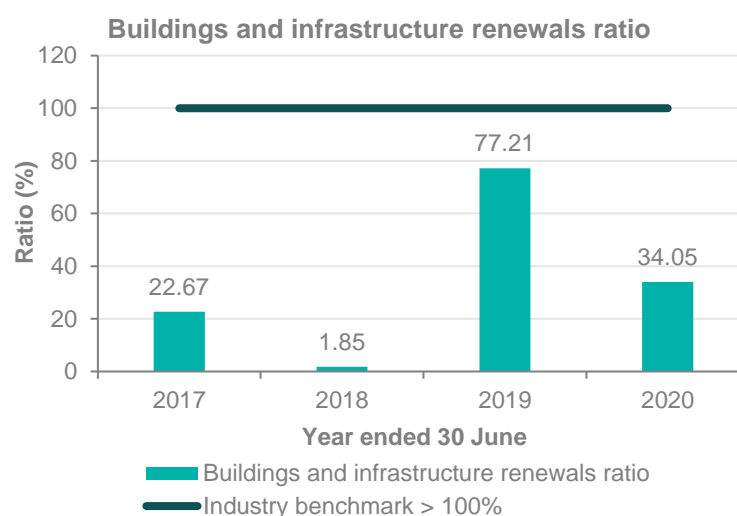
Buildings and infrastructure renewals

An important responsibility of Council is the ongoing maintenance and renewal of the community's buildings and infrastructure. Renewal is defined by the *International Infrastructure Management Manual* as 'works to upgrade, refurbish or replace existing facilities with facilities of equivalent capacity or performance capability'. The performance of Council in this area can be measured using the 'buildings and infrastructure renewals ratio' as depicted in Exhibit 17.

Exhibit 17: Buildings and infrastructure renewals ratio

The 'buildings and infrastructure renewals ratio' measures the rate at which these assets are renewed against the rate at which they are depreciating.

An industry benchmark is considered to be 100%, measured annually over the long term.



As can be seen in the graph above, Council has failed to meet the industry benchmark for this ratio during the time of its existence. A lack of attention to asset renewal can result in aging and/or failing

assets. Given the estimated increase in depreciation in the coming years, a greater level of expenditure for asset renewals would be required to achieve the industry benchmark.

It is noted that Council spent approximately \$32.3 million in renewal works as part of airport pavement repair and resurfacing project during 2020 and this has been excluded from the calculation of the ratio for 2020 above. If this expenditure was included the ratio for 2020 would be 886%.

Financial gap

To assist in estimating any financial gap in the minimum accepted standard of assets, it is useful to consider the guidance on asset condition ratings in the *Integrated Planning and Reporting Manual for local government in NSW* and the NSW reporting requirements includes in the *Local Government Code of Accounting Practice and Financial Reporting*. These encourage the assessment of asset conditions using a scale of '1' to '5' as outlined in Exhibit 18.

Exhibit 18: Asset condition ratings

Level	Condition	Description	Remaining useful life
0	New	No work required.	100%
1	Excellent/very good	New or as new condition. Only planned cyclic inspection and routine maintenance required.	85%
2	Good	Good condition with minor defects. Minor routine maintenance along with planned cyclic inspection and maintenance.	65%
3	Satisfactory	Average/fair condition with some significant defects requiring regular maintenance on top of planned cyclic inspections and maintenance.	45%
4	Poor	Poor condition with asset requiring significant renewal/rehabilitation, or higher levels of inspection and substantial maintenance to keep the asset serviceable.	15%
5	Very poor	Very poor condition. Asset physically unsound and/or beyond rehabilitation. Renewal required.	5%

The 2020 external valuation of assets adopted a similar rating system based on the recent inspection of assets. In addition to the '1' to '5' scale, a condition of '0' was used for assets considered brand new. For the depreciable components of assets, the fair value of assets was generally determined using the remaining useful lives that have been included in the table above.

We have used the data from the recent external valuation and the condition scale above to estimate of the cost to bring assets to a satisfactory standard, which is shown in Exhibit 19.

Exhibit 19: Cost to bring assets to satisfactory standard

Infrastructure Assets	Estimated cost to bring to satisfactory standard	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost					
Asset Class	\$000	\$000	\$000	0	1	2	3	4	5
Buildings	4,566	13,197	38,561	0%	7%	2%	45%	46%	1%
Other structures	291	5,972	7,679	6%	1%	10%	13%	13%	1%
Roads	1,508	103,995	134,836	30%	33%	15%	18%	4%	0%
Bridges	69	1,010	1,958	0%	7%	40%	39%	14%	0%
Sewerage network	150	3,539	6,088	0%	1%	79%	10%	10%	0%
Other infrastructure	3,687	25,872	52,902	2%	1%	37%	45%	2%	13%
	10,270	153,585	242,024	19%	20%	19%	28%	10%	3%

Infrastructure backlog ratio

Estimated cost to bring to satisfactory standard
Net carrying amount

10,270
153,585 **7%** Benchmark: Less than 2%

The above calculation indicates that approximately 13% of Council's buildings and infrastructure assets have been assessed to be in poor or very poor condition and the estimated cost to bring those assets to a satisfactory condition is approximately \$10.3 million. This can also be presented as a percentage of the net carrying amount of the assets in the 'infrastructure renewals ratio'. This indicates that Council's infrastructure backlog is 7% compared to the industry benchmark of less than 2%. Our discussions with management indicated that some parts of Council's infrastructure are aging and/or outdated, particularly in respect to water/sewerage, electricity and telecoms. Our calculations appear to support their belief.

It should be noted that the calculations above are the result of a desktop review based only on data derived from the 2020 external valuation of assets. A more detailed exercise would need to be performed by infrastructure asset experts to establish the true cost to address Council's aging infrastructure and drive future plans. There is a need for ongoing condition assessment and detailed rehabilitation/renewal and maintenance plans in order to develop a long term program.

We have been advised that Council is purchasing a new cloud based asset management program, 'Assetfinda', that will assist in maintaining the asset data required.

Key findings

- Current asset management plans do not effectively address accepted minimum requirements in order to aid long term plans for asset rehabilitation/renewal and maintenance.
- An asset management system is not currently in use to maintain the required asset data. However, Council is purchasing a new cloud based asset management program.
- Since Council was formed, its level of expenditure for buildings and infrastructure renewals has never met the industry benchmark.
- The recent revaluation is expected to increase the depreciation charge for buildings and infrastructure assets by approximately \$1.85 million, meaning it will become even more challenging to achieve the industry benchmark for asset renewals.

- The estimated cost to bring Council's existing buildings and infrastructure assets to a satisfactory standard is approximately \$10.3 million.
- Based on this cost of \$10.3 million, Council's infrastructure backlog ratio is approximately 7% compared to the industry benchmark of less than 2%.

Recommendations

- 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*.
- 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.
- Programs should be developed and costed for asset rehabilitation/renewal and maintenance over both the short long term to ensure Council can meet industry benchmarks for buildings and infrastructure renewals and infrastructure backlog.

6. Ledger Structure

Background

The Terms of Reference requires consideration of Council's ledger structure and its effectiveness, including the use of work orders.

We have reviewed how the ledgers are structured and interact; and made enquires of stakeholders as to key reporting requirements and whether the structure is appropriate for meeting external, internal and budgeting requirements. We have also considered Council's structure compared to other comparable councils that use the Civica Local Government System to assess the efficiency and effectiveness of Council's ledger structure in meeting its key reporting requirements.

Under Local Government Act 1993(NSW) (NI) (as amended) and regulations made therefore under, Council has the following reporting obligations:

- Audited financial statements that comply with accounting and reporting requirements of Australian Accounting Standards.
- Annual budget.
- Quarterly budget review. Not later than 2 months after the end of each quarter, the responsible accounting officer of a Council must prepare and submit to the Council a budget review statement that shows, by reference to the estimate of income and expenditure set out in the Council's Revenue Policy included in the Operational Plan for the relevant year, a revised estimate of the income and expenditure for that year. A budget review statement must include or be accompanied by:
 - i. A report as to whether or not the responsible accounting officer believes that the statement indicates that the financial position of the Council is satisfactory, having regard to the original estimate of income and expenditure; and
 - ii. If that position is unsatisfactory, recommendation for remedial action.

Internally, reports are also required for projects and costing analysis by budget managers.

To meet the reporting requirements, data is retrieved from various ledgers and then manually compiled.

Chart of accounts

Council uses the Civica Authority financial module for its financial transactions. A multi-dimensional chart of accounts has been adopted. The structure and data flow is demonstrated in the example provided in Exhibit 20.

Key features of the structure:

- The general ledger is the central repository for financial data, three segments of information are incorporated into the general ledger to facilitate reporting needs:
 - Master accounts: This is a six digit block. The first two digits represent the fund and the remaining four represent account number; they generally define business units. The common practice that is that recurrent income, recurrent expenditure, non-recurrent income and non-recurrent expenditure are set up for each business unit.

Normally, account blocks are allocated as follows:

1000~8000: income statement items, certain blocks are also allocated to capital projects.
9000~: balance sheet items.

Council currently has 102 master accounts in total: 77 relate to the income statement and 25 master accounts are allocated to the balance sheet. There is no designated block of accounts for capital projects; as these are more integrated into business units.

- Sub accounts: This is a four digit block. They are commonly used for operating income and expenditure and individual sub accounts for non-recurrent projects.

Normally, account blocks are allocated as below:

0~1000: income statement related sub accounts

8000~: balance sheet related sub accounts

Council has 94 sub accounts in total: 7 relate to business unit operations, sub-account 500 is designated for capital expenditure, and 85 sub accounts are allocated to the balance sheet.

- Resource accounts: this is a four digit block. Generally each line item in the financial statements is allocated a resource account. Other resource accounts may be created for management reporting purposes.

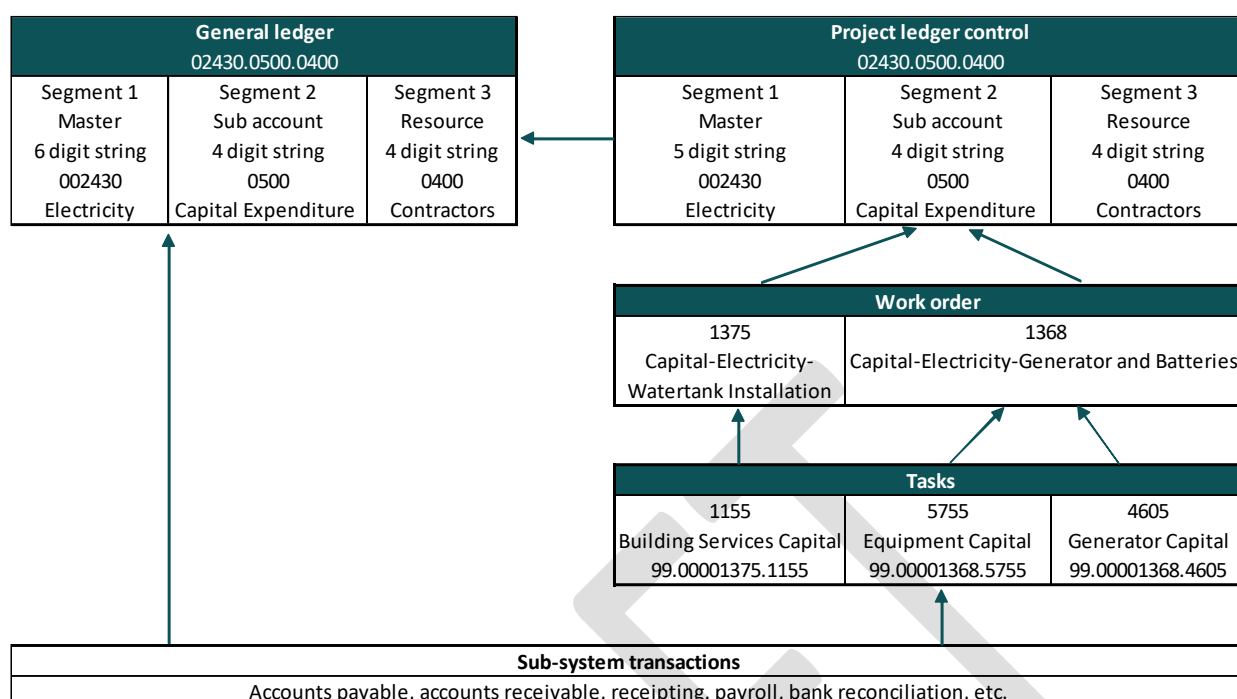
Council has 221 resource accounts in total. Per the financial statements, there are around 160 line items in total.

Council's general ledger account structure is not dissimilar to other comparable councils using the Civica Authority system and appears satisfactory to meet reporting requirements, including statutory annual financial statements, budget, and quarterly budget reports.

- Project ledger: This sits parallel to the general ledger, and tends to be used to gather financial data on projects. This ledger reconciles back to the general ledger, but contains data at a more granular level than the general ledger. The project ledger is supported by work orders, with tasks within each work order.

The common use of the project ledger is to gather information on capital projects and certain operational matters to satisfy entity's reporting requirements. For example, in the local government environment, it is common practice that capital projects are set up within the project ledger through work orders.

Exhibit 20: Example account structure



Key findings

The Civica system was implemented for the 2017 financial year and Council's chart of accounts was established. Since then, the chart of accounts has been modified and accounts added by various Chief Financial Officers and finance staff.

- The chart of accounts contains a large number of accounts, with many accounts appearing redundant per below.

	# of accounts	# accounts with nil balances	% of accounts with nil balances
General ledger	1,408	368	26%
Project ledger	45	9	20%
Work orders	82	37	45%
Tasks	36	8	22%

Source:

- General ledger: trial balance used for 2020 annual financial statements
- Project ledger, work order and tasks: work paper for third quarterly budget review

- Extensive data manipulation is required to meet some reporting requirements.

Currently, the system reporting tool has not been properly set up to facilitate reporting. For every report, accountants needed to download data into spreadsheets and manually update to ensure the information is accurate and consistent. As a result, finalising reports can take a vast amount of time.

The compilation process for key reports is outlined below:

Requirement	Source data	Method	Manual input
Annual financial statements	General ledger trial balance at resource level	Each account is manually coded with financial reporting codes, then uploaded into financial reporting templates.	The accounts need to be checked annually for new accounts.
Budget & Quarterly budget Review	General ledger trial balance at resource level. Work order and task balances.	An Excel template is used. Current balance is retrieved from Civica by SQL link from Excel to Civica, then flowed through into various reports. Other information (e.g. comparatives) requires manual input.	New accounts need to be manually mapped. This includes new general ledger accounts, new work orders, and new tasks. Only current balances can be automatically retrieved through the system and formula. However, there are balances in the reports that need to be manually worked out. Comparatives and other information (budget adjustments) need to be manually transferred from previous reports, or supporting documentation.

- Inconsistency with chart of accounts

Project ledgers (work orders and tasks) have been set up between operations and capital. Capital projects contain capital expenditure that flows into either work in progress accounts, or subsequently capitalised to relevant asset classes. At the end of year, those accounts should be cleared to nil.

- As per the third quarter budget review, out of the 46 work orders with balances, there were 7 capital work orders that flowed into operating expenses (materials and contracts).
- We have identified instances where the same work order and tasks have been split into three accounts: work order 293 (Capital - 2 x Lighters) -task 5700 (Plant Purchase).

Work Order	Task	Resource	Resource description	General ledger	Note per financial statement
293	5700	400	Contractors	2220.500.400	IPPE
293	5700	500	Materials Purchased	2220.500.500	Expenses- Materials and contracts
293	5700	505	Inventory Issued From Store	2220.500.505	IPPE

- From discussions with staff, there appears to be a lack of knowledge of the account structure and a reluctance to use work orders due to the quantity of work orders and tasks. We have been advised that there are transactions that have been posted directly into the general ledger by bypassing work orders, which resulted in difficulties in the reconciliation of work orders to the general ledger and the asset capitalisation process.

Recommendations

- The use of a system driven financial reporting tool should be investigated to enable accurate real time reporting. Manual processes not only lack efficiency, they also increase risk of human error and reduce the effectiveness of financial data in decision making.

There are a number of reporting software options available. Other comparable councils that we considered for this review do not use the Civica system reporting tool. Rather, they have chosen to use add-ons that interface with the Civica database to strengthen their reporting abilities, and councils can tailor the output based their reporting requirements. Once established, manual data manipulation can be significantly reduced.

We understand that Council has planned for a Civica system upgrade. As part of the upgrade, Council should investigate whether the upgraded Civica reporting tool (Business Intelligence Solution, or 'BIS') will meet its reporting needs.

- The existing chart of accounts should be reviewed and redundant accounts and inconsistencies addressed. As part of this review, management should consider whether the chart of accounts meets their needs and whether a complete restructure would be preferred.
- As the accuracy of source data is heavily reliant upon transaction initiators across various departments of the Council, it is important that they know how the system works and have a clear understanding of which work orders/tasks should be used and in what circumstances. A formal list of work orders/tasks should be established and communicated across the organisation to ensure staff are using them correctly. Staff training may be required in this area.

7. Budgeting Process

Background

The Terms of Reference requires consideration of moving the budgeting process from spreadsheets to a web-based solution.

Our review and discussions with management revealed that the annual budget is prepared using a series of Excel spreadsheets and there is no formal documented process or manual that guides the preparation of the budget. In principal, a bottom up approach was to be applied, however, it appears information is provided by some team leaders/managers in different formats and some information has been developed within the finance department. Historically, information was collated by the Chief Financial Officer into a council-wide budget and then revised by the Executive. We were advised that there was little feedback provided to team leaders/managers on changes and often the budgets proposed ended up being very different to the final version. As such, the budget process was largely a top down approach, resulting in a lack of ownership and accountability by budget managers. We were advised that budget managers receive limited support and management reporting to assist in managing their budgets. The 2020/21 budget was prepared by a consultant following a similar process. However, data from the previous budget could not be located to use a guide. We understand that the first quarterly budget review for 2020/21 will involve a major review of the budget.

Budget vs actual

Exhibit 24 provides a comparison of original budgets to actual results over the last three years.

Exhibit 24: Original budget versus actual 2018-2020

Income Statement	2018 (\$000)			2019 (\$000)			2020 (\$000)		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Original budget vs Actual									
Revenues before capital items									
Rates & annual charges	1,180	1,691	511	1,200	1,603	403	1,751	1,382	(369)
User charges, fees & other revenues	21,091	18,898	(2,193)	20,164	19,304	(860)	22,417	17,580	(4,837)
Grants & contributions provided for operating purposes	8,241	5,554	(2,687)	5,346	6,902	1,556	7,909	8,395	486
Interest & investment revenue	120	299	179	240	398	158	243	259	16
	30,632	26,442	(4,190)	26,950	28,207	1,257	32,320	27,616	(4,704)
Expenses									
Employee benefits & costs	10,322	9,079	1,243	9,643	10,172	(529)	12,982	11,538	1,444
Materials, contracts & other expenses	13,444	12,492	952	12,482	13,081	(599)	14,544	13,265	1,279
Depreciation & amortisation	4,958	4,847	111	4,814	4,841	(27)	4,844	4,624	220
	28,724	26,418	2,306	26,939	28,094	(1,155)	32,370	29,427	2,943
Surplus (Deficit) before capital items	1,908	24	(1,884)	11	113	102	(50)	(1,811)	(1,761)
Grants & contributions provided for capital purposes	3,075	-	(3,075)	-	13,500	13,500	106	33,833	33,727
Net Surplus (Deficit)	4,983	24	(4,959)	11	13,613	13,602	56	32,022	31,966

The above analysis shows there have been significant variances to original budgets over the last three years. It is accepted that it is often difficult for Council to accurately forecast grant income prior to the start of each financial year and variances in grant income have been largely favourable in recent years. It is also accepted that the COVID-19 pandemic greatly impacted Council's results, particularly revenue figures, for 2019/20 and this could not have been anticipated.

Setting aside the difficulty in forecasting grant receipts and the COVID-19 impact, there is a history of significant variances to original budgets across a number of items; suggesting deficiencies in the budgeting processes of Council.

Key findings

- Spreadsheets are used to prepare the annual budget and there is no formal documented process or manual in place to guide the preparation.
- There appears to be little involvement of budget managers in the budgeting process, resulting in a lack of ownership and accountability to budgets.
- There is a history of significant variances to original budgets.

Recommendations

- The budgeting process should be formally documented and a budget handbook/manual developed that guides the development of the annual budget.
- Budget managers across the Council should be involved in the budgeting process in order to provide input and confirm the veracity of assumptions applied.
- Budget managers should be provided with progressive management reporting and training to assist them in monitoring and managing their budget responsibilities.
- Consideration should be given to implementing a system or web-based solutions to better manage the budgeting and monitoring processes.

8. Local Government System and Processes

Background

The Terms of Reference requires consideration of possible improvements to the Civica Local Government System and the use of the following models to optimise the efficiency of the Council's operations, being the Plant Asset system, the distribution of overheads, Stores system, Online Ordering, Purchase Cards, Operation of external trust accounts held by Council, Payroll System, and Asset Management.

We have reviewed the use of the Civica Authority System and the processes implemented by Council. This included a review of the modules included under the contract with Civica and whether they are being fully utilised, and the processes and controls in place to operate the system.

Civica system utilisation

In reviewing Council's contract with its system provider, Civica, it was noted that Council has access to Authority Best Practice which includes all of the main modules and sub systems of the software. The following modules are included in the contract but appear to be under-utilised:

- Financial System as follows:
 - In the Payroll module, the Timesheets and Leave sub systems are under-utilised, discussed below in the payroll section.
- Asset Management module, specifically the following sub modules:
 - Asset Accounting – see below for detail
 - Fleet Maintenance – used but in a limited manner, see below for detail
 - Inspection Management – not currently utilised
 - Strategic Asset Management – not currently utilised
 - Mobile Assets – not currently utilised.
- Document Manager
 - HP RM8 Records Management – see below for detail.
- Reporting Modules
 - Business Intelligence – not currently utilised
 - Excel Reporting Wizard – not currently utilised.
- Corporate Performance Management
 - Performance Manager – not currently utilised
 - InfoCouncil – utilised monthly by the executive and management team to prepare Council and committee papers.

The document management system is not fully utilised, with a large amount of Council records only kept in hard copy and the remaining space for storage is minimal. There are risks of manipulation of hard copies of documents, as well as misplacing documents with no backups. The filing of hard copies is also labour intensive, which could be minimised by scanning original documents and using the soft copy document management system.

It would be beneficial for Council to review whether there are efficiencies that can be gained from utilising some of the under-utilised modules and whether there are opportunities for cost savings in respect to items not required.

Procurement and accounts payable

Our review of the procurement system and processes noted the following controls in place:

- There is a comprehensive Procurement Policy.
- Council has approved limits for procurement depending levels of authority.
- Delegations of authority have been implemented within Authority, meaning there is a system control to ensure purchases are made within the requisitioning officer's limit.

- Invoices are matched to purchase orders when received, with the requisitioning officer signing off the invoice to confirm correct receipt of goods and services.
- Appropriate procedures for raising and approving payments.
- The supplier master-file is reviewed independently on a regular basis.

It was noted that the procurement process was being implemented per the approved policy. However, we were alerted to an issue where purchase orders were sometimes raised subsequent to procuring goods and services. Although the Authority system requires the user to raise a purchase order prior to inputting an invoice, this can be bypassed by raising a purchase order when receiving an invoice and inputting both on the same day. We noted that there were multiple invoices which had the same date as the matched purchase order, which demonstrated this. Without a purchase order being raised in the system, management will not be able to accurately estimate the value of future expenditure committed by Council at any given date.

Payroll

The payroll function at Council is well set up, within the Human Resources (HR) department, and consists of five employees. Three staff members are able to access the payroll module, being the Human Resources Manager, Senior Human Resources/Payroll Officer and the Human Resources/Payroll Officer. It was noted that there were generally thorough processes and adequate controls in place, including the following:

- Those responsible for hiring are independent of payroll, with segregation of duties throughout the process.
- I.T. have to initially set up new employees in the system prior to HR completing their pay details.
- Timesheets are signed by the employee and then authorised by the employee's supervisor before being entered into the system.
- Termination calculations are independently reviewed before being paid through payroll, with significant terminations being reviewed by the General Manager.
- Pay runs are independently reviewed before being authorised for payment.
- Payment of payroll requires two authorisers within the online banking system, one of which is independent of the HR/Payroll function.

During the review of the payroll system, it was noted that timesheets are completed using Excel spreadsheets, before being signed off by both the employee and their supervisor. This is a strong control, with a second tab for employees who are required to allocate their time to multiple work orders, ensuring costs are posted to the correct expense ledger. However, once payroll receive the completed timesheets, they are entered into Authority manually, with overtime and hours not relating to normal pay also being calculated manually. This is labour intensive, particularly for those whose timesheets are standard, and manual input is subject to human error, potentially leading to employees being under or over paid.

Due to the issues payroll have had with leave balances since the implementation of Authority, these have been recorded and maintained in an Excel based register, with Authority being updated manually as and when required. This has meant employees have been unable to readily access their balances and project their balances in order to plan leave. This has also created a greater work load on the payroll team, having to manually keep track of leave accruals, leave taken and calculations for terminations. Civica were able to correct the leave balances within the Authority system during the financial year ended 30 June 2020, however, this was prior to a new Employee Agreement being approved which entitles employees to six weeks leave rather than four weeks. Per advice from Civica, this has not yet been updated in the system as it is likely to create potential errors if the script is introduced before the 2019/20 year is closed. As such, payroll has continued to maintain the Excel spreadsheet to track annual leave balances.

The employee master-file, which is an audit report showing changes to an employee's details (bank details, pay rate, hours, etc.) is not run and independently reviewed. This creates an opportunity for a member of the team to fraudulently change the details in the system for a pay run before reverting them back to the correct details.

Receipting and accounts receivable

The receipting module in Civica Authority has been set up so that when amounts are receipted, the cashier uses a receipt code for the type of receipt, which is linked to a specific general ledger and is automatically posted to the correct revenue stream. The revenue streams include:

- Rates
- Registration sales (firearms, driving licences, etc.)
- Library payments
- Mobile software and Mobile top-up software
- Car registration
- Weighbridge charges
- Animal registration.

Some revenue streams are accounted for in separate systems and manually entered into Authority, including the following:

- Museum sales (books, tours, entry fees) consist of EFTPOS or cash which is deposited the next day. A manual journal is posted into Authority to recognise this.
- Airport sales (landing fees) are EFTPOS only with a receipt list provided to finance to enter as a journal into Authority, with airport staff being responsible for tracking landing of flights and subsequent invoicing. Monthly statements are sent to customers.
- Liquor Bond Retail sales are recoded in Retail Systems Australia Point of Sale (RSAPOS) software, receiving both EFTPOS and cash (deposited next day). A manual journal is processed by finance to recognise revenue in the system.
- Tourist Bureau sales (books, tours, etc.) are recorded in separate software called Bookeasy, with a manual journal posted by finance into Authority.
- Telecom (PSTN/ADSL) and electricity sales are processed in Telstream, an external software solution, with a manual journal posted by finance into Authority.

Although the above revenue streams invoice externally from Authority, all amounts are receipted into the Council's bank account, therefore the bank reconciliation is an additional control to ensure that amounts are receipted correctly. This does, however, rely heavily on the bank reconciliation being properly performed.

All systems appear to be set up correctly and processes are adequate, however, there is a lack of segregation of duties throughout. The lack of segregation includes processes such as:

- Receiving and depositing cash
- Receipting amounts and reconciling end of day reports with no independent review
- Employees responsible for the complete debtor cycle of certain revenue streams.

A lack of segregation of duties, particularly around cash, creates an opportunity for fraud. Other noticeable control deficiencies included:

- Daily reconciliations including cancelled receipts are not independently reviewed
- There is no official signoff process on a daily basis
- Banking slips are not used to deposit cash, however, a deposit slip is obtained from the bank
- Monthly reconciliations are not completed between external unintegrated system reports and general ledger balances.

The rates module, which the rate levy calculation relies upon has adequate controls and processes surrounding the input of data and updating of rates and land values. Annual notices are issued in July, with three instalments notices issued throughout the year.

Monthly statements are sent for outstanding debts for other key revenue streams. For revenue streams which provide a service, for example Telecoms, if payment is not made by the 22nd day of the following month, services are disconnected.

Bank reconciliations

As mentioned above, the bank reconciliation is heavily relied upon as a control for a number of processes, which increases the importance of accuracy of the reconciliation. It has been noted that as part of the bank reconciliation, 'other' general ledger accounts have been used to ensure that the reconciliation balances.

Asset management

Asset management is a key function of Council, which can be split into the areas of asset accounting and asset management.

The accounting treatment of assets will focus on the process behind capitalising costs and subsequent accounting entries to record other movements. 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 are monitored as they incur costs, however, there is no written policy documenting this. Upon completion, the expenditure is reviewed prior to being capitalised to the Asset Accounting sub system. This process and control ensures that all amounts that relate to capital expenditure and are allocated to the correct asset class. However, the weakness in the system is that assets are not monitored through here, instead they are transferred to a fixed asset register maintained in an Excel spreadsheet.

Using a spreadsheet as an asset register is not only labour intensive, it is also prone to error and formula mistakes which could lead to misstatements. There is also a risk of the asset accounting system not being kept up to date and the Council unable to precisely keep track of asset written down values and disposals. Depreciation is calculated in the spreadsheet and entered into the accounting system via a manual journal. Again, this is labour intensive and prone to error. Management has recently identified errors in the calculation of depreciation, including approximately \$170,000 of depreciation being recognised in 2019/20 for assets which no longer existed.

Council does not currently utilise the Strategic Asset Management module within Civica. However, we have been advised that Council is purchasing a new cloud based asset management program, Assetfinda, to maintain asset data.

Plant system/fleet maintenance

The fleet maintenance system in Authority is available for the Council to track the use and maintenance costs associated with its fleet. Employees are able to record in their Excel timesheets details of the plant number and hours used, which is subsequently entered into Civica during the payroll process and allocated to specific jobs. It was noted that only some employees complete this task on a regular basis, with other employees who used plant, not including any data on their timesheets. Maintenance costs associated with plant assets appear to be kept track of manually, without the use of the system, which creates additional administrative work for staff. We understand the Fleet Manager was made redundant in June 2020 and it appears the system has not been used since then.

Inventory and stores

We reviewed the process and system for controlling inventory held by Council, which generally includes electrical, mechanical, telecommunications, cleaning, protective equipment, dangerous goods, hardware and stationary products. The following processes were noted:

- Annual stocktake with periodic cyclical counts throughout the year. Discrepancies are rarely identified, but when they are, the items are noted, investigated, and filed for reference.
- Inventory is re-ordered per the Procurement Policy, with the same delegation limits applied.

- Sales of inventory are recorded directly in the system, ensuring accurate record keeping. Inventory is generally used by the Council or sold to private retailers. There are no sales to the general public.
- Inventory used by the Council is requisitioned, with the request put through the work order detailing employee name and number for which a docket is printed and signed by the requisitioning officer. These dockets are filed in chronological order.
- Searching in the stock issue enquiry in Authority by employee number or work order will show all inventory signed out by that employee including date, time and other information.
- If inventory is returned, the docket is updated which will match Authority, completing the cycle.

Raw materials, in particular road materials, were enquired about, however, due to the small number of roads and infrequent repairs the depot keeps very limited supplies, if any, and procures them as and when required.

The main shortcoming of the inventory system is the lack of a low stock identifier to aid in determining when to re-order certain inventory items. s47F has not been able to create a re-ordering report which correctly identifies low stock levels, therefore, stock is often ordered too late to replenish items that run out. This leads to inefficiencies in sales due to the long lead times in obtaining inventory, which has to be air freighted from the mainland, and short-term purchasing resulting in additional costs.

Distribution of overheads

The distribution of overheads is essential for Council to effectively budget costs and for accurate management reporting. Previously, a percentage was determined and applied against certain expense types for each cost centre to arrive at that cost centre's monthly overheads. Currently the methodology behind these percentages is unknown, with a new methodology yet to be determined.

Trust accounts

Council manages the following key trust accounts:

- Curator of Deceased Estates
 - The trust is maintained in a separate bank account, however, all estates are processed through the same account instead of individual accounts for each trust.
 - Supporting documentation is kept and passed onto the recipients of each estate as funds are disbursed and received.
 - A formal reconciliation is kept externally of the accounting system of all movements in each deceased estate.
 - A reconciliation to the general ledger, showing the balance of each estate is not maintained and reviewed.
- Legal Aid Trust Fund
 - The trust is managed in a separate bank account.
- Other Trust Accounts
 - All other trusts amounts are held within Council's operating bank account, including Iven 'Toon' Buffet Environment Fund, Protecting National Historic Sites and Norfolk Island Language Trust.
 - A detailed reconciliation of trusts and their movements has not been maintained and not readily available, however, transactions are very infrequent.

Management recently identified an issue where an amount was transferred out of the Curator of Deceased Estates bank account to Council's operating bank account in June 2019 and no explanation was clearly documented. The amount has been subsequently returned to the Curator of Deceased Estates bank account.

Workers Compensation Scheme

Council is responsible for the administration of the Norfolk Island Workers Compensation Scheme (the Scheme) through its Service Delivery Agreement with the Commonwealth. In June 2020, Council engaged a consultant to review Council's accounting for the Scheme. He reported that the Scheme was being operated within one set of accounts in Council's ledger structure but two bank accounts are being used; the Scheme bank account plus Council's general operating account. He noted that this arrangement was causing confusion and made it difficult to reconcile the true position of the Scheme. Further, as at 31 May 2020, the Scheme account was effectively overdrawn by approximately \$5,000.

We understand the Scheme is to be removed from Council's system into an external online accounting system pending handover of the administration to a third party provider. This should address the issues noted and ensure that Scheme transactions no longer go through Council's operating bank account.

Key findings

From our review of Council's use of the Civica Authority System and the related processes, it appears that Council generally has reasonable controls and processes in place across the major transaction cycles, however, the following matters were noted:

- Modules included in Council's contract with Civica that are not being utilised or are under-utilised.
- Procurement process of raising purchase orders prior to procuring goods or services is sometimes being bypassed.
- Labour intensive manual input and calculation of timesheets and leave accruals.
- Lack of segregation of duties and controls surrounding receipting.
- Inaccuracy of bank reconciliation.
- Fixed Asset Register is maintained in Excel spreadsheet.
- Depreciation was being calculated on assets which no longer exist.
- Inefficiencies surrounding the re-ordering of inventory.
- The fleet maintenance system is under-utilised.
- Lack of a documented process for the distribution of overheads.
- Detailed reconciliations of movements in trust accounts are not maintained.
- Workers Compensation Scheme transactions processed through Council's operating bank account.

It was noted during the review that there appears to be a lack of staff training across the organisation. Our discussions with management indicated high staff turnover over the last four years. Accordingly, the training which occurred during the implementation of Authority would have been for staff no longer working for the Council. This has meant a loss of corporate and system knowledge.

Recommendations

• **Civica system utilisation**

Council should review whether there are efficiencies that can be gained from utilising some of the under-utilised modules and whether there are opportunities for cost savings in respect to items not required.

To reduce labour intensive activities, consideration should be given to fully utilising the Document Management System. This would not only save time when searching for documents, but also the ability to link a document to a transaction or entry would provide easy access when reviewing entries.

• **Procurement**

Regarding the procurement process, it is recommend that staff be trained on the importance of raising purchase orders before expenditure is committed with suppliers. This control should be enforced by management and will enable them to accurately report future expenditure and manage cash flow.

• **Payroll**

The payroll function has a number of labour intensive activities, which also have a high risk of error due to a significant amount of manual input, including timesheets and leave accruals. Consideration should be given to utilising the system or appropriate add-ons to automate those processes, including the following:

- Completion of timesheets with appropriate authorisation levels;
- Linking of timesheets to pay runs;
- Automated timesheets for those administrative employees that are not required to allocate their time to jobs;
- Calculation of overtime hours, allowances and other payroll related values;
- Calculation of all leave accruals;
- Reduction in leave balances for leave taken, linked to timesheets; and
- Reporting of current leave balances on payslips so employees can accurately project their leave entitlements for future planning.

It is also recommended that Council implement an additional detective control, being the independent review of the employee master-file after each pay run. This will reduce the risk of errors through mistakes or fraudulent activity.

• **Receipting**

Whist acknowledging segregation of duties can be difficult to achieve with a small team, it is possible to limit an employee's involvement in all aspects of the receipting cycle. Additional controls that may be considered to reduce risk include:

- Independent review of end of day reconciliations;
- Independent employee responsible for banking cash using banking slips which can be matched to deposit slips obtained from the bank;
- Detailed bank reconciliations performed by an employee independent of the receipting system; and
- Monthly reconciliations of external unintegrated systems to the general ledger.

• **Bank reconciliation**

The issues identified surrounding the bank reconciliation appear to relate to a lack of appropriate training provided to Council staff, likely due to the high turnover in recent times. Council should identify all unknown differences in the bank reconciliation and investigate these items to ensure postings are accurate and allocated correctly. Going forward, employees responsible for the bank reconciliation should be provided with any necessary training in the bank reconciliation process. The reconciliations should be reviewed on a regular basis by an officer independent of the preparer.

- **Asset management**

Consideration should be given to utilising the Asset Accounting system available in Civica Authority (or an alternative) and upload an up to date, complete fixed asset register into the system. Prior to uploading, the Council should complete a comprehensive cleanup of the fixed asset register spreadsheet, confirming asset values, useful lives and the completeness of the register, including disposing of assets that no longer exist.

Although it would be a significant project to ensure the fixed asset register is complete and accurate, once it is set up correctly, the utilisation of the system would save time in accounting for assets. This would also reduce the likelihood of misstatement through error in calculations or posting of journals, improving the accuracy of asset reporting.

- **Plant system/fleet maintenance**

Consideration should be given to utilising the fleet maintenance sub system, ensuring all plant is correctly recorded in the system before enforcing a process for employees to record use and maintenance of the fleet. This would enable Council to allocate the use of plant across work orders and to keep track of maintenance incurred on each asset, aiding with planning for renewing the fleet and managing maintenance schedules.

- **Inventory**

The inefficiencies created by a lack of timely re-ordering of inventory can be addressed by creating a report showing low stock levels and identifying when items need to be ordered.

- **Allocation of overheads**

Council should determine an appropriate method for allocating overheads. Workings behind these allocations should be kept as an audit trail so that knowledge is not lost going forward. The resultant rates can be updated in the system so that expenditure can be systematically allocated across cost centres.

- **Trust accounts**

All trust accounts should be reconciled on a monthly basis, showing all movements and be reviewed by an officer independent of the preparer, irrespective of whether the trust monies are kept in a separate bank account or within the Council's bank account. This will not only help Council keep track of the amounts held in the trust, but will ensure a monthly review of movements is being completed, reducing the risk of misstatement and erroneous payments from trust monies.

- **Training**

The Civica Authority system can only be used to its potential if staff fully understand how the system works and how their designated tasks are meant to be performed within the system. Consideration should be given to investing in training in the use of the system and related processes and procedures to assist staff in performing their roles in the most effective and efficient manner.

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Australian Government



DRAFT REPORT

For Department of Infrastructure, Transport, Regional
Development & Communications

Norfolk Island Regional Council Independent Governance and Financial Audit

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“Norkfolk Island Regional Council Independent Governance and Financial Audit”

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NOTE: THIS REPORT IS DRAFT AND IS STILL SUBJECT TO VALIDATION WITH THE CONSULTING TEAM AND FURTHER ENGAGEMENT WITH DTRIC AND NIRC. IT ALSO REQUIRES FINAL EDITING AND DESKTOPPING. AS SUCH THE CONTENT AND FORMATTING OF THE FINAL REPORT MAY DIFFER TO THAT CONTAINED IN THIS REPORT.

AUDIT SNAPSHOT

BRIEF SUMMARY OF ISSUES AND GENERAL ASSESSMENT



The existing relationship framework between NIRC and the Commonwealth is **WORKING SATISFACTORILY BUT COLLABORATION COULD BE IMPROVED** through greater shared understanding of the issues being faced

Governance framework **OVERALL IS SOLID** but some aspects of implementation **NEED IMPROVEMENT**



RISK MANAGEMENT across all functions is **DESPERATELY NEEDED**



STRATEGIC PLANNING GENERALLY NEEDS FOCUS AND INTEGRATION
– whilst individual strategic plans are high quality the overall vision and **PATHWAYS FORWARD ARE NOT COORDINATED**



DISCONNECT between strategy and operational delivery **NEEDS ATTENTION**



Short term financial performance as well as long term financial sustainability are **CRITICAL RISKS FOR NIRC**



Land use plan **NEEDS MAJOR REVIEW** to improve DA processes



Water security/wastewater management/solid waste management are **SERIOUS PROBLEMS IN NIRC ENVIRONMENTAL MANAGEMENT**

Information systems capability is currently **WEAK DUE TO POOR IMPLEMENTATION** but there is **POTENTIAL TO IMPROVE**



Workforce planning and organisational development is **WELL FOUNDED** but **NEEDS MORE COORDINATED IMPLEMENTATION**

BRIEF SUMMARY OF ISSUES AND GENERAL ASSESSMENT

Good 😊 Fair 😐 Poor 😞

Review Element	Framework	Implementation	Review Element	Framework	Implementation
Council meeting agenda and reports	😊	😊	Regulation, Registration & Licensing	😊	😞
Community Engagement Framework	😊	😊	Financial Operating Performance	😐	😞
Transparency	😐	😐	Asset Management	😐	😞
Councillor Conduct	😊	😊	Long Term Financial Planning/ Sustainability	😐	😞
Audit & Risk Management	😊	😐	Revenue Raising / Capital Funding	😐	😞
Integrated Planning & Reporting	😊	😞	Business Enterprises	😐	😞
Strategic / Operational Integration	😐	😞	Fire Services	😊	😐
Policies & Procedures	😐	😞	State Disconnect	😐	😞
Strategic Land Use Planning	😞	😞	Economic Development	😐	😞
Development Assessment	😞	😞	Budget Processes	😐	😞
Waste Water Management	😞	😞	Enterprise Resource Planning	😐	😞
Solid Waste Management	😐	😞	ICT Systems	😐	😞
Environmental Management	😞	😞	Workforce Planning	😊	😞
Pest Management	😊	😞	Organisational Development	😊	😐
			SDA Compliance	😊	😐

EXECUTIVE SUMMARY

Norfolk Island is an external Australian territory in the Pacific Ocean about 1600 km northeast of Sydney – refer to Figure X: Map illustrating Norfolk Island's location. Norfolk Island is one of Australia's most isolated communities and one of its oldest territories, having been settled six weeks after Australia's founding settlement at Sydney, New South Wales.

Norfolk Island has a diverse environment and notable historic sites offering a unique heritage seldom found elsewhere within Australia and around the world. This remote island is also of major biological importance with many native species being unique to the island.

Norfolk Island has a population of 1,748 (ABS 2016), with approximately 20% identifying as having Pitcairn ancestry.

The Norfolk Island Regional Council (NIRC) commenced on 1 July 2016 and consists of five Councillors who are elected for a four-year term.

The day to day management of NIRC is the responsibility of the General Manager who reports to the Councillors.

The NIRC is unique in that it provides local government services, 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.

NIRC operates under the imposed 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.

The NIRC has unencountered significant challenges since its transformation to a new local government entity in 2016. Some of these challenges have created financial sustainability issues for the Council as well as raising questions about the quality of NIRC's business planning and legislative compliance.

In early July, NIRC unanimously resolved that a full audit of the finances and governance of the Council's operations be conducted and the Department of Infrastructure, Transport, Regional Development and Communications (DITRC) be asked to manage the engagement. It was determined that a performance audit be conducted under Division 2A and Division 3 of Part 13 of the Local Government Act 1993 (NSW) (NI) to cover governance, financial and operational matters as set out under the Scope of Audit section in the Terms of Reference.

In order to address the Audit's complexity and scope a 'systems approach' together with a modified version of McKinsey's Seven S Framework was used by the Grassroots Consulting Team. An analysis of the issues was undertaken at the macro level against the McKinsey's model of Seven Ss (Strategy, Shared Values, Systems, Style, Structure, Skills, Staff) and at a more micro level against the themes of:

1. Governance
2. Strategic Planning and Regulatory Framework
3. Financial Sustainability
4. Systems Capability
5. Operational Service Performance

Figure X: Map Illustrating Norfolk Island's location



From this analysis a number of Strengths, Weaknesses, Opportunities and Threats were identified as highlighted in Figure X below.

Figure X: SWOT Analysis of NIRC



EXTERNAL OPPORTUNITIES

- World Heritage listed KAVHA site.
- Natural environment and attractiveness of the island.
- Unique history and culture.
- Improved connectivity through undersea cable and data centre opportunities.
- Build upon the “Norfolk Island 2030 – Sustaining our Future” initiative to prepare a collaborative plan for the future of Norfolk Island – encompassing social, economic, environmental, legal framework and governance outcomes.
- Prepare a comprehensive, revised Norfolk Island Plan tailored to the current and forecast development and land-use needs of the island.
- Enhanced environmental sustainability through renewable energy, wastewater reuse, and waste minimisation and reuse.
- Biodiversity research presenting educational and adventure tourism opportunities.
- ‘Wellness’ tourism market.
- Renegotiation of the Service Delivery Agreement.
- Strategic philanthropy with potential for enhanced social and environmental impact.

EXTERNAL THREATS

- Small, declining and aged population with relatively low household incomes.
- Isolation from mainland Australia.
- A divided community which seems to lack trust and confidence in the government institutions on the Island.
- Constant change of Commonwealth Government Ministers and Departmental staff.
- Heavy reliance of economic activity on tourist visitation.
- Lack of an appropriate all-weather port limiting the delivery of essential goods and resulting in very high freight costs impacting the cost of living and doing business on the island.
- Limited access to tourist markets due to limited air services to/from the island.
- Lack of access to a modern, reliable telecommunications network.
- A complex legislative framework including a mix of legacy NI legislation and imposed NSW Local Government Act modified for NI.
- Archaic legislation which lacks currency and effectiveness relative to today’s social, economic, environmental and governance contexts on the island.
- The State Disconnect.
- High cost of biosecurity and First Port of Entry obligations.
- COVID-19
- Ongoing social issues such as drug abuse, and domestic violence.
- Climate Change leading to uncertain water security given reduced rainfall and depleted groundwater - impacting on sustainable growth.
- Pest impacts on flora and fauna.

These issues informed the Audit’s recommendations, which are summarised in Table X below.

TO BE COMPLETED

Significant legacy issues were inherited by NIRC upon its establishment, which should be addressed as a matter of urgency as significant environmental non-compliances continue to exist. It appears that it was the expectation of the Commonwealth for NIRC to take responsibility for these issues, but NIRC does not have sufficient funding capacity for the issues to be addressed in a timely manner. Consequently, there is an urgent need for a long-term funded strategic and financial plan, developed in a collaborative manner between NIRC and the Commonwealth to ensure compliance with established environmental and public health standards and to prioritise infrastructure and service projects to meet identified community needs. The plan must include the allocation of responsibilities, actions and delivery timeframes.

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1. INTRODUCTION AND BACKGROUND

Norfolk Island is a small Island remotely located in the Pacific Ocean between New Zealand and New Caledonia, some 1,600 kilometres off the east coast of Australia. Together with its neighbouring Phillip Island and Nepean Island, the Norfolk Island Territory forms an external Territory to the Commonwealth of Australia.

The Island has a unique and special environment (and biodiversity) which must co-exist with the approximate 1750 residents (ABS 2016) as well as a rich and interesting history and culture extending back to the original Pitcairn descendants from the Bounty mutineers.

From 1979 until 2015, the Island was self-governed through a Norfolk Island Legislative Assembly, Government and Public Service.

On the back of the Global Financial Crisis and ongoing concerns about the Islands future economic sustainability, in June 2015, the Island's unique model of self-governance was dissolved by the Australian Parliament and replaced with a 'regional council' model. Additional reform measures also included incorporating Norfolk Island into the Australian taxation and welfare systems.

On 28 May 2016 the Norfolk Island community elected five councillors for a four-year term to form the new Norfolk Island Regional Council, which officially commenced on 1 July 2016. The Council operates under the imposed 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.

In addition to its remoteness and small island economy, Norfolk Island Regional Council differs from most other Australian regional councils in that the usual constitutional, electoral, legislative and fiscal frameworks that govern the interaction between Australia's three levels of government are not the same for the Norfolk Island Regional Council. This is most evident in the form of:

- the appointment of an Administrator by the Governor-General of Australia, who administers the Island as a Territory under the authority of the Commonwealth of Australia and acts as a representative of the Minister / Assistant Minister.
- the complexity of the legislative frameworks as noted above.
- the scope of services provided where the Council operates a number of business enterprises and provides a number of contracted Commonwealth funded state services such as land titles registration, motor vehicle and drivers licensing, courts and legal services, companies registration and ports management - refer to Appendix 1 for an overview of government service provision on NIRC.
- grant and subsidies arrangements whereby the Council is directly supported by the Commonwealth Government through, for example, Financial Assistance Grants (FAGs) but in many instances is unable to apply for competitive local government grant programs from the New South Wales State Government.

Despite these anomalies, the elected body of Council is still responsible for determining future direction and strategy, whilst the day to day management of Council is the responsibility of the General Manager who reports to the Mayor and Councillors.

The current General Manager commenced in January 2020, and through a series of internal reviews and the extra ordinary impacts of COVID-19, identified some concerning issues affecting the future sustainability of the Norfolk Island Regional Council.

As a consequence, on Friday 3 July 2020, Council adopted by Resolution (2020/102) that:

- I. *Council instructs the General Manager 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 NIRC operations; and that the General Manager request the Commonwealth Government to meet the audit cost.*
- II. *The terms of reference include legislative, regulatory and policy framework amendments to improve the operation of NIRC, with an underlying principle of reduction of service delivery cost and red tape.*
- III. *In calling for this review/audit, Council acknowledges that these actions have been taken to ensure a stronger future for the Island through sustainable revenue sources, expenditure management and a pathway towards less reliance on Commonwealth funding.*
- IV. *Council lead the communication locally as this must be an Island driven initiative.*

Notwithstanding Council resolution 2020/56 of 20 May 2020 Council now requests the election be delayed by two months or to a later date if deemed necessary by the Commonwealth to allow for the review/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

Grassroots Connections Australia was engaged to conduct the audit based on the terms of the proposal submitted to the Commonwealth Department of Infrastructure, Transport, Regional Development & Communications (DITRC) on 6 August 2020.



2. AUDIT SCOPE

At Council's Extraordinary Meeting on Friday 3 July 2020, the following scope for the audit was endorsed by Council and subsequently agreed to by the Department.

AUDIT SCOPE AS IDENTIFIED BY COUNCIL

The provider is to consider and advise on the matters set out below in its report.

a. Council Governance and Operations

- Areas where the Council is encountering challenges administering continued laws, such as planning laws, and the priority areas for reform.
- Council's policies and procedures, in particular the extent to which they align with the requirements of the applied NSW local government framework.
- The optimal efficient staffing structure to meet Council's business delivery requirements.
- Council reporting arrangements, including the optimal arrangements for:
 - meeting the requirements of the applied local government framework;
 - reporting against performance indicators set by the Department under the Service Delivery Agreement with the Council;
 - ensuring open and transparent reporting to provide better community access to information.
- Suitability of Council IT systems for meeting legislative requirements.
- Effectiveness of communication arrangements between Council and the Department regarding the Service Delivery Agreement and other Department initiatives.
- Record keeping of statutory appointments and arrangements for delegations to staff and statutory office holders.

b. Financial Performance

- The financial performance of the Council for the following financial years: 2016-17; 2017-18; 2018-19; 2019-20, with consideration of the 2015 – 2016 final Administration Audit.
- Council's cash position, considering contractual commitments, overruns, legal disputes and Covid-19 impacts.
- The minimum level of working capital the Council should maintain.
- 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).
- Council's ledger structure and its effectiveness, including the use of work orders.
- Moving the budgeting process from spreadsheets to a web-based solution.
- Possible improvements to the Civica Local Government System and the use of the following models to optimise the efficiency of the Council's operations, being the Plant Asset system, the distribution of overheads, Stores system, Online Ordering, Purchase Cards, Operation of external trust accounts held by Council, Payroll System, and Asset Management

c. Financial Sustainability

- Council's revenue raising abilities, including the role of user charges and land-based rating systems.
- How revenue raising could be structured to provide a sustainable revenue base, including providing the ability to minimise the effects of catastrophic events.
- The financial position of Council's government business enterprises, including electricity provision, telecommunications and liquor bond, and optimal ownership, management and service delivery arrangements of these enterprises.
- The current fire service arrangement to the community and airport, including the relative cost to Council.
- Consideration given to the challenge of "State disconnect" for matters like, not being able to access the Small Grants, and other economic stimulus opportunities that existed in recent months during the pandemic

It should be noted that specific aspects of the financial sustainability focus of the Audit have been conducted by Nexia Consulting, with Grassroots Connections relying on Nexia's analysis to inform part of its review and recommendations.

3. AUDIT METHODOLOGY AND APPROACH

Addressing the scope of the Audit has been a complex task given the inter-relationships between all aspects of NIRC's business; the broader environment in which NIRC operates; the special history and cultural attributes of the Island and of course the extra-ordinary requirements of dealing with, and responding to the impacts of COVID-19.

As such, a 'systems approach' together with a modified version of McKinsey's Seven S Framework was used by the Grassroots Consulting Team to address, as comprehensively as possible, the Audit's scope.

A 'systems approach' brings together interviews, dialogue, openness to perspectives from public and private sectors, and people at all levels of an institution's hierarchy. In other words, rather than treat a problem in a vacuum, it is viewed within a greater whole. McKinsey Seven S framework, as the name suggests, was developed by consulting firm McKinsey and Company and provides a model to analyse an organisation's design by looking at seven key internal elements - strategy, structure, systems, shared values, style, staff and skills. It is widely used in business and management to identify if these elements are effectively aligned and enabling an organisation to achieve its objectives. In the case of this audit, the McKinsey's framework has been slightly modified to take into account the heavy focus of the audit's scope on NIRC's sustainability as illustrated in figure 1.0 below.

In doing so, it is important to note that sustainability is not just a matter of whether NIRC's short term cash flow is in jeopardy. Indeed, like many small remote councils on mainland Australia and further, many small island economies around the world, NIRC will never likely be completely financially sustainable without external funding assistance from other levels of Government. For this reason, it was deemed important to consider the wider challenges in managing the Island's environment and local economy through the businesses, infrastructure, regulation and services which are the responsibility of the Council.

It has also been important to consider the working relationship between NIRC and DITRDC (both on Island and in Canberra) given the success or otherwise of this inter-governmental engagement fundamentally impacts on the performance of NIRC.

In summary, the Audit was based on extensive document and information review (refer to Bibliography and Reference List at end of Report) as well as a high degree of engagement with Council and Commonwealth Government stakeholders through interviews and a site visit to Norfolk Island. Attached as Appendix 2 is a schedule of the interviews and meetings undertaken during the site visit from 17th to 22nd August 2020. Additional telephone interviews were also held with various stakeholders within DITRDC.

Subsequent validation of information provided has been conducted by follow-up enquiries and weekly telephone meetings have been held with DITRDC (Canberra) concerning project management.

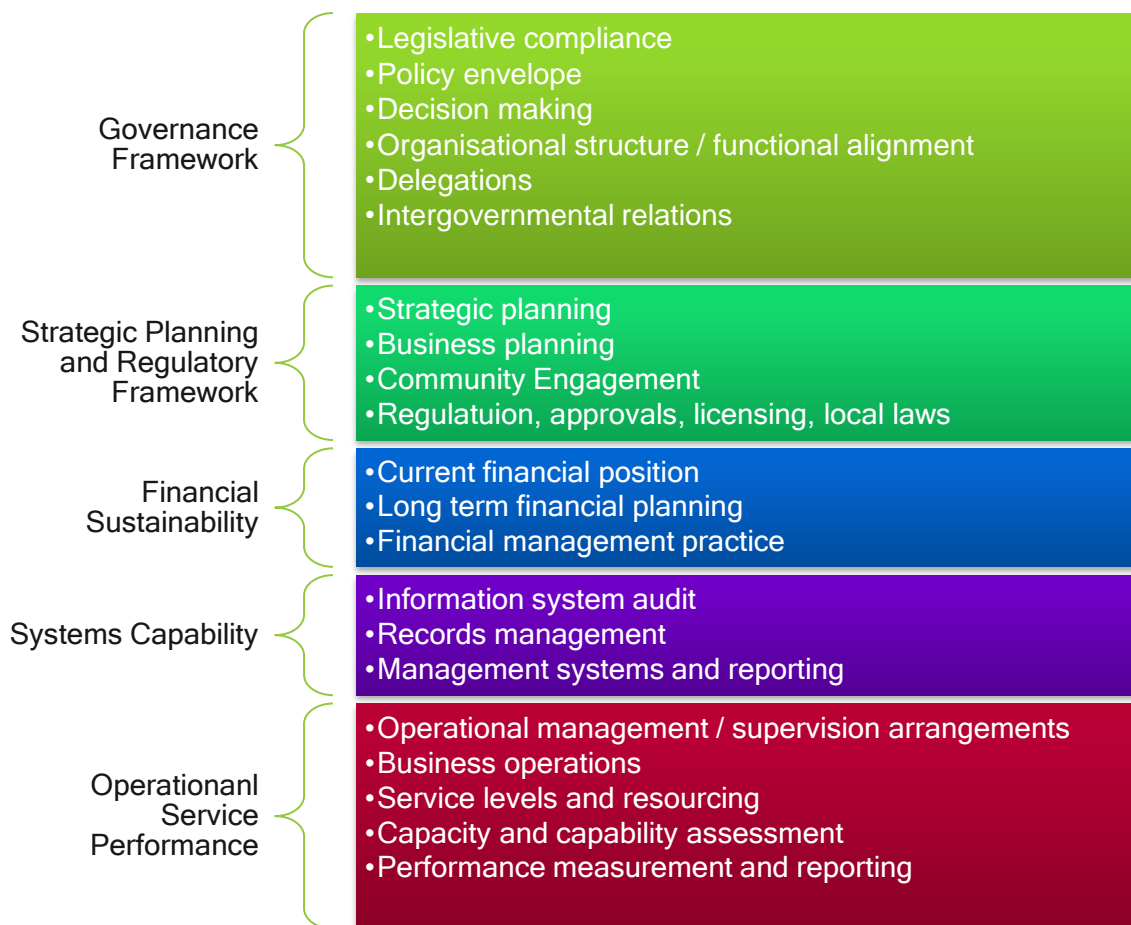
Figure 1.0 Modified McKinsey Seven-S Framework



In addition, regular contact has been maintained with Council officers to clarify the Consulting Team's understanding of the various issues being canvassed.

As per the scope of the Audit, the Consulting Team have grouped and undertaken a focussed analysis of the key themes as highlighted in Figure X below. This Audit Report is structured on these themes, including a set of recommendations under each focus area. It should be noted, that whilst every attempt has been made to address every specific element of the audit's scope, in some cases, due to limited or contradictory information, it has been difficult to provide an in-depth evaluation.

Figure X: Scope of Audit and Overview of Focus Areas



4. CONTEXT

As noted in Section 3 addressing the scope of the Audit has been a complex task given the inter-relationships between all aspects of NIRC's business. A key consideration by the Consulting Team in formulating its recommendations has been the unique context in which NIRC operates and the forces in both the external and internal environment – all of which have the potential to impact on strategic direction and how best NIRC manages risk.

4.1 THE EXTERNAL ENVIRONMENT

Like all organisations, NIRC is subject to a number of political, economic, social, technological, legal, and environmental forces in the external environment which need to be considered by:

- the new Norfolk Island Regional Council when developing strategy, organisational policies and operational plans.
- the Commonwealth Government when also planning for Norfolk's future, including the level and type of support offered to Council.
- The readers of this Audit Report in terms of understanding the factors over which NIRC has little influence, but which significantly, and in aggregate, have the potential to greatly impact on NIRC's sustainability.

Most notable amongst these external forces has been the global pandemic COVID-19 which has resulted in a sudden, deep and prolonged downturn in the travel and tourism sector worldwide. Island economies such as Norfolk have been particularly vulnerable as a result of the pandemic given their dependence on tourism but also because an external shock or 'black swan' event of this magnitude is difficult to manage in small economies with limited fiscal flexibility.

Based on the Consulting Team's analysis, other key factors in the external environment impacting NIRC include:

- Small, declining and aged population with relatively low household incomes.
- Isolation from mainland Australia.
- A divided community which seems to lack trust and confidence in the government institutions on the Island.
- Constant change of Commonwealth Government Ministers and Departmental staff.
- Lack of an appropriate all-weather port limiting the delivery of essential goods and resulting in very high freight costs impacting the cost of living and doing business on the island.
- Limited access to tourist markets due to limited air services to/from the island.
- Lack of access to a modern, reliable telecommunications network.
- A complex legislative framework including a mix of legacy NI legislation and imposed NSW Local Government Act modified for NI.
- Archaic legislation which lacks currency and effectiveness relative to today's social, economic, environmental and governance contexts on the island.
- The State Disconnect.
- High cost of biosecurity and First Port of Entry obligations.
- Ongoing social issues such as drug abuse, and domestic violence.
- Climate Change leading to uncertain water security given reduced rainfall and depleted groundwater - impacting on sustainable growth.

- Pest impacts on flora and fauna.

4.2 THE INTERNAL ENVIRONMENT

Many of the internal factors impacting Council's operations (e.g. plans and policies, human resources, information technology systems) are the subject of this review.

NIRC has been on a journey of transition since 2015 and the complex task of consolidating strategy, policy, procedures and operations; the development of a new organisational culture and building trust in the community and with key stakeholders should not be under-estimated.

Most notable of the internal factors impacting NIRC is the current 'elected leadership', which, despite best attempts to progress on a basis of 'Collaboration, Co-operation and Partnership' are often frustrated in their attempts to provide a united and credible voice in serving the community of Norfolk Island.

This is most evident in the Mayoral Minute (dated 3 September 2020) and the resolution of Council to call on:

THE ASSISTANT MINISTER FOR REGIONAL DEVELOPMENT AND TERRITORIES THE HON NOLA MARINO M.P., TO ADVOCATE TO THE AUSTRALIAN GOVERNMENT THAT A ROYAL COMMISSION FUNDED BY THE COMMONWEALTH BE FORMALLY ESTABLISHED BY THE GOVERNOR-GENERAL TO INQUIRE INTO AND TO REPORT AND MAKE RECOMMENDATIONS ON:

Options to provide for the most appropriate form of government for the non-self-governing territory of Norfolk Island that can achieve the majority support of the Norfolk Island People; and build a pathway to peace.

Moved: Cr Robin Adams

Seconded: Cr Lisle Snell

CARRIED

IN FAVOR – CR. ADAMS, CR. MCCOY, CR SNELL

AGAINST – CR. PORTER, CR. BUFFETT

Likewise at the 'administrative level' managing a new regional council organisation to deliver on the scope of NIRC's agenda presents challenges of co-ordination and control. Just how the General Manager keeps up to date on the way strategic development issues are addressed while at the same time ensuring efficient and effective service delivery is, in itself, a key strategic issue. In particular, NIRC employees need to be clear about direction, aligned in purpose, committed to the task and organised to deliver. Whilst, in many cases, NIRC staff are highly dedicated and invested in the Island's future, NIRC confronts a number of significant internal challenges such as:

- Lack of leadership. project management and technical capability and capacity to undertake traditional and non-traditional local government functions.
- Under-resourcing of key functions (e.g. engineering, planning, environment, accounting).
- Difficulty in attracting and retaining staff resulting in ongoing vacancies in key positions, high staff turnover and associated loss of corporate knowledge.
- Poor financial management due to unreliable and inaccurate data.
- Reporting transparency.
- Poor configuration and adoption of business systems.

- Lack of corporate and system knowledge banks.
- Lack of business systems training and professional development for staff.
- Lack of digital connectivity.
- Lack of economies of scale and limited ability to raise revenue.
- Reliance of NIRC revenues on tourist visitation, with corresponding costs being largely fixed in nature and incurred irrespective of the level of visitation.
- Essential infrastructure in poor condition without appropriate asset management plans or strategies in place given the reactive (rather than proactive) nature of service provision.
- Inability to access State-type grants and leverage off State governance and guiding frameworks.
- High cost of biosecurity and First Port of Entry obligations.
- Historic arrangements on land used for public purposes (e.g. easements for utilities) without any formal agreements in place.
- Continuation of major environmental issues placing water security, public health, “island reputation” and tourism at risk (i.e. PFAS contamination of groundwater).



5. HIGH LEVEL ANALYSIS

Based on the interviews undertaken on the Island in the week commencing 17th August 2020, available documents and various consulting reports, an analysis of the issues was undertaken against the McKinsey Seven S framework to assess internal strategic alignment and the overall strengths and weaknesses of NIRC.

As illustrated in Figure X, particular attention was given to the following elements given their cumulative impact on NIRC's success and sustainability has the potential to be significant.

- How corporate direction and long - term planning interfaces with operational delivery and is supported by a common purpose
- How information, processes, workflow and reporting assist decision making and service delivery
- How leadership and organisational culture influences business and service performance
- Capability - how people are selected and developed to match the competency needs of the organisation
- Capacity - how resources are matched to the work and service demands of the organisation
- How authority, delegation and accountability are activated within the Governance Framework

Figure X: Summary of McKinsey's Seven S Framework as it relates to Norfolk Island Regional Council



5.1 STRATEGY/ SHARED VALUES

(How corporate direction and long - term planning interfaces with operational delivery and is supported by a common purpose)

Strategic planning by NIRC appears to have been undertaken principally through the long-term Community Strategic Plan 2016-2026 (CSP) and more recently the strategy workshop conducted in April 2020 which has been commended by the Mayor. In addition, several strategies / plans exist for specific issues (e.g. Environment Strategy), although not all of these clearly integrate with the CSP.

Implementation of the strategic direction suggested by these various instruments, however, appears difficult to achieve for the council, with no clear line of sight between the overarching community plan and the various plans that sit across council's operational areas.

Feedback from interviews suggest that dealing with day to day priorities generated in many instances by the need to respond to the failure or break down in key infrastructure diverts attention away from a focus on longer term planning and programming to achieving planned outcomes. Indeed, this situation has resulted in not only strategic dissonance but also misalignment of strategic and operational effort and ultimately gaps in service or delays in project delivery.

The need for improvement in this area is recognised within NIRC both in terms of the need for renewed long term planning and comprehensive performance management systems reconciling actual outcomes to the achievement of council's strategic objectives. Work has already commenced in this regard.

Further compounding these internal factors, is an apparent disconnect between Council's own strategic planning processes and outcomes and those of the Commonwealth. The lack of an aligned process between the parties involved in relation to strategic priorities has made both the development of strategic direction and its integration with operational delivery more challenging. The unresolved matter of a State Partner is a contributing factor to this situation but irrespective of the resolution of this issue and its timing the need for an improved and prioritised strategic planning process between NIRC and the Commonwealth is imperative. NIRC together with the Administrator should conjointly lead this initiative.

5.2 SYSTEMS

(How information, processes, workflow and reporting assist decision making and service delivery)

The accessibility of quality data and information to inform decision making, analyse trends and streamline operational reporting is inhibited by an overly complex and incomplete configuration of NIRC's enterprise resource planning (ERP) system, and an over reliance on spreadsheets to store critical data.

The implementation of the ERP was never tailored to meet the business requirements of NIRC and has resulted in an inability to leverage the systems full functionality, poor business processes including workarounds, a lack of online workflows and low levels of adoption. Examples include an unnecessarily complex Chart of Accounts impacting financial planning and reporting, incomplete workflows for standard council functions such as planning and development and poor adoption of the licensed modules for critical functions such as asset management.

The current systems and tools environment have led to an inability to prepare evidence-based planning, produce timely and reliable reporting (financial, operation and strategic) and increased challenges relating to transparency with both the community and the Commonwealth.

Also, the Norfolk Island Planning Act 2002 embodies many non-value adding steps for Development Application processing which are inconsistent with, and much more cumbersome than the NSW Environmental Planning and Assessment Act, a reference point for good professional planning practice.

5.3 STYLE

(How leadership and organisational culture influences business and service performance)

The scale of change implemented in 2016, with the abolition of the Legislative Assembly and creation of NIRC, has understandably presented major challenges for all the parties involved. This has significantly impacted the community with the new form of community leadership through and by a local government council.

With sections of the community vehemently opposed to these changes communication between and amongst a number of the parties at councillor, executive staff and staff generally has been characterised over the past four(4) years as adversarial and preventing the development of productive working relationships essential to navigating the inherently difficult processes of change to be progressed with the required level of unity and common purpose.

This atmosphere has affected many aspects of decision making and whilst the Mayor's leadership style and approach is driven by a commendable desire for collaboration and partnership, the overall leadership of the council appears fragmented and frustrated by an overlay of political division.

Key aspects of organisational culture were described as poor in a cross section of interviews and several council officers described the extreme challenges this presented and the impact on organisational motivation. Many aspects of operational delivery suffer from a lack of sufficient managerial and supervisory authority and a feeling of lack of support at Council level.

At the organisational level, this situation is being addressed with the adoption of an organisational development program entitled Taapili – a word of Polynesian origin meaning to unite or join. This program has as its key elements – workforce planning, culture and performance.

Importantly though leadership at the Council level is fundamental to enabling the elected and organisational arms to unite and develop a culture focussed on the future.

5.4 SKILLS

(Capability – How people are selected and developed to match the competency needs of the organisation)

A significant challenge facing NIRC is the acquisition and retention of skilled staff to undertake the range of responsibilities entrusted to it under the Norfolk Island governance model. Not only does this include the normal range of local government functions but a wide range of State Government type functions under the SDA.

Related to this is the investment in upskilling existing staff to meet job specific requirements and the broader issue of professional development across the organisation's workforce.

Details of approaches to attract and retain staff are outlined to Section 5.5 below.

Investment in staff training is currently at a low level and declining. The 2019/20 NIRC budget allocated \$277,085 (0.9% of total expenditure) to staff training. Approximately 75% of the budget was spent (2019/20 unaudited financial statements). In 2020/21 only \$127,080 (estimated 0.4% of total expenditure) has been budgeted owing to financial constraints.

Notwithstanding these current constraints, NIRC has put in place staff development programs designed to deal with not only the basic training needs of staff to meet regulatory certification requirements but also to grow internal skill capacity requirements. These include the Our People Strategy 2020-23 which sets out priorities and activities in human resource management which are aligned with NIRC's recently adopted Enterprise Agreement 2020-2023 and Taapili – the learning and cultural development framework to create a better workforce.

However, these plans will only achieve their objectives if appropriately resourced.

5.5 STAFFING

(Capacity – How resources are matched to the work and service demands of the organisation)

A major challenge facing NIRC is the attraction and retention of staff particularly at the professional level. Current staff levels are 106 permanent and 79 casual employees. This number is down from pre-COVID-19 levels which saw several positions made redundant due to a downturn in tourism related revenues.

Notwithstanding this reduction 11 staff vacancies existed on 1 October 2020 in the professional and technical skilled areas. These included managers, accountants, environmental officers, governance officer, team leaders and plant operators.

Despite these vacancies NIRC “functions” on a day-to-day basis and is a credit to the General Manager and the senior leadership team who professionalism and commitment to the community has maintained essential operational systems and service delivery.

NIRC management advises that off island recruitment on average takes between four (4) to six (6) months and costs between \$20,000 and \$50,000 depending on the position. In addition, only one (1) in (4) external appointees remain beyond 12 months. Instances were cited where this had occurred primarily because they are not made to feel welcome not only within the community but also through instances of passive resistance within the workplace.

This is reflected in staff turnover rates which have risen from 3.6% in 2016 to 20.86% in 2019. This turnover rate is above sector averages of 11.2% for rural/remote councils (LGAQ 2019 Annual Workforce Census Report). Indications are the 2020/21 turnover rate will exceed the 2019-20 level.

NIRC Management advised that recruitment of an accountant and a governance officer had proceeded well with appointments pending. A changed recruitment policy had opened the door to Fly-In Fly-Out appointments and had resulting in a significantly increased number of applicants.

Another emerging staffing problem is NIRC’s ageing workforce. Some 70% are aged 45 years and over with 14% aged between 66 and 75 years of age meaning potentially 35% of staff could retire within the next 12 months.

Priority now needs to be given to training and retraining resident employees and supporting young island residents undertake studies to equip them to take up emerging job opportunities. In addition, more contemporary employment models will need to be adopted not only including FIFO models but also virtual and off island appointment utilising internet connectivity, demonstrated through the COVID-19 pandemic as a workable and necessary employment practice.

These issues are recognised by management and are being addressed through the above mentioned Our People Strategy 2020-23

5.6 STRUCTURE

(How authority, delegation and accountability are activated within the Governance Framework)

In 2016 when the NIRC was established the organisational structure consisted of the General Manager with three direct reports:

- Group Manager Services – Infrastructure, Commercial, Planning & Environment, and State Type Services
- Group Manager Corporate/Chief Finance Officer – Customer, Finance, Legal, ICT and Record Services, and
- Executive Manager Organisational Development – Governance, Corporate Planning, Risk, Safety and Human Resource Services.

Economic development, community development and museums reported directly to the General Manager.

This combination of complex and demanding responsibilities in the context of establishing the new Council placed considerable strain on the individual involved. Following the arrival of the new General Manager in January 2020 an organisational review was commenced and subsequently a flatter structure was adopted consisting of seven (7) Managers reporting directly to the CEO with the following discrete areas of responsibility:

- People & Culture
- Corporate & Finance
- Commercial
- Economic Development
- Services
- Planning & Environment
- Customer Service

This organisational restructure came into effect in June 2020. The new structure provides clearer lines of authority and accountability within the NIRC and externally in terms of responsibility for front line community engagement.

Ensuring its effectiveness relies on a clear understanding of NIRC's people and culture strategies at Manager and Team Leader levels including the Our People Strategy 2020-23 which sets out priorities and activities in human resource management which are aligned with NIRC's recently adopted Enterprise Agreement 2-20-2023 and Taapili – the learning and cultural development framework to create a better workforce.

Managers will play a major role in the success of this structure through their active support for and leadership of this strategy.



6. DETAILED ANALYSIS

6.1 GOVERNANCE FRAMEWORK



FOCUS

- 6.1.1 Review of current governance structures and practices together with an analysis of decision-making frameworks and resulting outcomes. Evidence of key governance arrangements giving assurance of integrity, compliance and alignment with policy will be examined and areas identified where appropriate reform should be initiated.
- 6.1.2 A review of Council's policies and procedures for alignment with the NSW local government framework will identify any areas where inconsistencies occur and comparison with expected good practice will produce suggestions for improvement.
- 6.1.3 A review of arrangements for the exercise of statutory and decision-making powers by delegation will reveal the manner in which accountability is demonstrated in the appointment and authorisation of delegations for statutory office holders, and recommendations will be made for improvement where appropriate.
- 6.1.4 The transparency of Council and organisational decision making will be examined by reference to the opportunities available for the community to be aware of and have access to the Council's decision making processes (including through engagement) and relevant information and records associated therewith, together with avenues for recourse where affected persons are aggrieved by those decisions.
- 6.1.5 Given the unique the statutory basis for the Norfolk Island Regional Council, the relationship between the Council and its governing agencies will be assessed for any "dis-connect" or weaknesses in communication and coordination.

FOCUS AREA 6.1.1: GOVERNANCE AND DECISION MAKING FRAMEWORKS

Review of current governance structures and practices together with an analysis of decision-making frameworks and resulting outcomes. Evidence of key Governance arrangements giving assurance of integrity, compliance and alignment with policy will be examined and areas identified where appropriate reform should be initiated.

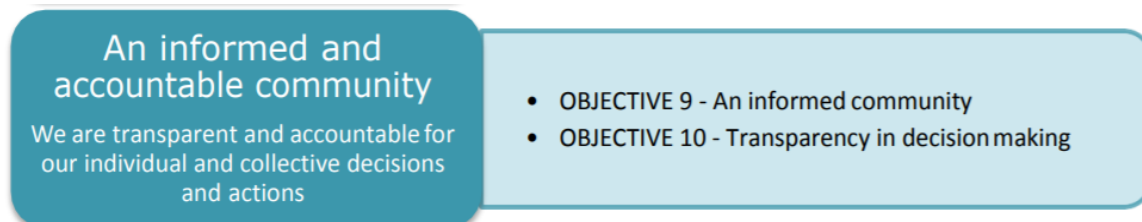
6.1.1.1 APPROACH

This section provides a high-level scan of the key elements of the Council's governance framework to establish whether aspects that would be expected of a well-functioning local government are present. In particular the focus of this section is on the foundations of the Council's decision-making and how it is informed by community consultation and professional advice. The role of the integrity elements of audit and risk management are also mentioned.

The results of the scan are evaluated in comparison to good practice models that exist amongst "mainland" local governments and that operate in the context of the reasonable expectations of Government and their Communities.

6.1.1.2 CURRENT PRACTICE

The principal strategic direction for Norfolk Island is set by the Community Strategic Plan 2016-2026. The Council's Governance framework deriving from this primary instrument is predicated on two key objectives articulated in that Plan as per figure X below.



Council's 2020/21 Operational plan contains a number of actions responding to these Objectives. In this respect the latest quarterly report indicates that the majority of targets have been met or are on track. Notable departures from plan are disclosed e.g. failure to complete the end of term performance report required under the Integrated Planning and Reporting Framework (IPR) in a timely fashion.

The latest published Annual Report contains relevant statutory reporting and the annual update on progress in achieving the detail of the Operational Plan for the year. However, it is less descriptive in terms of progress in achieving the overall outcomes envisaged by the Community Strategic Plan.

As required by legislation the Council has recently adopted a formal organisational structure comprising a CEO and seven (7) Executive/Operational Managers.

At managerial and operational level, the Governance function is managed by the Governance Officer reporting to the Manager Corporate and Finance.

Although there is no evidence of Council formally adopting a Corporate Governance Framework policy, the essence of its current practice can be observed as follows.

6.1.1.3 COUNCIL'S DECISION MAKING FRAMEWORK

Council's formal decision-making framework is substantially aligned to the requirements of the applied Local Government Act 1993 (NSW) and the related NSW IPR Framework. This comprises the essential elements of a Community Strategic Plan with a 10-year horizon, guiding the formulation of a four-year Delivery Program which is interpreted into Annual Operational Plans on which to base yearly budgets.

Council meeting agendas are formulated to address the key issues facing the local government, informed by reports prepared by management.

Examination of Council's meeting agenda and minutes indicates that business coming before the Council is well structured and subject to normal discretion by Council to declare certain business confidential. The process and publication of Council's decisions appears adequately transparent and compliant with relevant legislation. There appears to be some delays in publishing documents (such as the most recent budget) on Council's website but these are otherwise open to inspection at the Council office.

The quarterly Operational Plan update reports that the implementation of Council decisions once made is efficient and timely.

The Operational Plan report for Q4 2020 states that Council is satisfied with the quality of reporting it receives from the organisation.

Business papers examined indicate a wide range of update and status reports presented to Council. The format of reports seeking any form of determination tend to be structured to address key issues under the headings of:

- Summary
- Background
- Relevance to Strategic Plan and Resourcing Strategy
- Discussion
- Governance/Policy Implications
- Legal Implications
- Environmental Implications
- Social Implications
- Financial Implications
- Conclusion

As a general format this represents a good model, provided the content within those headings is accurate and complete. A sample of recent reports examined raised no questions of lack of diligence in this respect. Reports also tend to be accompanied by various attachments or more detailed information.

6.1.1.4 COMMUNITY ENGAGEMENT AND ACCESS

The Council has a Community Engagement Strategy adopted in February 2018 which provides a framework and good practice guidelines for consultation on issues to facilitate public input to Council's decision processes.

The 2018/19 Annual Report states that 'public meetings are an important method of providing information to the community and involving and collaborating with the community in Council's decision-making processes' (Reference p22).

The following community public meetings were held during the reporting period as identified in the extract from the Annual Report below (p. 22)

Dates	Subject
10 October 2018	Norfolk Island's Environment Strategy 2018 - 2023
21 February 2019	Norfolk Island Airport Pavement Resurfacing
07 May 2019	Draft Operational Plan 2019 - 2020
24 June 2019	Wastewater Treatment Plant – Balmoral Group Australia Pty Ltd

Other Council arranged public engagements:

Dates	Subject
6 – 23 July 1 – 13 October 14 January 15 April	Museum School Holiday Activities
14 July	Exhibitor at Norfolk Island Health and Wellbeing Expo
3 October 2018 (and first Wednesday of the month thereafter)	Tourism Industry gathering
14 November 2018	Launch of Norfolk Island Tourism's branding update
21 February 2019	Tourist Accommodation legislation industry individual feedback and group consultation sessions

Provision is also made in Council's meeting procedures for members of the public to address the Council subject to notice and attendance procedural requirements.

6.1.1.5 COMMITTEES

In addition to these community consultation methods, council has in place five (5) Advisory Committee:

1. Heritage and Culture
2. Public Reserves
3. Rock Feed Source
4. Tourism
5. Young People

Council's website describes the Advisory Committees as follows:

"Advisory committees provide a structure for interested residents and subject matter experts to play an active role in contributing to council policy and direction. Advisory committees provide an important link for council with the community and are supported via other community consultative methods."

The Rock Feed Source Committee is scheduled to meet quarterly but has not met since November 2019. The Terms of Reference of the other committees provide for a monthly meeting although there are months when no meetings occur.

During interviews with both council officers and community representations the value of the committees was questioned. In some instances, concern was expressed about the conduct of the meetings, the issues discussed and constraints on community input. At officer level the requirement to service the monthly meetings with reports, agendas and minutes was identified as time consuming.

A review of minutes of several meetings indicates the committees operate mostly as information exchange forums with limited focus on policy and direction. It was felt that this information exchange could be more easily achieved through council's website and reports from Council meetings.

However, community input to Council is recognised as essential to the effective functioning of a council. An alternative means of community input as well as increasing the involvement of Councillors in strategy and policy development could be achieved through the establishment of Council Committees focussed on the key areas of council responsibility. This would provide a more structured approach to policy development with increased interaction between Councillors and senior staff. Committees could be established for the following key areas:

- Services
- Planning & Environment
- Finance & Corporate Services
- Economic Development

Members would involve Councillors (two or three) and relevant officers who would make recommendations on matters to be determined in full council. Opportunities would be provided to interest groups and individuals, on invitation, to provide input to the deliberations of the committees.

Committee meetings could be scheduled in the week preceding the Council meeting week providing for timely consideration and determination of matters to come before Council.

In summary, this approach has the added advantage of building the working relationship between the Chair and the relevant senior manager supporting the committee. It also provides Councillors with increased opportunities to be engaged in strategy and policy development – central to their roles as Councillors.

In proposing this alternative committee structure, it is still considered valuable to maintain the Young People Advisory Committee. This committee provides an effective forum to introduce young people to the roles and responsibilities of their local council and an opportunity to hone their skills for future involvement as Councillors.

6.1.1.5.1 RECOMMENDATIONS

1. That NIRC consider remaking its Advisory Committee structure through the establishment of four Council Committees:
 - Services
 - Planning & Environment
 - Finance & Corporate Services
 - Economic Development
2. That input to these committees be provided for interest groups and individuals on invitation ensuring the opportunity for community engagement into Council's strategic and policy development processes.



6.1.1.6 COUNCILLOR CONDUCT

The Operational Plan report states that Council failed to adopt a Code of Conduct by the prescribed date and therefore as provided by the legislation, the standard model provided under the Act automatically applies.

The Annual Report 2018/19 provides statutory information about Code of Conduct Complaints as per the following extract (p.80).

Reporting on Code of Conduct Complaints

In accordance with part 12 of the Council's Procedures for the Administration of The Model Code of Conduct, the Complaints Coordinator must arrange for the following statistics to be reported to the Council each year:

	Data	Total number for 2018-2019
a.	The total number of code of conduct complaints made about Councillors and the General Manager under the code of conduct in the year to September	1
b.	The number of code of conduct complaints referred to a conduct reviewer	1
c.	The number of code of conduct complaints finalised by a conduct reviewer at the preliminary assessment stage and the outcome of those complaints	1
d.	The number of code of conduct complaints investigated by a conduct reviewer	0
e.	The number of code of conduct complaints investigated by a conduct review committee	0
f.	Without identifying particular matters, the outcome of code of conduct complaints investigated by a conduct reviewer or conduct review committee under the procedures	Unsubstantiated
g.	The number of matters reviewed by the Division and, without identifying particular matters, the outcome of the reviews	0
h.	The total cost of dealing with code of conduct complaints made about councillors and the general manager in the year to September, including staff costs.	\$5,191.55

Council also has a documented Complaints Management process which is disclosed on the Council's website and contains service levels appropriate to the handling of complaints.

6.1.1.7 AUDIT AND RISK

Council convenes an Audit and Risk Committee quarterly and reports/minutes are submitted to 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 Norfolk Island Regional Council in fulfilling its corporate governance and oversight responsibilities.

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 the General Manager and the management team to ensure appropriate internal risk and audit processes are established and working effectively.

The Audit Committee comprises an Independent Chair, an Independent Member and a Councillor. Its meetings are attended by the:

- General Manager – optional as required
- Group Manager, Services
- Executive Manager, Organisational Development
- Group Manager, Corporate/Chief Financial Officer
- Risk and Internal Audit Officer.

The Council has been working to improve its integrity framework and appointed a new Internal Auditor/Risk Manager in July 2019 to help with this task.

6.1.1.8 FINDINGS

- Generally the Council has adopted a compliant governance framework under the requirements of the LG Act 1993 NSW (NI) with the adoption of the Community Strategic Plan, Operational Plans and Delivery Plans as required, although as referred to later in the review line of sight from strategy to service delivery is tenuous in places.
- Reports submitted by managers to Council for consideration appear well structured and informative for decision making purposes.
- The Community Engagement Strategy is well constructed and there is evidence of it being implemented in a number of key areas.
- The Council's decision making forums are managed efficiently and there is no evidence that elected members are attracting undue formal complaint concerning their conduct.
- The Audit and Risk Committee operates under a good practice Charter but resourcing by the dedicated resources of an Internal Auditor/Risk Manager has only recently been provided.

6.1.1.9 RECOMMENDATIONS

1. That efforts continue to align the Community Strategic Plan outcomes with operational delivery and to improve line-of-sight between the higher order strategies and operational/service delivery standards.
2. That the content of the Annual Report seek improved focused on reporting performance/ implementation against the CSP outcomes and strategies.
3. That Council consider formalising its Governance Framework in an adopted policy to clarify the roles and responsibilities encompassed in the Framework.
4. That the resourcing of the Audit/Risk Management function be reviewed after twelve months to assess its adequacy.



FOCUS AREA 6.1.2: COUNCIL POLICIES AND PROCEDURES

A review of Council's policies and procedures for alignment with the NSW local government framework will identify any areas where inconsistencies occur and comparison with expected good practice will produce suggestions for improvement.

6.1.2.1 APPROACH

This section reviews the extent to which the Council has developed a sufficient suite of adopted Policies to guide application of its governance responsibilities and implementation of its decisions. The issue of providing adequate guidance to managerial and operational staff through documented procedures is also examined.

6.1.2.2 CURRENT PRACTICE

In relation to Council Policies, page X of the 2018/19 Annual Report states:

Council Policies

Council has a robust process to create and amend its policies and procedures. These are detailed in the relevant Policy and Procedure on such and provide the templates that should be used. All policies are to be adopted by Council and all procedures are to be approved by Executive management.

The policies below were adopted during the year in each division of Council:

General Manager	
1.02	Payment of Expenses and Provision of Facilities to Councillors Policy (reviewed and adopted)
1.03	Oversight of the General Manager by the Mayor (adopted)
Governance and Human Resources	
2.01	Creating and maintaining council policies and procedures policy (reviewed and adopted)
2.02	Gifts and benefits policy (reviewed and adopted)
2.12	Business Continuity policy (developed and adopted)
2.13	Risk Management Policy (developed and adopted)
Corporate and Financial Services	
3.02	Hardship Policy (reviewed and adopted)
3.03	Procurement Policy (reviewed and adopted)
3.04	Investment Policy (reviewed and adopted)
Services	
4.05	Depasturing Cattle policy (developed and adopted)

It appears that no policies were repealed or made obsolete during the year.

The former Administration of Norfolk Island, Administration Policy and Guidelines (APGs), transitioned to the Norfolk Island Regional Council with the intention that they be reviewed over time to identify if they are still required and/or should be modified to suit the requirements of the Norfolk Island Regional Council.

At the end of the reporting period, thirty-four APGs remained in place for future review:

- 16 in Governance and Human Resources
- 4 in Corporate
- 14 in Services

6.1.2.3 FINDINGS

- The scope of the review has not permitted detailed review of each of the adopted policies for adequacy in addressing either compliance or fit-for-purpose content. However the broad scan of the range of policies available indicates that the program of ongoing progressive and exhaustive review should be approached on a risk assessment basis to identify those in need of most urgent review and to reconcile the balance of formal Council policies with the administrative policy and guidelines mentioned above.
- Initial indications are that operational procedure manuals and guides are not common in the Council workplace. Given Council's high staff turnover, the availability of documented procedures for all functions would seem to be desirable to assist training and to provide the basis for quality assurance/control.

6.1.2.4 RECOMMENDATIONS

1. That a planned schedule be created for the ongoing review of Council Policies based on setting priority for topics, with a view to completing the full set by the end of 2021.
2. That a gap analysis be undertaken of policy areas requiring new policy instruments and a plan established for their development.
3. That the compilation of Procedure Manuals for key operational functions be progressed on a risk assessment basis to ensure areas of high staff turnover do not suffer from loss or dilution of corporate knowledge.



FOCUS AREA 6.1.5: RELATIONSHIP BETWEEN NORFOLK ISLAND REGIONAL COUNCIL AND ITS GOVERNING AGENCIES

Given the unique statutory basis for the Norfolk Island Regional Council (NIRC), the relationship between the Council and its governing agencies will be assessed for any “dis-connect” or weaknesses in communication and coordination.

6.1.5.1 APPROACH

This review involved information gathering from the websites of the Department of Infrastructure, Transport, Regional Development and Communication (DITRDC) and NIRC. In addition, interviews were undertaken with senior department officers in Canberra and officers on NI as well as senior officers of NIRC. Community consultations also reflected on these issues. The objective was to assess the arrangements in place and consider how they might be improved.

6.1.5.2 CURRENT PRACTICE

The unique nature of intergovernmental relations and operational arrangements operating on Norfolk Island presents significant challenges for strategic planning, long term priority setting, funding arrangements, as well as day-to-day operations. The yet to be achieved objective of the Commonwealth Government together with a “State Partner” working with the NIRC to provide overall planning and service delivery has resulted in level of complexity and responsibility for NIRC not normally experienced by a local government council.

In addition to a broad range of direct local government responsibilities, NIRC undertakes a number of State level responsibilities for the Commonwealth under delegation through a Service Delivery Arrangement (SDA). Details of these responsibilities are outlined in Appendix X.

NIRC operates under continuing Norfolk Island legislation, applied State legislation and its own policies and procedures. The specific roles and responsibilities of the individuals charged with overseeing the operation of this system are set out in Ministerial Directions and Delegations instruments.

The key parties identified in these instruments to oversee the operation of the intergovernmental arrangements are the Minister and Assistant Minister responsible for Infrastructure, Transport, Regional Development and Communication; the Administrator who administers NI as a Territory and represents the Assistant Minister; several senior officers of the department in Canberra; and the NIRC Mayor and General Manager.

The mechanisms in place to achieve the efficient performance of roles and responsibilities and effective delivery of services involves:

- a fortnightly meeting between senior NIRC officers and DITRDC on-island officers. This meeting primarily focusses on the operational aspects of the SDA and council’s delivery of the specified services. Both departmental and council officers report that this arrangement works well. Council management emphasised the need for these meetings to continue at this frequency.
- A quarterly meeting between the NIRC General Manager and the Assistant Secretary Norfolk Island and ACT/NT Branch, Territories Division of DITRDC in Canberra.

This meeting focusses on the strategic issues around major infrastructure and funding arrangements as well as issues associated with intergovernmental arrangements. Again, both parties emphasised a productive working relationship existed with mention that the situation had significantly improved since the arrival of the General Manager at the start of 2020.

In both of the above instances the parties indicated that between scheduled meetings open communication existed with regular email exchanges occurring and telephone conversations as required.

In addition to these structured interactions, regular meetings take place between the Administrator and the NIRC General Manager and, to a lesser extent, with the Mayor. It was again stated that these exchanges had become more productive since the arrival of the new General Manager in early 2020.

6.1.5.3 OPPORTUNITIES FOR IMPROVEMENT

Notwithstanding the effectiveness of these arrangements NIRC expressed a desire to strengthen the level of interaction with DITRC and the Commonwealth, more broadly, to deal with strategic direction, as well as infrastructure and legislative reform priorities.

The scale of the challenges faced in progressing the further development of the Norfolk Island governance model, the long term strategic planning required to address the infrastructure backlog and logistical infrastructure upgrades, and the funding needs associated with achieving these outcomes would benefit from a strengthened level of interaction between the parties at the highest level.

NIRC at elected and officer levels believe this is essential to building a greater level of mutual understanding of respective positions which increases the opportunities of aligning aspirations and outcomes. It is recognised that the infrastructure issues will require long term solutions and increased dialogue at senior levels will be to mutual advantage as it consolidates advocacy opportunities and enhances the management of community expectations.

Also, several Commonwealth and State Government departments and agencies operate on Norfolk Island and impact the daily lives of the community. Appropriate levels of communication amongst these bodies with NIRC would provide greater understanding and appreciation of respective roles and responsibilities as well as assisting in the overall approach to longer term planning and service delivery.

It is understood that such a body exists and involves the following departments and agencies:

- DIRTDC
- Department of Agriculture, Water and the Environment
- Australian Border Force
- Bureau of Meteorology
- Australian Federal Police
- Norfolk Island Health & Residential Aged Care Service
- Norfolk Island Central School

In a spirit of inter-agency cooperation and goodwill it would be appropriate for NIRC to be a party to these meetings. The collective effort of on-island officers across these agencies and NIRC would be to mutual advantage through relationship building and a shared appreciation of the issues faced by them all including the Council and the identification of opportunities for collaboration.

These opportunities for improvement in relationships and engagement could be reflected in an memorandum entitled a Partners in Government Agreement. Such an agreement could contain a description of the roles and responsibilities of the various parties and the mechanisms for coordination and collaboration. This would be a nonjusticiable agreement providing a streamlined description of the Norfolk Island governance model and working arrangements between the parties in a form simplifying the complex interaction of Commonwealth, State and local government responsibilities. In addition to clarifying these relationships across the agencies directly involved this agreement would also assist the wider community in understanding these arrangements which were identified in our community consultations as an element of their unease about the operation of NIRC and its interaction with the Commonwealth.

Such an agreement is long standing between the Queensland Government and local government in the State. The following is a link to the current agreement:

<https://localgovernment.qld.gov.au/resources/policy/local-government/partners-in-government-agreement-2019.pdf>

The agreement sets out the principles on which the relationship is built, the roles and responsibilities of the parties, and the operational and review mechanisms and timetable. The Commonwealth and the NIRC could be the parties to this agreement and include commentary on the role of the State Partner if and when one is obtained.

6.1.5.4 KEY FINDINGS

- The fortnightly meeting between NIRC senior officers and DITRDC on-island staff works well in overseeing operational matters under the SDA.
- The quarterly meeting between the NIRC General Manager and Assistant Secretary in DITRDC focusses on strategic issues and operates well in a spirit of cooperation and problem solving.
- Opportunities should be taken to strengthen and broaden the interaction between key parties on-island and in Canberra to focus on long term strategic planning, infrastructure priorities and funding arrangements to increase co-ordination and collaboration across the parties.
- Relationship building between NIRC, Commonwealth and State agencies on-island would be improved to mutual advantage through a shared appreciation of issues faced and identification of opportunities for collaboration.

6.1.5.5 RECOMMENDATIONS

1. That the fortnightly meeting between NIRC and DITRDC on-island staff continue to address operational issues.
2. That NIRC and DITRDC consider restructuring the quarterly meeting to discuss strategic issues to include:
 - NIRC Mayor and General Manager
 - The Administrator
 - Assistant Secretary, DITRDC.
3. That these quarterly meetings be held face-to-face alternating between Canberra and NI.
4. That a Partners in Government Agreement be developed setting out the roles and responsibilities of the Commonwealth and NIRC in a form simplifying the complexity of the Norfolk Island governance model.
5. That NIRC seek membership of the Commonwealth and State agencies inter-agency forum to build mutual understanding, working relationships and opportunities for collaboration between NIRC and these agencies.
6. That NIRC (with funding assistance from DITRDC) recruit a fulltime Inter-governmental Relations Manager to act as an expert and dedicated advisor / resource to help better co-ordinate engagement activities between Council, the Commonwealth Government (at both Ministerial, Administrator and Departmental level) as well as key community groups and other relevant stakeholders.

6.2 STRATEGIC PLANNING AND REGULATORY FRAMEWORK



FOCUS

- 6.2.1 Consider the Council's application of the Integrated Planning and Reporting Framework which is provided under the Act to guide Councils in their preparation, development or review of plans, strategies, programs and reports.
- 6.2.2 Examination of Council's response to administering continued laws, such as planning laws and the effectiveness of business processes associated with regulation and licensing.

6.2.0 OVERVIEW

The context for planning, environmental management, regulation and licensing on Norfolk Island presents a complicated amalgam of legislation which is substantially outdated, and creates lack of clarity, confusion, unnecessary delays, inability to effectively regulate and enforce compliance as well as occasional, unnecessary expense for legal advice.

FOCUS AREA 6.2.1: APPLICATION OF THE INTEGRATED PLANNING AND REPORTING (IPR) FRAMEWORK

In particular, we will consider the Council's application of the Integrated Planning and Reporting Framework which is provided under the Act to guide Councils in their preparation, development or review of plans, strategies, programs and reports.

6.2.1.1 APPROACH

This section assesses the application of the IPR principles to the Council's strategic planning, both in the general strategic sense and in relation to the particular relevance of the Council's Land Use Planning and Development Control.

6.2.1.2 CURRENT PRACTICE

Extensive resource commitments have produced the key corporate planning instruments as well as the Heritage and Culture Strategy and the Environment Strategy – and other subsidiary documents such as the Pest Management Strategy. The contents of these documents contain intended implementation approaches and actions and do connect substantially to the IPR Framework.

However, although strategising has been strong and good quality, subsequent implementation exhibits major deficiencies. Strategies have been rightfully aspirational but need enhanced realism and pragmatism to enable effective implementation.

There are also gaps in reporting requirements.

In terms of fulfilling the requirements of the LG Act 1993 NSW (NI) and reporting in accordance with the Local Government Regulation 2005 (NSW)(NI) and the Integrated Planning and Reporting Guidelines, the principles for IPR and the preparation and updating of the Community Strategic Plan, Operational Plans and Delivery Plans have been met.

Annual reports have been completed by 30 November each year 2017-2019 (and it is assumed that the Annual Report 2019- 2020 will be tabled and adopted by the current Council – including an 'End of Term' Report tabled at the last meeting of the outgoing Council in which an evaluation reports on Council's progress in implementing the Community Strategic Plan over the previous four years and therefore should connect with responses to the Indicators of Success contained in the Community Strategic Plan 2016-2026.

There are gaps in Annual Report details about implementing the Delivery Program, achieving the objectives in the Community Strategic Plan and responding to the Indicators of Success in the Community Strategic Plan over the previous year.

It is also assumed that a *State of the Environment Report* will be Included in the Annual Report 2019- 2020 because this is a year in which an ordinary election of the Council is being held.

Generally, annual reporting on progressive implementation of the Environment Strategy is a gap given this is highlighted in the Environment Strategy as reporting every six months on progress with respect to the implementation of recommendations extracted from the Environment Strategy and included in the Delivery Program and annually for relevant aspects in the Operational Plan.

6.2.1.3 BODY OF ANALYSIS

Notwithstanding the existence of the Norfolk Island Community Strategic Plan 2016-2026 and a range of special focus strategic plans, there does not seem to be a clear, cohesive long-term integrated strategic direction which expresses desired outcomes for Norfolk Island over a ten year horizon.

There are substantial gaps in the articulation of long-term strategic direction between the Commonwealth (the Department) and Council. There is a consequential lack of on-going monitoring to ensure actions and policies are on track, and who is responsible for doing what by when?

Operational Plans and Delivery Programs have not connected with, and do not align to, day to day priorities and pressures on managers and staff for whom it is much more about resolving competing priorities, “putting out daily bushfires” and knee-jerk reactions to issues. Council departments do not have Business Plans and Performance Plans cascading down from the Community Strategic Plan (CSP), Operational Plan and Delivery Program.

Section 428 (2) of the applied Local Government Act 1993 (NSW) provides that NIRC must report on the current Council’s achievements in implementing the CSP over the four years of its term. At the time of review this has not been completed.

The Integrated Planning and Reporting Framework required under the NSW Local Government Act 1993 presents a real opportunity for the Commonwealth, through the Department of Infrastructure, Transport, Regional Development and Communications (DITRDC) and NIRC to partner in leading change for the island, symbolising a joint approach and establishing more certainty about projects, priorities and budget planning.

The outputs of the Strategic Planning Workshop involving the Mayor, Councillors and General Manager of April 2020 presented an opportunity to consider the question “what have we been trying to achieve and want to achieve for the future”. Out of this could grow a clearer, more cohesive long-term strategic direction and plans which express common desired outcomes for Norfolk Island over the next 5-10 years. However, there does not appear to be a consequential action plan arising from that workshop.

The foundation for this to be achieved is the very recently published “Norfolk Island 2030 – Sustaining our Future: Consultation Report” commissioned by the Office of the Administrator. The outputs of the consultation are however complex and multiple and will need very careful progressive leadership to shape into a Plan with broad support and clear direction.

6.2.1.4 FINDINGS

- Whilst the fundamentals of a compliant IPR framework are in place, the approach to its implementation could be improved by a stroger collaborative and consultative practice.
- A more coordinated integration of strategy and the framework for delivery would improve overall effectiveness and performance.

6.2.1.5 RECOMMENDATIONS:

1. That the Norfolk Island 2030 – Sustaining our Future:
 - a) Be a Plan collaboratively led by the Commonwealth Government through the Administrator’s Office, the Department of Infrastructure, Transport, Regional Development and Communications (DITRDC) office on the Island and Norfolk Island Regional Council — to build partnership both in terms of working arrangements and which is visibly symbolic for the island community
 - b) Establishes clear goals and directions for “what we want Norfolk Island to be and look like” in ten (10) years’ time - based upon extensive community engagement in accordance with the Norfolk Island

Community Engagement Framework - with an Implementation Program (explicitly recognised as needing to be adaptable over time) which includes:

- a comprehensive long-term Legislative Framework
 - targeted funding priorities and attribution
 - allocated roles and responsibilities
- c) Integrates with the Regional Council's Community Strategic Plan. i.e. consistency with directions and strategies, long-term-financial and resource planning
2. That a Liaison Committee be established to provide inputs into:
- a) Norfolk Island 2030 – Sustaining our Future;
 - b) The Norfolk Island Community Strategic Plan;
 - c) Review of the NI Planning Act; and
 - d) The NI Plan Review;
3. That this Committee comprise senior representatives of the Administrator's Office, the NIRC, the Island based DITRDC team, the Council of Elders, the Chamber of Commerce; the Tourism Advisory Committee and People for Democracy to enhance dialogue, communication, build understandings, partnership and trust.

6.2.1.6 STRATEGIC LAND USE PLANNING

6.2.1.7 CURRENT PRACTICE

The key legislation that guides planning and development on Norfolk Island is:

- The NSW Local Government Act (1993) – modified for Norfolk Island;
- The Planning Act 2002 (NI)
- The Building Act 2002 (NI);
- The Environment Act 1990 (NI);
- The Environmental Protection and Biodiversity Conservation Act 1990 (Commonwealth);
- The Waste Management Act 2003 (NI) and Regulations 2004 (NI);
- Sale of Food Act 1959 (NI);
- Planning and Public Health (Consequential Provisions) Act 1996

The Norfolk Island Planning Act (2002) was retained at the time of formation of the Regional Council with some aspects of legislation for the integrated Planning and Reporting Framework, strategic land-use planning and development assessment customised for Norfolk Island through the modified NSW Local Government Act.

The Norfolk Island Plan 2002 (as amended) is established by the Planning Act 2002 (NI) and is the legal statutory document that regulates land use planning and development on Norfolk Island.

The Norfolk Island Advisory Council (NIAC) letter (undated) to the Commonwealth Minister included the following recommended priorities:

- Streamlining the current planning and development process
- Introduction of community title legislation to support a wider range of land ownership structures, particularly in the area of retirement living

- Removing the moratorium on solar photovoltaic units.

The NIAC also advised in this letter that:

Future land use requires careful planning, considering the Island's fragile natural environment and limited land mass.

Norfolk Island maintains a heritage, land use and environmental planning regime. Feedback indicated the community does not support the blanket application of NSW land planning laws and prefers retention and renewal of local regulations.

As part of this process and related to the broader reforms to Norfolk Island laws, a review of the Norfolk Island Plan 2002 is now overdue and should commence without delay.

The Advisory Council suggested the application of the Environmental Planning and Assessment Act 1979 (NSW) and associated legislation would be an unnecessary and inappropriate impost at this time.

Heritage, conservation, visual impact and tourism are regarded as interdependent by many in the community, while the responsibilities for each are divided between the Australian Government, the Regional Council and community groups, close cooperation will be necessary to ensure the best possible outcomes for Norfolk Island.

The island includes the Kingston and Arthur Vale Heritage Area as a World Heritage Site. The Commonwealth Government owns the core of the site but there are a number of private leases as part of the Site which is bounded by the 90m contour and has an overall size of 250 ha. This is clearly an area for stringent planning and management. It is managed by the KAVHA Trust with an annual budget of \$600,000.

6.2.1.8 BODY OF ANALYSIS

The Planning Act 2002 (NI) represents unique legislation which causes cumbersome assessment and determination processes, lengthy time frames and approvals being required for minor, low/non- impact proposals which would be exempt development in NSW. These matters have some significant reputational costs for Council.

This Act needs comprehensive review to provide a foundation for enhanced streamlining of approval processes – with consequent improvements to efficiency and effectiveness of development assessment – including more efficient use of time for the Administrator, the Council, and Council management and professionals.

Target Four (4) in the current NIRC Community Strategic Plan is to prepare a Population Strategy – to develop a Policy for population/visitation to the Island based on existing capacities of water security, power supply, food security, waste management, and liveability. The Mayor and Councillors of NIRC are seeking the review of Planning Legislation to ensure such Island limitations are built into the delivery of both planning and environmental legislation and regulation.

The Norfolk Island Plan (2002) mainly comprises a Strategic Plan and statutory controls for development assessment. The Plan which has had limited amendments since 2002, is considered by some to be 'adversarial' and not pro-active – certainly not aspirational for the future land-use and development outcomes. The Plan also presents an outdated and difficult policy context for current development assessment. The Planning Act 2002 (NI) requires periodic review of the NI Plan every five years (Periodic Review, s. 17(2) Planning Act 2002 NI). The last review was completed in 2009 -10 and the amendments took effect in 2010 - hence the periodic and comprehensive review is five years overdue.

At present the Norfolk Island Plan presents a policy context which is:

- not aligned to, and is indeed incompatible with, the CSP and in terms of development control the NI Strategic Land Use Plan.

- not aspirational in terms of what land-use and development outcomes are sought for its duration of, say, ten years.
- outdated.
- impedes many efficiencies and effectiveness of development assessment.

The Norfolk Island Strategic Plan should:

- align with the CSP and be aspirational – including references to composter, port, rock quarry evaluations.
- be founded upon Council led consultation including a Reference Group comprising the Chamber of Commerce; People for Democracy, the KAVHA, Tourism Advisory Committee, Council of Elders and others (although this may be difficult it is important to try and build more cohesion and social capital underpinning the Plan).
- be based on sustainability (the 4 pillars of economic, social, environmental and governance).
- incorporate research and analysis which respond to the Population Policy resolved upon by Council (resident and tourist) - linked to infrastructure capacity; and embodying a clear implementation plan and nominated responsibilities for actioning.

The Strategic Land-Use Plan would benefit from being more aligned to the form of Local Strategic Planning Statements prepared by all other NSW Councils as required under the NSW Environmental Planning and Assessment Act 1979 (as amended).

Norfolk Island Regional Council agreed to a 'Proposed manner for the conduct of the Norfolk Island Plan Review' in February 2019. The associated report sets out the background briefly and the form and content of the review as specified generally in the Planning Act 2002 (NI). This was also agreed to by the Department (DITRDC) last year.

The process has not commenced as, owing to competing priorities, the Senior Strategic Planner has not been able to prepare the Discussion / Scoping Paper to support the recommendation to the Administrator (as the Minister's delegate) to initiate the Plan review by notice in the Gazette seeking initial community comment. The Senior Strategic Planner is now aiming to have the initial call for comments gazetted and commenced before the current Council finishes its term, noting that it is a preliminary step in the process and the new Council will have the opportunity to carry on with the review.

The range of issues to be considered during the review of the Plan include:

- to reflect the October 2018 amendments to the Planning Act 2002 (NI) and subsequent repeal of the Norfolk Island Planning and Environment Board Act 2002
- to recognise Norfolk Island Regional Council's role in implementing the Plan
- to respond to changes resulting from the planned and anticipated introduction of Development Control Plans for:
 - Kingston and Arthur's Vale Historic Area
 - Community Title
- review in parallel with the review of the NI Plan of Development Control Plans for:
 - Water Resources (added Aug 2020)
 - Outdoor Advertising Structures and Signs) that will be conducted in parallel to the review of the Plan
 - to update various definitions and procedures
 - to correct drafting errors and general housekeeping matters

The Review therefore is not directed at major policy issues but primarily about corrections, updates and 'housekeeping' matters to cover identified gaps or problems that may potentially result in inappropriate use or development; and to seek streamlining and simplification of some approvals.

Consultation for the Review is planned to be by written submissions only which may reduce real community engagement and ownership for Plan implementation.

In relation to resources, Council has a fully qualified planner on staff with substantial experience, but despite being designated the Senior Strategic Planner, the majority of s47 time is spent on development assessment and other planning matters. Retention and development of skills in this area are crucial and their Continuing Professional Development need to be supported..

Other Related Matters

- There are conflicts with sections of the community about cattle grazing on the Kingston and Arthur Vale Heritage Area– an issue which has planning implications which have not as yet been addressed fully.
- The KAVHA had consultants prepare a Development Control Plan for the World Heritage site which was handed over to Council in January 2020 but the Council is now only just starting to initiate the process to make it a statutory instrument – the delay again apparently due to workload of the Senior Strategic Planner.

6.2.1.9 FINDINGS

- The Planning Act 2002 (NI) represents unique legislation which causes cumbersome assessment and determination processes, lengthy time frames and approvals being required for minor, low/non- impact proposals which would be exempt development in NSW. These matters have some significant reputational costs for Council.
- This Act needs comprehensive review to provide a foundation for enhanced streamlining of approval processes – with consequent improvements to efficiency and effectiveness of development assessment – including more efficient use of time for the Administrator, the Council, and Council management and professionals.
- The Norfolk Island Plan's policy context is outdated and impedes effective outcomes being achieved and it too needs extensive revision.
- The decision to begin the review has not been proceeded with owing to administrative constraints.
- The current level of professional planning staff is inadequate to deal with both the planning and development assessment responsibilities.

6.2.1.10 RECOMMENDATIONS

1. That the NI Plan be comprehensively reviewed with timing that integrates with the amendments to the NI Planning Act – and funding and professional resources expeditiously organised to enable this – with staging as follows:

Stage One:

- a) The Strategic Plan be comprehensively reviewed based on the following:
 - i. A foundation of Council led consultation including a Reference Group comprising the Chamber of Commerce; People for Democracy, the KAVHA, Tourism Advisory Committee, Council of Elders – with the aim of building more cohesion and social capital to underpin the Plan)
 - ii. Sustainability (4 pillars of economic, social, environmental and governance)

- iii. A greater level of aspiration for future development and land-uses to achieve the short, medium and long-terms desired outcomes of DITRDC, the NIRC and the island community
- b) Include appropriate references to:
 - i. Evaluations of the optional locations and criteria for the proposed composter, port and rock quarry
 - ii. Resolving acceptable standards and means of waste disposal and wastewater disposal and treatment
 - iii. Heritage and Biodiversity conservation – with Strategic Plan mapping providing the mapping nomenclature for consistent inclusion in the zoning map for Part B of the revised Plan
 - iv. Analysis of the island's infrastructure capacities and relate that to be the basis of Council's declared need for a Population Policy
- c) An Implementation Strategy including nominated responsibilities for actioning:
 - i. Reflection of the previous amendments to the Planning Act 2002 (NI) and subsequent repeal of the Norfolk Island Planning and Environment Board Act 2002
 - ii. Explicit recognition of Norfolk Island Regional Council's role in implementing the Plan
 - iii. Implement the proposed changes to the Development Control Plan for Kingston and Arthur's Vale Heritage Area
- d) Introduce a new Development Control Plan for Community Title
- e) Review the Development Control Plans for: Water Resources and Outdoor Advertising Structures and Signs)

Stage Two:

- a) To implement the Strategic Plan - A comprehensive Review of Part B of the Plan to significantly improve the rigour and pragmatic implementation of the "Planning Requirements" including Zoning. Overlays and the General Provisions
 - b) Updating of various definitions and procedures
 - c) Correction of drafting errors and general housekeeping matters
2. That a qualified planner be recruited as net additional to the current staff establishment and related staff budget, preferably a post-graduate with some (if limited) experience at the right level.
 3. That Budget allocations be enhanced to ensure that planning staff can sustain Continuous Professional Development and have one attendee at the annual NSW Planning Institute of Australia State conference.

6.2.1.11 DEVELOPMENT ASSESSMENT

6.2.1.12 CURRENT PRACTICE

During 2018-2019 (the last financial year for which data is available) a total of 61 Development and Building Applications were accepted and the total number of applications determined was 46. This is comparable with applications accepted in the previous three financial years. There is no data available regarding mean and median times for DA processing (as is required of every NSW Council).

Superficially this appears as a limited workload – particularly given the low impact implications of most DA's. However, the Senior Strategic Planner essentially has to deal with all planning matters and high workload needs to be seen in that context.

The Council collected a total of \$22,266.50 in Planning and Building fees during the reporting period. It is not compulsory to identify the total cost of a proposal in application forms. In the reporting period approximately half the applications provided an estimated cost of the proposal. The total estimated cost of proposals, where stated, was \$3,594,600 – hence total approved development value in 2018/19 may have been around \$7 million.

The types of use, development and activities for which applications were made in 2018/19 are identified in table X below.

Application Type	Number Lodged (2018/19)
New Houses	10
Alterations and additions – Domestic	14
Alterations and additions – Commercial	1
Agricultural – Sheds	2
Subdivision – create additional lots	4
Subdivision – boundary adjust. / amalgamation	3
Change of use – Commercial	10
Change of use – Domestic	2
Resort – alterations and additions	1
Signage	2
Earthworks	1
Public Works	2
Community	1
Modifications of approvals	8
Total Applications	61

Observations were made during interviews that the DA processing is generally too slow and can take 6-12 months for relatively simple applications. The root causes suggested included other urgent matters, multiple referrals and a culture of seeing simple low impact DA's as complex. As a result Council's reputation with the business community is adversely affected.

6.2.1.13 BODY OF ANALYSIS

The Norfolk Island Planning Act 2002 embodies many non-value adding steps for development application processing which are inconsistent with, and much more cumbersome than the NSW Environmental Planning and Assessment Act 1979 (as amended), the relevant contents of the applied NSW Local Government Act for Norfolk Island and good professional planning practice nationally.

More specifically:

- There is no logical reason for Council to have to review every DA as a Referral Agency – the senior Planner or Manager Planning and Environment should have some delegation and discretion to report directly to the Administrator for low impact, fully compliant DA's for more efficient and expeditious decision-making.

- There is no need to publish that DA in the Gazette when deemed acceptable for assessment.
- Contributions and/or actual works to construct/upgrade roads serving new subdivisions should not be required as part of consents – as they lead to ongoing maintenance cost burdens for Council.
- There is a concern that significant non-compliance exists amongst tourist accommodation outlets – e.g. AIRBNB. Short term holiday accommodation needs to be regulated.
- Many signs for tourist industry developments or changes of use should not need approval.

As for the Commonwealth's role under the current process, it is noted that the Administrator is an important control point in terms of making final decisions about land-use and development. It is presumed that the Administrator does or would call upon professional planning support as needed. The Minister has also declared certain DA's "significant developments for fast tracking"– notably, the hospital upgrade and the sewerage scheme.

There is an accepted position within the Council of ensuring that there is not one rule for NIRC and one for community and there is a legally facilitated and appropriate arrangement with Port Macquarie Hastings Council (PMHC) to independently assess and recommend outcomes when Council is the applicant. This is appropriate in probity terms. Involvement of PMHC for assessing Council DA's has been described by NIRC as positive. PMHC also provides specifications for an Environmental Impact Statement when associated with a Council DA. Feedback was that PMHC provided prompt responses and competent assessment. Potentially, the level of support provided by PMHC could be enhanced within a probity framework.

6.2.1.14 FINDINGS

- The Norfolk Island Planning Act 2002 embodies many non-value adding steps for development application processing which are inconsistent with NSW legislation.
- The Administrator is an important control point in terms of making final decisions about land-use and development, given the problems with the underpinning legislation.
- The use of Port Macquarie Hastings Council (PMHC) to provide assessment services as a probity assurance for Council proposals is an effective arrangement.

6.2.1.15 RECOMMENDATIONS

1. That the review of the Norfolk Island Planning Act 2002 mentioned previously be pursued to alleviate the inefficiencies caused to the Development Assessment function.
2. That NIRC consider negotiations with Port Macquarie Hastings Council to extend the Agreement for resource support for:
 - a) assessment of complex DA's
 - b) strategic planning work
 - c) mentoring and training
 - d) ensuring updated knowledge and awareness of NSW "mainland" issues and practices.



6.2.1.16 ENVIRONMENTAL MANAGEMENT

6.2.1.17 APPROACH

This section addresses the multi-faceted issue of Environmental Management including water security, waste water management, solid waste management and Pest Management. Because these functions are in many ways related and suffer from the same or similar challenges, the overall findings are summaries at the commencement followed by the analysis of and recommendations for the individual components in separate sub-sections.

In this was the logical connection between the analysis and the resulting recommendations is maintained more closely.

6.2.1.18 OVERVIEW

The predominantly applicable legislation is:

- The Local government Act (as modified for Norfolk Island)
- The NI Environmental Act 1990
- The NI Food Act
- The Public Health Act
- The Commonwealth EPBC Act and Regulation
- The Environment Act 1990 (NI)
- The Environmental Protection and Biodiversity Conservation Act 1990 (Commonwealth)
- The Waste Management Act 2003 (NI) and Regulations 2004 (NI)
- Sale of Food Act 1959 (NI)
- Planning and Public Health (Consequential Provisions) Act 1996

No NSW Environmental legislation is applicable and the NSW Environmental Protection Agency has no legislated role for compliance and enforcement for Norfolk Island.

There are a number of very credible, well researched and published documents to portray the environmental assets and issues on Norfolk Island – including programs of action and attribution of responsibilities. However, all of the resource commitments to these plans and strategies have not translated into much effective implementation.

There are major issues relating to environmental management and public health - waste management, water security, water contamination and biodiversity research and conservation. These issues arise largely from inadequacies in legislation, organisational leadership, skills and capacity and funding. There are some expressions of required solutions and improvements which go back to 2014-2016 which have still not been operationalised and fulfilled.

6.2.1.19 FINDINGS

The continuation of issues of:

- wastewater contamination of some of the bays (notably Emily Bay), the aquifer and potentially drinking water supplies
- waste disposal over the cliff at Headstone

are untenable and warrant high priority through collaborative efforts to be initiated by NIRC and DITRDC to address these issues by legislative and funding means.

Addressing these issues will need to include:

- water security
- management of sewage treatment and disposal and related water contamination
- waste management – particularly disposal over the Headstone cliff into the Marine Park
- biosecurity (First Point of Entry at the Airport and Ports)
- biodiversity research and conservation

Pest Management and PFAS contamination should be of the highest priority and a requisite for legislative and funding initiatives.

6.2.1.20 WATER SECURITY, WASTEWATER MANAGEMENT AND SEWER INFRASTRUCTURE

6.2.1.21 WATER SECURITY

Water security and quality is fundamental to public health, agricultural production and a credible tourism industry. Currently, wastewater, water quality and waste disposal issues are, potentially, significant deterrents to tourism.

Residents of Norfolk Island do not have a reticulated water supply and rely on rainwater tanks and groundwater for everyday use. In the past three years there has been a 20% reduction in the amount of rain falling on the Island, increasing the reliance on depleting groundwater resources. The impacts of reduced water security are as follows;

- Deterrent and negative impacts on the tourism industry
- Reduced food security because of a lack of water for irrigating pasture and food crops
- Degradation of wetlands and riparian area which reduces the recharge rate of groundwater
- Increased bushfire risk and restricted access to water for the island's fire-fighting services.

Management of effluent disposal is non-compliant in many aspects with general Australian and NSW regulations and standards – particularly the non-regulation of sewage management systems on individual private properties as required by the NSW Local Government Act 1993.

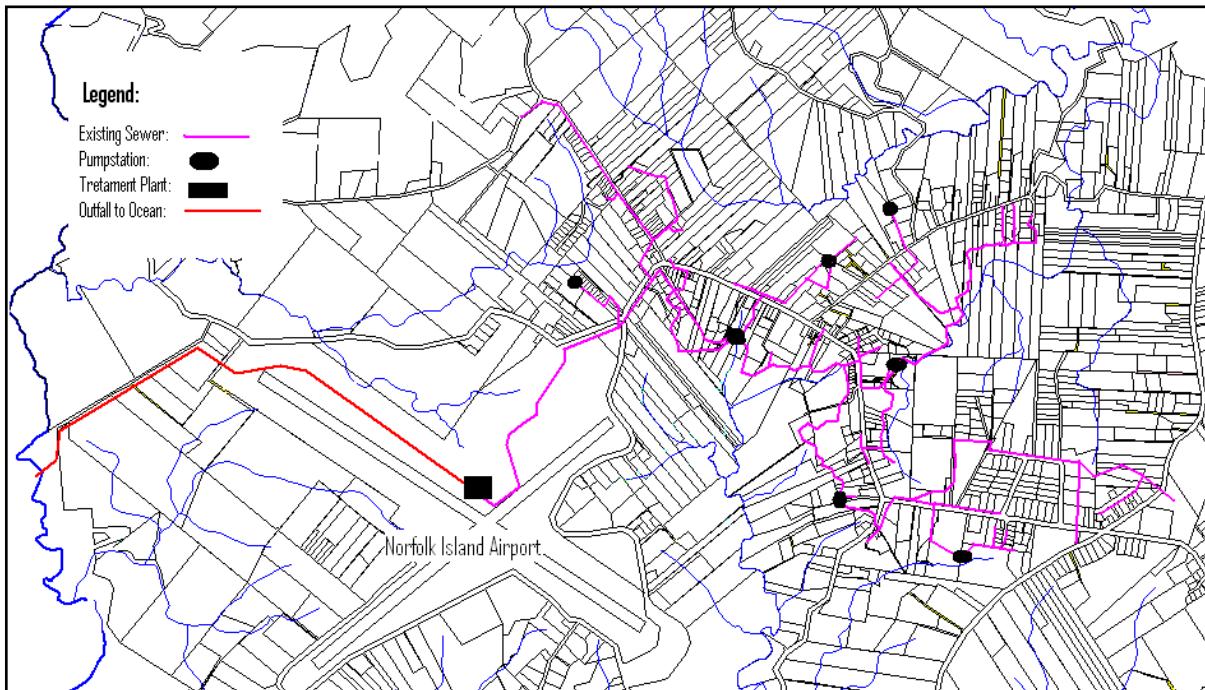
6.2.1.22 WASTEWATER TREATMENT PLANT OVERVIEW

The centralised sewerage system, known as the Water Assurance Scheme, services the built-up areas of Burnt Pine and Middlegate, located in the centre of the island. This system was constructed in the late 1980's after it was discovered that the groundwater supply was heavily contaminated from inappropriate effluent disposal methods.

The treatment process employs the use of rotating biological contactors (RBC). The effluent is treated and both solids and liquids are disposed through an outfall pipe off Headstone Cliff into a small bay, south of the Headstone Creek, into the ocean. This process does not provide any option for beneficial re-use. Modification of this treatment facility could result in higher performance and a more sustainable outcome for the island.

Figure X shows the location of the current wastewater collection and treatment facility, including the seven pump stations and the outfall which releases the effluent into the ocean.

Figure X: Current Sewerage Scheme on Norfolk Island



Currently the Water Assurance scheme and all associated pump stations are constructed on private land. No easements have ever been formalised and there is no legal basis to access these assets. There are currently over 200 affected portions of land – and some are so compromised that the entire portion is unusable. This includes a pump station that overflowed in July 2020 – being the largest of all the seven (7) pump stations. Vehicle access to the site is dangerous and limited. Council is unable to effectively maintain the site due to legal proceedings with the land owner. The owner needs to be compensated for this and Council is not in a financial position to do so.

This was only raised as a concern in 2015 when t^{s47F} could see the huge risk to the Council/Regional Assembly. All sewer lines were surveyed and landowners were meant to be compensated. ^{s47F} estimated this would cost \$800,000 - \$900,000 at that time. No progress has been made in this area and now these land holders are required to pay land rates on land Council utilises.

This malfunction of a pump station in July 2020 led to overflow and significant coliform contamination of Emily Bay, a prime tourist attraction for beachgoers and swimming. The level of contamination and implications for public health would probably lead to immediate requirements for remedial action and potential fines anywhere else in Australia. A Public Notice was issued and a warning sign erected. This is a significant deterrent to tourism. Such contamination has been occurring periodically for some years.

Septic Tanks

There are multiple septic tanks at unrecorded locations which are not maintained or regularly inspected. There is no power or capacity to enforce poorly maintained and non-compliant systems on Norfolk Island. The aggregate impact of such non-regulated, non-maintained on-site systems causes significant contamination of watercourses, groundwater and some ocean areas in proximity of the coast.

The condition of the current infrastructure is such that it is expected to completely fail within 5 years, as described in the Public Works Advisory Options Report. The consequence would be that untreated effluent would discharge into the Marine Park surrounding Norfolk Island, damaging the environment, deterring tourists and potentially attracting a financial penalty under the Environment Protection & Biodiversity Conservation (EPBC) Act.

Council commissioned a major investigation of the management of wastewater on the island, the options to resolve the issues and the associated capital and operating costs. This was the Balmoral Report (2019). Key findings and recommendations of the Report were:

- The current reticulated service connects about 20% of dwellings and has a very high probability of failure within 5 years
- About 1,000 properties have septic tanks and about 25% of those are estimated to be failing with significant consequent risks to water quality in groundwater systems and watercourses.

If there is failure, raw untreated sewage (about 27 megalitres) will transit directly to the ocean before temporary treatment works can be established. With no Environment Protection Agency established, this prohibited discharge under the Commonwealth EBPC Act could lead to penalties of up to \$9 million being applied as well as leading to potential public health impacts that would be clearly unacceptable and untenable. This would have very adverse flow-on impacts on the tourism industry.

The reticulated sewerage scheme subject of the Balmoral report and estimate in 2019) would serve 250 lots – with a focus on tourist accommodation premises.

The current discharge of effluent to the Norfolk Island Marine Park is unacceptable to Parks Australia which oversees the Temperate East Marine Park Management Plan. Parks Australia has advised that wherever possible, the requirements and standards of the New South Wales (NSW) Environment Protection Authority (EPA) in relation to pollution and sewage disposal should be the benchmark to be met. The EPA's Licensing Guidelines for Sewage Treatment Systems and guidelines on Pollution Reduction Programs are a useful reference guide for this purpose.

The management of wastewater on the island has also been discussed as a concern and Council states that it is working towards improved practices in this area to bring Norfolk Island in line with the relevant Australian Legislation. The treatment facility is located near the Norfolk Island Airport (as shown in Figure 1 above). The system carries out a variety of primary and secondary treatment processes before the effluent is gravity-fed via the outfall point, to the ocean. The treatment plant has a design capacity of 380kL/day and currently treats around 70-225kL/day.

As both solids and liquids are pumped directly into the ocean via the same pipeline, the water quality entering the receiving environment would be expected to be of poor quality. This is particularly true given that the plant doesn't provide any tertiary treatment or disinfection. This results in an unknown pathogenic content entering the natural environment.

Council does not have the appropriate facility to stabilise the sludge for beneficial reuse or land-based disposal. The lack of infrastructure currently available to Council means that the disposal of sewerage sludge on the island would be irresponsible given the risk of groundwater contamination and to public health. The current facility is nearing 30 years of age and is past its design life. There is a need for capital funding to bring the plant up to the relevant standards.

Some relevant history about Council's Investment in Wastewater Management Technologies in terms of developing a business case for the upgrade of the Wastewater Treatment Plant is summarized below:

Council applied for a grant of \$250k through the 'Building Better Regions Funds' community investment stream to develop a 'Water Quality and Wastewater Management Strategy'. The strategy was to provide an overarching framework for the management of wastewater and water quality across the island and provide options for appropriate technologies for the management of effluent. Council was unsuccessful for the grant funding and is not in a position to fund this project.

Council has an available \$62.5K to develop a business case for the upgrade of the wastewater treatment facility, which will include projected capital funding requirements and must provide options for beneficial reuse.

This business case will provide an important first step in applying for funding for infrastructure upgrades at the wastewater treatment plant.

The Balmoral Report included options with analyses of related effectiveness, implications and costs. It is understood that the most favoured option has a capital cost estimate of \$17.6 million.

Overall, these issues include some untenable situations and are of the highest priority for resolution.

6.2.1.23 RECOMMENDATIONS

1. That high priority be given to amending - by Ordinance/Disallowable Instrument - the NSW Local Government Act as modified for Norfolk Island to insert the relevant provisions for On-Site Sewage Management including the initiative of a register of septic tanks / onsite sewage management and the requirement for annual inspections and ensuring proper maintenance.
2. That high priority be allocated for DITRDC to work with NIRC to resolve wastewater disposal and treatment issues by:
 - a) the endorsement of the option recommended in the Balmoral report.
 - b) funding the detailed design and capital construction of that option.
 - c) amending the NSW Local Government Act – as adapted for Norfolk Island to:
 - require On-site Sewage Management facilities to be annually inspected by, and registered with, the Regional Council; and
 - enable compliance action to be taken by the Regional Council as needed.
3. That a Management Review be expeditiously undertaken to review and establish the structure and staff capacity of the Environment Team to provide leadership and professional capabilities/capacity to work with DITRDC to drive the implementation for wastewater disposal /sewage reticulation infrastructure and means to achieve acceptable environmental standards and to provide enhanced level of community education;

6.2.1.24 WASTE MANAGEMENT

6.2.1.25 CURRENT PRACTICE

There are longstanding, illegal and unacceptable waste disposal methods on Norfolk Island which have been a major issue for some years - particularly the dumping of waste over the cliff at Headstone. Action has been constrained by the lack of available funding, staff resources and capacity and the complexities of logistics of shipping the waste offshore. Waste disposal methods are non-compliant with general Australian and NSW regulations and standards – particularly the disposal over the cliff at the Headstone site which is disposal into the Marine Park.

This has been a significant issue since July 2014 s47F

when it was clearly stated that the activity is prohibited under the Commonwealth Environmental Protection and Biodiversity Conservation Act Regulation 2000 and cessation of the practice must cease within a limited time. Six years later, the practice continues albeit at a reduced scale.

To address this issue, Waste Capital Expenditure Estimates and Operating Costs have been advised by NIRC as follows:

- Capex items needed to operate and cease ocean outfall
- Frontend Loader \$300K
- Glass Crusher \$250K
- Chipper \$ 400K

- Incinerator \$700K
- Development and installation of Landfill for Asbestos \$350K

Operating Expenditure

In addition to staffing and general operating costs there is an estimate that up to \$800K/year needed to export waste until such time as there is containerised shipping;

This FY \$500K was requested but only \$50K made available – meaning that can export less than 2 months of residual waste and not even consider any legacy waste or recyclables streams.

In 2015 the previous Administration of Norfolk Island engaged AP Consulting Pty Ltd to develop a 'Waste Management Strategy for Norfolk Island'. This document has shaped the decision-making process for Council and has provided a broad overview of the technologies required to cease ocean outfall of solid waste.

Council is currently endeavouring, within significant resource and financial constraints, to implement the recommendations and significant investment has been made in waste management technologies based on this advice.

Table X below describes the initiatives that have been taken, the challenges encountered and the current status of their implementation.

NIRC WASTE MANAGEMENT INITIATIVES		
High density multi-purpose baler and sort line		
CAPITAL COST	OBJECTIVE	CURRENT STATUS
\$413 945	It is expected that this system will process 24% of the island's waste by volume.	The baler and Sort line was installed and commissioned in October 2018. This equipment was intended to be operational by April 2018 however due to shipping delays and constraints it did not arrive on Norfolk Island until late July 2018.
In-vessel aerated composting system		
CAPITAL COST	OBJECTIVE	CURRENT STATUS
\$1,204,500	<p>It is expected that this system will process the largest volume of the island's waste stream representing 32% by volume plus allowing Council to process green waste. It is expected that council will process approximately 16900 m3/year of green waste.</p> <p>The by-product from the composting system will be a saleable product for Council and will provide an important soil amendment medium for Norfolk Island.</p>	<p>Composting system proposed to be installed and commissioned by August 2019</p> <p>Council has completed a full tender process for the design and installation of an aerated composting system and selected the preferred supplier. The composting equipment arrived in October 2018. However there have been delays in the preparation of a DA with EIS and site preparation works. A development application and associated environment impact statement was underway for installation of the composting system at the</p>

		island's Waste Management Centre but has stalled – seemingly due to lack of Project Management.
Metal (car) Baler		
CAPITAL COST	OBJECTIVE	CURRENT STATUS
\$500,000	The baler is expected to process 17% of the islands waste by volume	<p>Metal (car) baler was proposed to be installed and commissioned by August 2019</p> <p>Council also included a metal baler in the 'Building Better Regions Fund' 'Waste Solution for Norfolk Island' application. As this grant was unsuccessful Council also committed to funding 100% of this project. Council conducted a full tender for the supply of a metal car baler.</p>
Surge Hopper for existing glass crusher		
CAPITAL COST	OBJECTIVE	CURRENT STATUS
\$29,000 plus freight	The glass crusher is expected to process over 3% of the islands waste by volume	<p>A surge hopper was purchased by Council and retrofitted to its existing glass crusher.</p> <p>The Surge hopper arrived on Norfolk Island in late July 2018</p>

Both the aerated composting system and the metal baler were proposed to be operational by August 2019 however delays have consistently occurred for these technologies.

Council is still diverting about 20% of the general waste to the Headstone facility. Although council has taken initiatives to reduce this further it still represents an untenable situation.

The waste streams which have also been diverted from ocean outfall include cars, whitegoods, tyres, batteries and asbestos but the following waste streams still sent to Headstone include: builders' waste, bulky metal items, glass, offal/food scraps and furniture.

The solid waste streams that require disposal into the ocean until the installation of the composting system and the metal baler are identified in Table X below.

Waste Stream	Quantity (tonnes/annum)
Food Waste	185
Offal/Butchers' Waste	80
Animal Carcasses	30 - 40 whole cows/horses
Cardboard	126

Builders' Waste	703
Bulky Metal Items	243

This is a total of 1,337 tonnes per annum plus 30-40 whole cows/horses per annum (about 20% of total waste stream) and is an untenable situation. Acknowledging the complexities, this over-the-cliff disposal should not have been allowed to persist for so long.

NSW EPA Licencing and the engagement of the NSW EPA as a state services partner would be beneficial for both the Wastewater treatment and the waste management centre to at least set the framework of appropriate operational standards for public health and environmental management - and ensuring accountability and transparency. (This is particularly relevant when considering ocean outfall of any description as Marine Parks Australia do not have responsibility or regulatory capability above the High-Water Mark (high tide mark). This is a legal and regulatory mix that yields non-action).

6.2.1.26 RECOMMENDATIONS

1. That high priority be allocated by DITRDC to work with the NIRC and Marine Parks Australia to resolve waste disposal issues to cease at earliest opportunity the disposal of waste over the cliff at Headstone – acknowledging that this will need to be based upon Commonwealth Government capital funding.
2. That a Management Review be expeditiously undertaken to review and establish the structure and staff capacity of the Environment Team to provide leadership and professional capabilities/capacity to work with DITRDC to drive the implementation for waste disposal infrastructure and means to achieve acceptable environmental standards and to provide enhanced level of community education.

6.2.1.27 BIOSECURITY – FIRST POINT OF ENTRY

There are significant and urgent non-compliances with biosecurity at both airport and the port management with evidence of First Point of Entry Standards compliance with being emphatically required (after extensions) to be **s47F** These are identified in **Appendix ,<.....>**

With major reliance of the Island population and economy on the goods referenced in the identified non-compliance, the NIRC has to urgently focus on the means to achieve an evidential bases for demonstrable compliance. It is understood that DITRDC have engaged a consultant to assist NIRC to achieve and sustain compliance and that the deadline is achievable.

6.2.1.28 RECOMMENDATIONS

1. That the Ports Management Strategy – including the approval processes, design and construction be given high priority for completion enabling:
 - a) Certainty of supplies
 - b) Enhanced more cost-effective means of waste removal
 - c) Enhanced work safety
 - d) Facilities to support NIRC to achieve bio-security compliance.

6.2.1.29 BIODIVERSITY

The island has some unique environmental assets. At present, the research and identification of biodiversity - fauna and flora – is not adequate to serve the objectives of the Commonwealth Environment Protection and

Biodiversity Conservation Act and additional funds are required to properly fulfil the research needs – with potentially enhanced zoning and planning controls for such conservation.

There is unique biodiversity on NI including highly endangered species such as the Gruen Parrot (about 30 remaining) which, under the EPBC Act and the NSW Threatened Species Conservation Act, should be the subject of much more research and formal protection including environmental zones in the NI Plan. Hence this is a crucially important responsibility on NI – but currently not appropriately researched and actioned.

Some \$350K has now been allocated for vegetation mapping which should produce good information about biodiversity in the National Park and on Council reserves. Flora and fauna species are not mapped on private land and have not been the subject of research except as triggered by individual development applications.

There is a lack of funding and grant opportunities compared to other Local Government areas in Australia– e.g. NIRC cannot currently access National Landcare Programme funding and there is no equivalent to NSW Local Land Services for support.

6.2.1.30 RECOMMENDATIONS

- 1 That the Commonwealth and NIRC establish a task force to address the issue of planning, resourcing and implementation of a strategy to protect the unique biodiversity of Norfolk Island.

6.2.1.31 PEST MANAGEMENT

The extent of pest plants and animals is having major, adverse effects on the island unique biodiversity and agriculture. These have flow-on economic and social impacts. Rats, feral cats and Argentine Ants are very significant pests.

Council has a very well researched and documented Pest Management Plan 2020-25. This also includes well defined actions (45 being categorised as critical) and associated costs. However, little progress has been made on implementation.

The total cost to implement the Management Plan is estimated at \$2.26 million. Injection of major staff resource capacity is also needed to address the threats. Pathogens from imported rocks is also a significant issue – certainly for some sections of the community.

The Management Plan is a well-founded, well researched document providing real clarity of needed approach but, again, lacks implementation due to resource, funding and leadership gaps.

6.2.1.32 RECOMMENDATIONS

1. That a Management Review be expeditiously undertaken to review and establish the structure and staff capacity of the Environment Team to provide leadership and professional capabilities/capacity to manage implementation of the Pest Management strategy including the eradication of the Argentine Ants as a priority;

6.2.1.33 PFAS WATER CONTAMINATION

There is a potential “sleeping giant” given the identification of PFAS contamination of water courses by PFAS following use of the fire retardant in the past associated with the airport. Water quality issues in at least one catchment (Mission Creek) due to PFAS contamination because of the past use of firefighting foam. Council now has at least 1 bore (airport bore) that cannot be used due to high levels of PFAS contamination.

Similar situations on the mainland, e.g. PFAS contamination of groundwater and water courses close to Williamtown RAAF Base NSW, have been major issues in terms of public health and financial compensation claims.

6.2.1.34 RECOMMENDATIONS

1. That the Council and the Commonwealth develop a joint strategy to address the issue of PFAS contamination on Norfolk Island.

FOCUS AREA 6.2.2: REGULATION, REGISTRATION AND LICENSING

Examination of Council's response to administering continued laws, such as planning laws and the effectiveness of business processes associated with regulation and licensing.

6.2.2.1 APPROACH

This section addresses the range of regulatory, registration and licensing functions conducted by NIRC on behalf of the Commonwealth under the annual Service Delivery Agreement.

6.2.2.2 CURRENT PRACTICE

NIRC undertakes a large number of regulatory, registration and licensing functions that span both traditional local government and state functions. The former is sourced in continuing Norfolk Island legislation while the latter two functions are conducted under a Service Delivery Agreement (SDA) between NIRC and the Commonwealth. The SDA is administered through DITRDC and contains numerous licensing and registration responsibilities with substantial requirements for demonstrated compliance by Council.

6.2.2.3 BODY OF ANALYSIS

The Service Delivery Agreement places some very onerous requirements on Council given resource and funding constraints, particularly insofar as requirements for demonstrable compliance is concerned. Whether some of the service obligations are fairly placed upon Council in terms of relevant qualifications and is also debatable. The SDA requires demonstrable compliance for a wide range of functions and services – including many non-mainstream local government functions such as probate, deceased estates, removal of prisoners and drivers' licences. The SDA has been jointly endorsed to extend to 30 June 2021. The SDA for 2021-2022 and beyond needs a joint review between Council and DITRDC to ensure resource capacity, fairness of requirements and well as fulfilment of adequate services to the community.

A number of specific responsibilities under the SDA are reliant on the appointment of Statutory Officers. The arrangements for appointment by the Minister and the subsequent interface with management authority on the Island creates both uncertainty as to reporting lines and accountability for daily performance.

Some delegations for licensing and registrations are made directly by the Minister to some Council staff, which presents a difficult s47F who consequently has no direct formal authority over those staff in carrying out the relevant duties. This not only creates lack of clarity in lines of authority but reduces the capacity of the organisation to respond in managing change with flexibility. Improvements to processes and performance are not easily negotiated under such arrangements. Reviewing the manner of appointment of Statutory Officers and the delegation of local managerial authority to direct operational aspects of their work would seem to be appropriate to achieving a more effective delivery framework for the extensive range of services required under the SDA.

The functions and services pertaining to registrations and licensing together with commentary on their current status are summarised in Appendix <.....>.

Some salient features of these arrangements are summarised as follows:

- There is no Companion Animals Act for Norfolk Island (as is applicable in NSW) and this is considered a gap – particularly as a high proportion of dogs are not registered. Cats are not required to be registered and feral cats are a significant issue for the island's biodiversity.
- A Building Inspector checks new swimming pools for water quality compliance to ensure that conditions of development consents are met, but there are no retrospective inspections of existing pools. The NSW Government plays no role in terms of regulating fencing. Relevant legal requirements are under the NI

Planning Act 2002. There are an unspecified number of pools on the island which have no safety fencing which would be illegal in NSW and which represent a significant public safety issue as well as a risk to any local Council.

- Community Title legislation is not complete in its entirety, making it hard for registration via planning. There is an electronic system in place for community titles. This requires an additional tribunal to be created. Amendments to the NI Planning Act are needed to provide for Community title but this could take up to 18 months. DCP amendment should be initiated as a quicker solution.

In relation to the management of the Court system, there are issues with jurisdiction and where cases can be heard. NIRC asserts that there is a disconnect between the DITRDC and the Judges and better communication and consultation is needed.

There are a number of pieces of legislation which point to the Supreme Court when this could be better administered (less costly) under other pieces of legislation. E.g. NI does not have a Residential Tenancy Act meaning few rights for tenants and, a need to go to Supreme Court for a case to be heard.

For a number of registration/licencing activities there is very little fee income received and the lack of cost recovery is met by Council. Recording and follow up of registrations and their associated fees is not well addressed, generally due to lack of resources. The employment of a ranger to deal with a range of compliance issues – partly or wholly funded by fees – is a very important initiative for Council and DITRDC to consider.

Document management appears to be an area of risk with particular concern about the lack of a record retention and archiving strategy and procedures, including lack of adequate storage facilities. NIRC currently does not destroy any records – there are between 5 and 8 storage areas – none with appropriate air-conditioning or moisture control. There is the potential for valuable records – including some artworks – to deteriorate and be lost. NIRC is working with National Archives (NAA) to develop a retention schedule but there is a lack of resources from both ends. The DITRDC NI team have removed NIRC funding proposals for purpose-built facilities from the budget for a number of years. Given the importance of the issue, it is considered that NIRC and NAA should be able to coordinate to deliver solutions and that DITRDC should support solutions.

6.2.2.4 FINDINGS

- The Service Delivery Agreement places some very onerous requirements on Council given resource and funding constraints particularly in relation to demonstrating compliance.
- The arrangements for appointing Statutory Officers cause some lack of clarity and dysfunction in the managerial direction of resources and hence attainment of outcomes.
- The net cost to Council of administering the functions is inordinate owing to the absence of an effective fees and charges policy.
- The effectiveness of regulation is impeded by the absence of adequate enforcement resources in the organisation.
- The lack of Document Management/Archiving procedures and facilities is creating a risk scenario for Council.

6.2.2.5 RECOMMENDATIONS

1. That a ranger position be established funded in whole or part by the introduction of fees in the Planning and Environment section to enhance compliance for:

- a) Swimming Pool safety fencing – including, given the public safety issues and NIRC risk exposure - retrospective checks on existing pools
 - b) Compliance of On-site Sewage Management facilities
 - c) Dog registration and management
 - d) Cats registration and management
 - e) Apiaries registration and management.
2. That training and collaborative working arrangements with the Building Officer and Customer Care staff be formally established.
 3. That NIRC are enabled by DITRDC to:
 - a) work with National Archives (NAA) to develop a retention schedule and coordinate the delivery of solutions for records and archiving
 - b) develop a concept design for appropriate, purpose-built facilities (air-conditioned and with moisture control) to sustain the life of records, artworks, documents etc
 - c) Finalise a digitisation plan.
 4. DITRDC support resultant and appropriate funding proposals for budget allocations in 2021/2022 budgeting.
 5. That a Review be undertaken of Statutory Appointments to seek to establish improved working and management reporting arrangements - including consideration of more delegation of authority by the Minister to the General Manager for non-judicial appointments – thereby having appointed staff in the Customer Care team reporting directly to the Manager of Customer Care and not unitarily back to the Minister; moving away from the current mixed management control and reporting arrangements.
 6. That a review be undertaken jointly by DITRDC and NIRC of the terms of the Service Delivery Agreement to ensure resource capacity, fairness of requirements as well as fulfilment of adequate services to the community.



6.3 FINANCIAL SUSTAINABILITY



FOCUS

- 6.3.1 An overview of recent financial performance.
- 6.3.2 An evaluation of the appropriateness of current long-term financial forecasts, including inputs and assumptions underpinning revenue and expenditure forecasts, the appropriateness of renewal and new/upgrade works included in the projections and any associated ongoing operating cost implications, financing assumptions and other relevant factors.
- 6.3.3 An evaluation of NIRC's current revenue abilities, including the role of user charges and land-based rating systems, and identifying ways in which revenue raising could be structured to provide a sustainable revenue base including the ability to minimise the effects of catastrophic events.
- 6.3.4 Reviewing the financial and cost recovery position of NIRC's government business enterprises, including airport, electricity, telecommunications, liquor bond, waste management and water assurance, and current and optimal ownership, management and service delivery arrangements for these enterprises.
- 6.3.5 Assessing the current fire service arrangement to the community and airport, the financial implications of each of these services to NIRC and the community, and any potential improvements that may be achievable to enhance NIRC's overall financial position.
- 6.3.6 Determining the financial implications associated with the "State disconnect" for matters such as lack of accessibility to grants and economic stimulus opportunities that may otherwise be made available to Councils across Australia to enhance financial viability during times of adversity.
- 6.3.7 Identifying financial sustainability risks for Council and develop potential mitigation actions.
- 6.3.8 Scoping potential for expanding the Island's current economic base and the potential for new opportunities.

FOCUS AREA 6.3.1: RECENT FINANCIAL PERFORMANCE

An overview of recent financial performance.

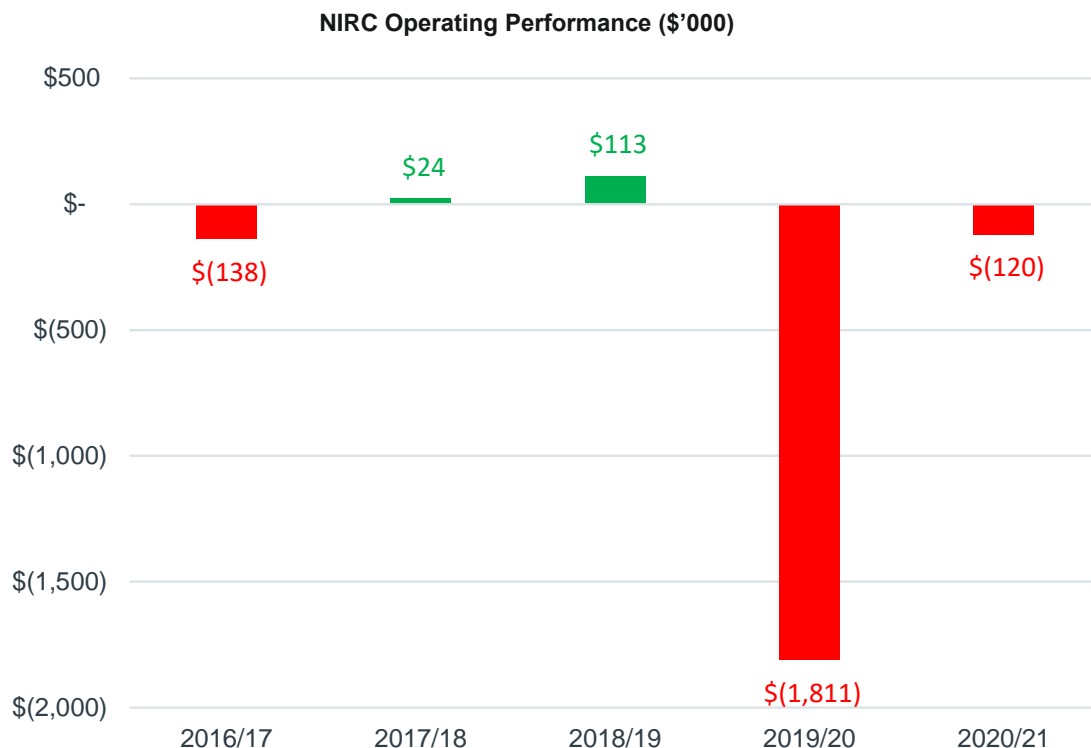
6.3.1.1 APPROACH

This section provides a high-level overview of the financial performance of NIRC based on published financial statements and budgets to provide background context for subsequent sections of the report. A separate financial performance assessment and audit of NIRC since its establishment is being undertaken by Nexia Australia and New Zealand. The Nexia report should be read in conjunction with this assessment as it will provide a greater level of detail on the historic financial performance of NIRC.

6.3.1.2 NIRC OPERATING PERFORMANCE

NIRC recorded small operating surpluses in 2017/18 and 2018/19 but recorded a substantial deficit of \$1.81 million in 2019/20 from a combination of COVID-19 revenue impacts and an increased cost base.

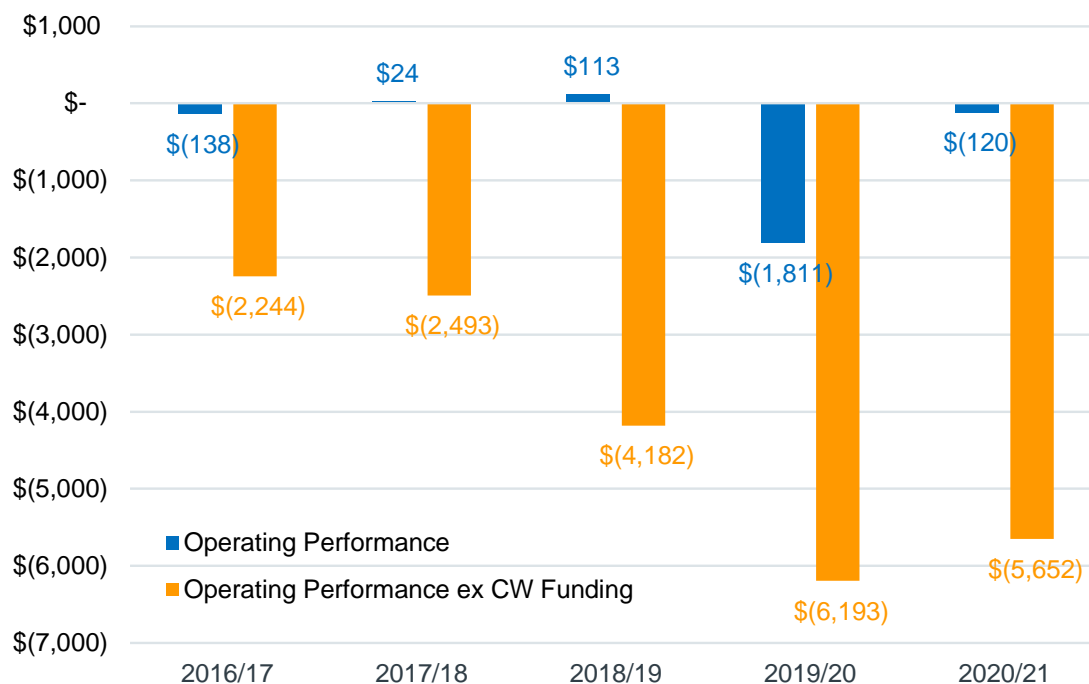
Despite a budgeted reduction in expenses of \$2.33 million in 2020/21 and a further increase in Commonwealth operational grant funding, ongoing impacts associated with COVID-19 are expected to see a significant reduction in visitor-based revenues (e.g. passenger fees, liquor bond sales) leaving a budgeted deficit of \$0.12 million in 2020/21.



Source: NIRC Financial Statements and Budget

When looking at NIRC's operating performance before Commonwealth operating grants are applied, the extent of the pre-grant operating deficit has deteriorated since the establishment of NIRC.

NIRC Operating Performance Including and Excluding Commonwealth Operational Grants/Contributions (\$'000)

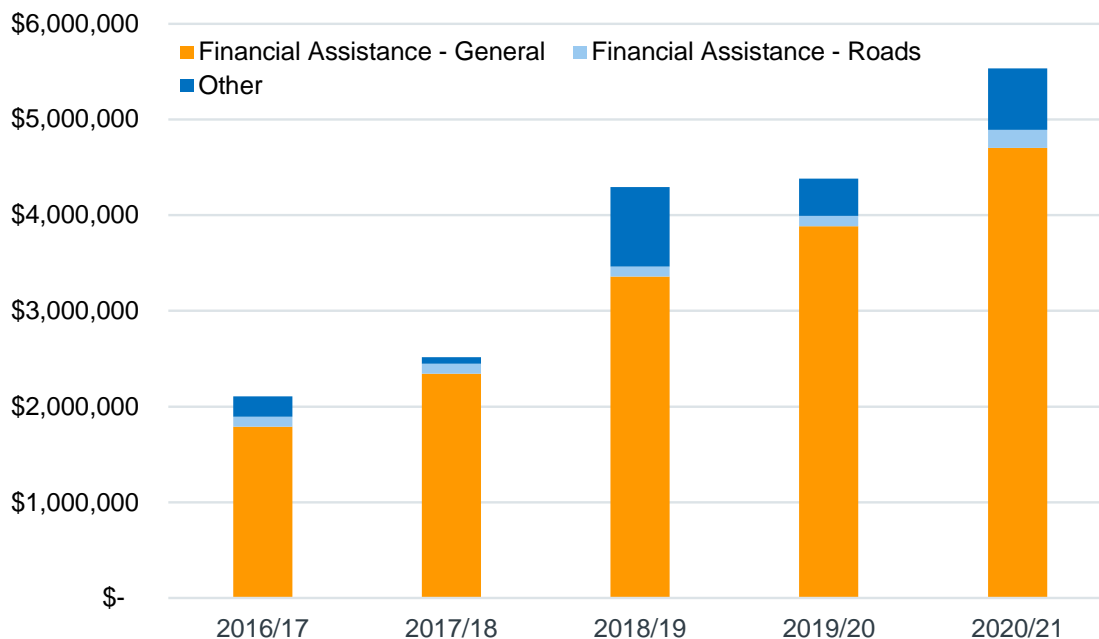


Source: NIRC Financial Statements and Budget

It is important to note that the budget was developed on the basis that air services would return to normal in late 2020. With the recent announcement by Air New Zealand of a continuation of limited services through to the end of March 2021, the budget will be placed under considerable pressure and a deterioration in the predicted deficit is likely to occur unless additional expenditure cuts are made. Further, NIRC has indicated that \$0.15 million in election costs will be incurred and are not included in the original budget estimates.

The figure below highlights the significant operating grants/contributions required by NIRC from the Commonwealth to keep it afloat, and the heavy (and increasing) reliance of NIRC on this financial assistance.

Commonwealth Operational Grants/Contributions (\$'000)



Source: NIRC Financial Statements and Budget

In attempting to predict the budget requirements of NIRC, Australian National Audit Office (2019) indicates that the department did not appropriately consider planned increases in service standards to meet mainland standards and as such “... *the cost of delivering services was under-stated*” (p.26) in initial budget estimates and advice on transitioning to the local government authority arrangement “... *was appropriate but could have benefited from more detailed analysis in relation to the estimated cost of service delivery*” (p.9). Further, “*the baseline used for the calculation of Financial Assistance Grants to support the NIRC’s delivery of local government services was not adequate, but was revised to a more appropriate level in 2018-19*” (p.44) and “*there was no formal channel established by the department for the NIRC to apply for additional grant funding normally provided by states and territories*” (p.44).

It is apparent that the initial estimates of NIRC’s operating costs to meet its infrastructure and service obligations were much lower than what has been experienced in reality. In addition, the substantial reliance of NIRC’s financial performance on tourist visitation has been clearly highlighted over the past six months. NIRC’s financial capacity is insufficient to deal with such a reduction in the user charge revenues that NIRC is reliant on to fund its operations.

6.3.1.3 OPERATING PERFORMANCE BY SERVICE/FUNCTION

The following table provides a summary of the budgeted surplus/deficit of each NIRC service/function both before and after overheads have been allocated.

Operating Performance by Service/Function, 2020/21 Budget (\$'000)

Service/Function	Surplus/(Deficit) before Overheads	Surplus/(Deficit) after Overheads
Plant	\$ 899	\$ 638
Liquor Mart	\$ 840	\$ 291
SDA	\$ 667	\$ -
Waste	\$ 348	\$ 278
Electricity	\$ 260	\$ 223
Telecom	\$ 157	\$ 45
Private Works	\$ 40	\$ 36
Norfolk Fuel	\$ 35	\$ (27)
Registry/Court/Lands	\$ 1	\$ 1
Economic Development	\$ (0)	\$ (0)
Emergency Services	\$ (4)	\$ (4)
Council/Community Housing	\$ (4)	\$ (16)
Tanalith	\$ (6)	\$ (7)
TV Broadcasting	\$ (10)	\$ (11)
Composting	\$ (16)	\$ (16)
Public Health/Safety	\$ (30)	\$ (38)
Quarry	\$ (37)	\$ (52)
Library	\$ (47)	\$ (50)
Sewerage	\$ (105)	\$ (135)
Radio Broadcasting	\$ (112)	\$ (173)
Pest/Noxious Weed Control	\$ (143)	\$ (171)
Garage	\$ (300)	\$ (335)
Tourism	\$ (348)	\$ (494)
Store	\$ (424)	\$ (428)
Building/Development Control	\$ (426)	\$ (457)
Environment/Parks/Reserves	\$ (512)	\$ (549)
Roads	\$ (1,039)	\$ (1,307)
Airport	\$ (1,512)	\$ (1,623)
Total	\$ (1,830)	\$ (4,381)

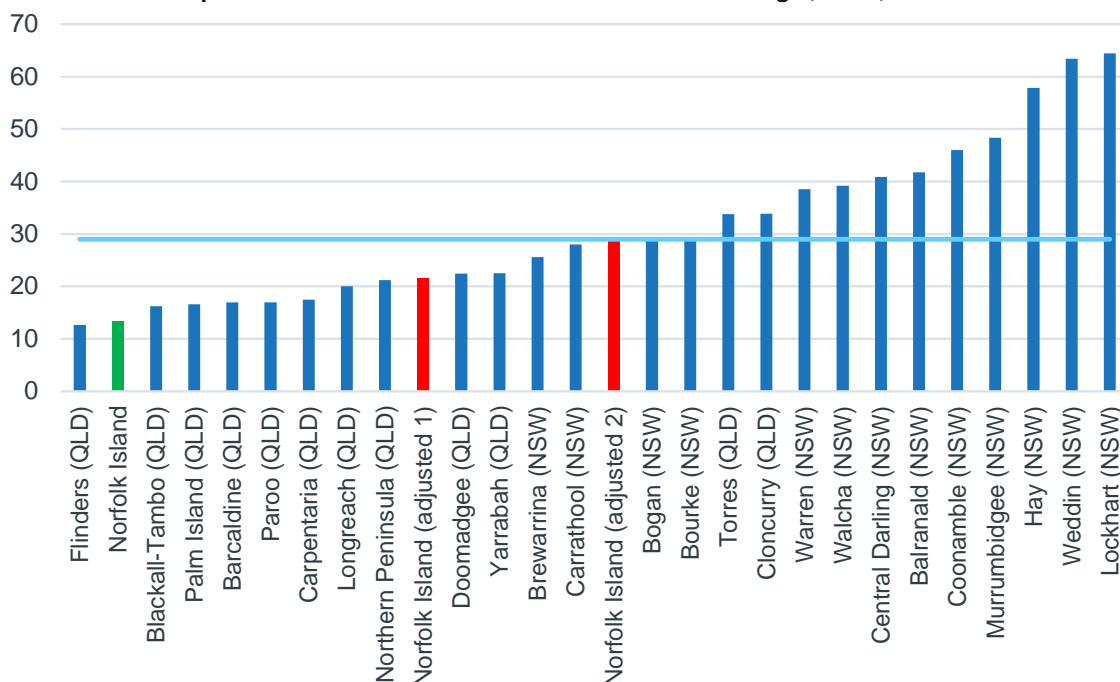
Source: NIRC Budget

The \$4.38 million net deficit identified in the above table is funded from general purpose revenue (i.e. rates, Commonwealth general financial assistance grants, interest revenue), which also funds a range of other directly allocated costs of running the local government totalling an additional \$1.98 million. Plant operations (via internal hire revenue arrangements), the liquor bond and the SDA provide the largest financial contributions to NIRC before the allocation of overheads, while the airport, roads and environment/parks/reserves require the greatest financial contributions from NIRC before the allocation of overheads.

6.3.1.4 RESOURCING EFFORT

NIRC's labour costs grew by \$4.22 million (or 57.7%) from 2016/17 to 2019/20, increasing from 32.5% of total operating costs to 39.2% of total operating costs in that period. This increase in labour costs was not really due to a significant increasing in resourcing, but instead primarily relates to the increase in the rate of pay associated with the standardisation of wages associated with the move to the Australian award and the NIRC Enterprise Bargaining Agreement. With NIRC reducing its workforce at the end of 2019/20 in response to financial pressures largely attributed to Covid-19, labour costs were reduced by \$0.99 million (or 8.6%) in the 2020/21 budget.

At the end of June 2020, NIRC employed 131 full-time equivalent employees (FTE). A comparison of the number of residents serviced per FTE for local governments serving 1,500-5,000 residents across New South Wales and Queensland was undertaken, with the results provide in the below figure. A higher value potentially represents a more efficient resourcing outcome for local governments with comparable operating requirements and methods.

Residents Served per Council FTE vs NSW and QLD Councils Serving 1,500-5,000 Residents

Source: Council Financial Statements, ABS (2020) Catalogue 3218.0 Regional Population Growth Australia.

Notes: Norfolk Island (adjusted 1) removes non-traditional service function employees. Norfolk Island (adjusted 2) removes non-traditional service function employees and increases the population base by 600 persons to account for visitor numbers.

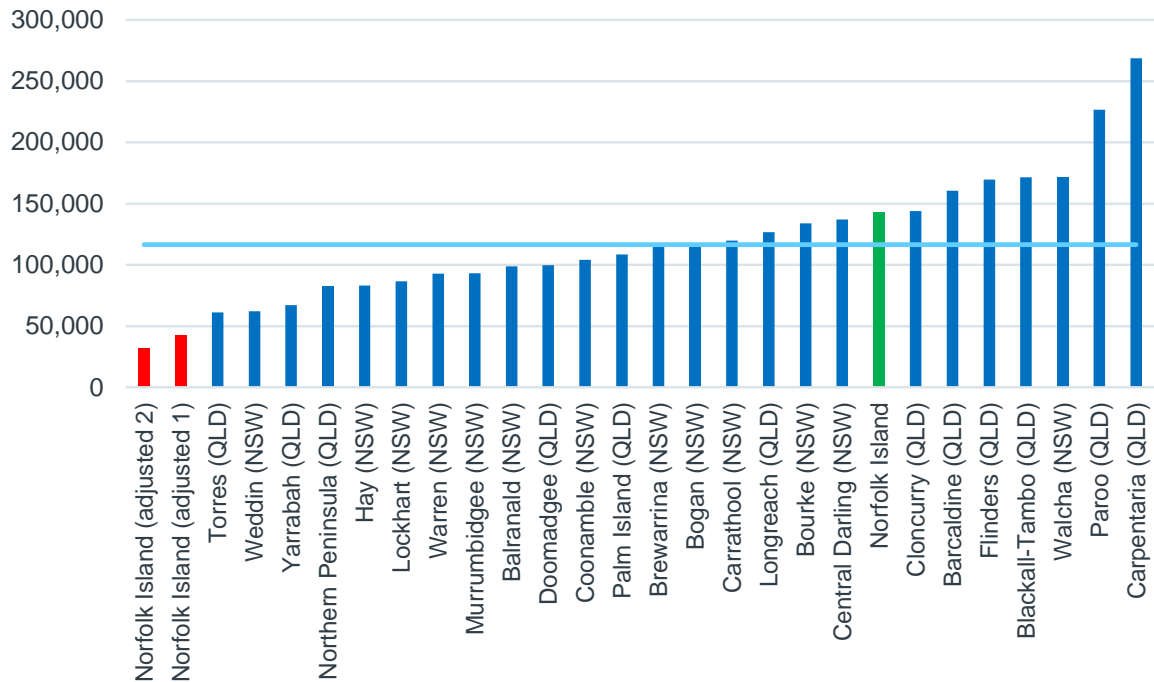
NIRC's ratio of 13.3 persons per FTE is well below the median outcome for the sample of 29 persons, suggesting a relatively high level of staffing to service the size of its resident population. When non-traditional service function employees are excluded (equating to 50 FTEs), the ratio of 21.5 persons remains below the median outcome but one-third of benchmarked local governments feature lower ratios. When an additional adjustment is made to allow for the need to service a high visitor population (estimated at the equivalent of 600 persons), the ratio improves further to be comparable with the median outcome.

It should be noted that the calculated ratio does not consider relative population density. Many of the local governments against which NIRC is compared in the above figure service very large geographic areas and have very high resourcing demands to service these areas (e.g. extensive road networks, large distances between townships), with median population density being 0.3 residents per square kilometre versus the Norfolk Island ratio of 50.5 residents per square kilometre. It would be expected that NIRC should benefit from enhanced population density from a resourcing perspective.

6.3.1.5 ASSET PROVISION & RENEWAL

The below figure provides a comparison of the replacement cost of total assets per resident for Councils serving 1,500-5,000 residents. NIRC's ratio is above the median outcome, but when adjusting for non-traditional local government infrastructure responsibilities and the tourist population on the island, its asset base per capita is actually very low which is reflective of the relatively high population density of the island relative to other local government areas with similar-sized populations.

Gross Carrying Value of Assets per capita vs NSW and QLD Councils Serving 1,500-5,000 Residents

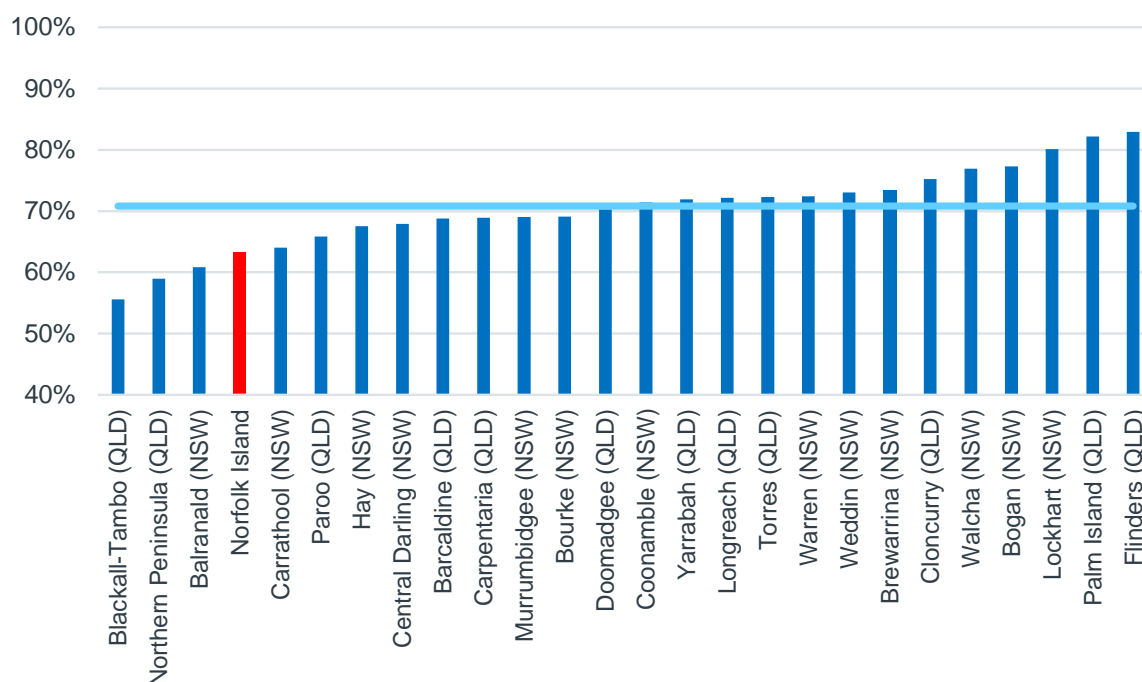


Source: AEC, Council Financial Statements

Notes: Norfolk Island (adjusted 1) removes non-traditional service function assets. Norfolk Island (adjusted 2) removes non-traditional service function assets and increases the population base by 600 persons to account for visitor numbers.

The asset consumption ratio is calculated as the net carrying value divided by the gross carrying value and measures the extent to which assets have been consumed (a higher figure represents newer assets which are generally in better condition). NIRC's current aggregate asset consumption ratio is estimated at 63%, aided by the recent significant investment in renewal works on the airport runway.

Asset Consumption Ratio vs NSW and QLD Councils Serving 1,500-5,000 Residents



Source: AEC, Council Financial Statements

When looking at the asset consumption ratio by service function, works, electricity, telecom, community/social services, liquor bond and other assets all feature asset consumption ratios of less than 50% indicating that that over half of the value of all assets has been consumed and suggesting significant reinvestment and renewal requirements through the short to medium term.

Worley Parsons (2015, p.1) indicated that "...the Norfolk Island road infrastructure is in poor condition". The recent program of road renewals would have assisted in improving the ratio to some extent, although much of the road network remains in poor condition. Also, of high concern are the low ratios recorded for the essential service areas of electricity and telecom.

Asset Consumption Ratio by Asset Type

Function	Ratio
Airport	84%
Works	45%
Electricity	49%
Telecom	39%
Plant & Equipment	59%
Sewerage	58%
Community/Social Services	32%
Fuel	52%
Waste	52%
Liquor Bond	32%
Other	46%

Source: AEC, NIRC

6.3.1.6 CONSULTATION OUTCOMES

Initial discussions with NIRC highlighted that while it has achieved reasonable operating performance since establishment and prior to Covid-19, the effects of Covid-19 on revenues required a significant response in terms of financial cutbacks and highlighted that the financial position of NIRC was actually precarious given the reliance on tourist visitation to fund operations. Further, NIRC has very limited capacity to cope with unanticipated financial shocks, as evidenced by the substantial operating deficit recorded in 2019/20 and the

likelihood of further significant operating cost cuts being recorded in 2020/21 as a result of longer than expected Covid-19 air service and tourist visitation impacts.

Even in the absence of Covid-19, there is a range of potential stresses and vulnerabilities that could threaten NIRC in achieving operating surpluses in future years without additional financial assistance from the Commonwealth, adjustments to rates and charges, a reduction in infrastructure and/or service responsibilities, and/or a reduction in service levels to the community.

Identified financial sustainability constraints raised during the onsite discussions are summarised in the table below.

Summary of Financial Sustainability Constraints Raised During Consultation Process

Issue	Commentary
Lack of Economies of Scale	<ul style="list-style-type: none"> There are a small number of ratepayers but extensive and expensive infrastructure and service responsibilities, which means that most aspects of infrastructure and service provision will always require significant subsidisation irrespective of the level of government. While economic development and growth has the potential to increase the island's capacity to pay for infrastructure and service provision, it will never be self-sustainable given the limited capacity of the island and its unique characteristics.
Poor Asset Condition and Lack of Effective Asset Management	<ul style="list-style-type: none"> There is no effective asset management and preventative maintenance program in place, with asset maintenance and capital replacement largely reactive rather than proactive given limited budgets and resources and the generally poor condition of infrastructure and equipment. The capital works program is generally constructed on the basis of what assets are about to fail next as a consequence of historical mis-management, and major projects are not included in the capital works program given their reliance on uncertain external funding. NIRC understands that certain projects must proceed but they can't be scheduled due to a lack of funding capacity.
Lack of a Strategic Long-Term Plan for the Island	<ul style="list-style-type: none"> There is no clear, cohesive, costed and funded strategic plan for the island in relation to social, economic, environmental and financial sustainability. A whole of government approach is required to ensure a common strategic focus and purpose for the benefit of the community – NIRC and the Commonwealth need to partner to develop and deliver this plan, with a focus on practical implementation rather than just investigation and reporting. Despite an array of reports and studies having been completed over the past two decades, actions have been somewhat limited against the recommendations contained within these reports and studies. However, it is acknowledged that a few key projects have recently, or are about to, come to fruition – including the airport runway reseal, the airport master plan, the 4G telecommunications project and the renewable energy and battery storage project.
Inadequate Commonwealth Financial Assistance Grants	<ul style="list-style-type: none"> Commonwealth financial assistance grants were not reflective of base level funding requirements for NIRC in the initial years of establishment. While they have been increased to much improved levels in recent years, NIRC remains financially constrained to provide the array of services it is presently responsible for.
State Disconnect	<ul style="list-style-type: none"> NIRC and the community are unable to access State-type grants and other levels of support across a range of areas of its operation (e.g. environment, tourism, electricity subsidies, home builder grants).
Significant Legacy Issues Require Urgent Attention	<ul style="list-style-type: none"> There are significant legacy issues on the island that require urgent attention and are beyond the scale and scope of NIRC, particularly given its financial situation, with examples including waste management, wastewater management, and water security and quality). While numerous studies and potential projects have been identified to address these issues, rectification works will come at a considerable upfront and ongoing financial impost which will not be able to be afforded by NIRC and the local community without external funding support. Increasing compliance requirements are also expected to place NIRC under further financial pressure, including First Point of Entry and biosecurity requirements at the airport and ports.
Management and Technical Skills Shortfall	<ul style="list-style-type: none"> There is a lack of project management expertise and experience, which is impacting project planning, delivery and cost. It is extremely difficult to attract and retain professional staff with local government experience, and a lack of skills will generally lead to poor decision making. There is a very high rate of turnover of staff, which is resulting in a loss of corporate knowledge, high recruitment costs and increased training needs.

Source: AEC

6.3.1.7 OTHER ISSUES

A number of other issues have the potential to significantly impact NIRC's financial performance in the near term, including:

- Limited unrestricted cash holdings of \$0.65 million at 30th June 2020 which may be insufficient to meet NIRC's obligations if operating revenues do not improve.
- Impact on budgeted operating revenue from a dwindling cash position, with interest revenue of \$0.33 million budgeted in 2020/21.
- Impact on budgeted operating costs from the outcomes of recent asset revaluations and additions/upgrades and associated depreciation, with the potential increase of the order of \$2 million per annum.

6.3.1.8 KEY FINDINGS

- NIRC recorded a substantial operating deficit in 2019/20 from a combination of COVID-19 revenue impacts and an increased cost base.
- While a small operating deficit was contained within NIRC's initial budget for 2020/21, a prolonged reduction in air service and tourist visitation combined with declining interest revenue and a potential near-term increase in depreciation of around \$2 million will result in NIRC recording a substantial operating deficit by the end of the financial year.
- NIRC may also face cash flow problems through 2020/21 because of limited unrestricted cash reserves and upcoming financial obligations.
- NIRC's financial performance, combined with an initial under-estimation of the sustainable level of operating revenue required for NIRC to meet its ongoing infrastructure and service obligations, has necessitated an increasing level of financial assistance and operational funding from the Commonwealth.
- Plant operations (primarily through internal hire arrangements), the liquor bond and the SDA provide the largest financial contributions to NIRC before the allocation of overheads, while the airport, roads and environment/parks/reserves require the greatest financial contributions from NIRC before the allocation of overheads.
- The extent of financial contributions from NIRC required by the airport is likely to increase significantly because of the latest depreciation estimates following a revaluation and recent additions/upgrades.
- NIRC's current staffing level of 131 FTEs is relatively high when compared to the industry benchmark, but when the variety of non-traditional functions undertaken by NIRC and the tourist population are considered the staffing level is consistent with the industry benchmark.
- NIRC's assets have a higher gross value compared to the industry benchmark, although when adjusting for the significant infrastructure required to provide the airport, electricity, telecom, etc. the assets are actually the lowest of the sample of local governments by a significant margin due to relatively high population density on the island when compared with local governments serving a similar-sized population base.
- The extent of accumulated depreciation relative to gross value for several asset classes highlights that there is likely to be significant reinvestment and renewal required through the short to medium term, including road, electricity and telecom infrastructure.
- Asset management is largely missing from within NIRC, given the reactive nature of dealing with failing assets, limited resourcing and a constrained budget.
- NIRC has limited project management expertise and experience, which is impacting project planning, delivery and cost.

- Despite an increase in Commonwealth financial assistance grants in recent years, NIRC remains financially constrained to provide the array of services it is presently responsible for which is being exacerbated by increasing compliance requirements and obligations.
- There is no clear, cohesive, costed and funded strategic plan for the island in relation to social, economic, environmental and financial sustainability and there are significant legacy issues that require urgent attention and are beyond the scale and scope of NIRC.

6.3.1.9 RECOMMENDATIONS

1. 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 rather than just investigation and reporting.
2. 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 this review.
3. 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.



FOCUS AREA 6.3.2: LONG TERM FINANCIAL FORECASTS

An evaluation of the appropriateness of current long-term financial forecasts, including inputs and assumptions underpinning revenue and expenditure forecasts, the appropriateness of renewal and new/upgrade works and any associated ongoing operating cost implications, financing assumptions and other relevant factors.

6.3.2.1 APPROACH

This section undertakes an assessment of the accuracy of historic financial projections in addition to a review of the appropriateness of the inputs and assumptions underlying NIRC's most recent long-term financial forecasts and the sensibility of the most recent forward financial projections.

6.3.2.2 CURRENCY OF LONG-TERM FINANCIAL PLAN

The assessment is undertaken with reference to NIRC's most recent long-term financial forecasting model and associated Long-Term Financial Plan 2020-2029 (NIRC 2019), which is based on the 2019/20 budget. No long-term financial plan has been prepared yet for the 2020/21 budget given a lack of accounting resources. Failure to complete this plan represents a legislative non-compliance for NIRC, with:

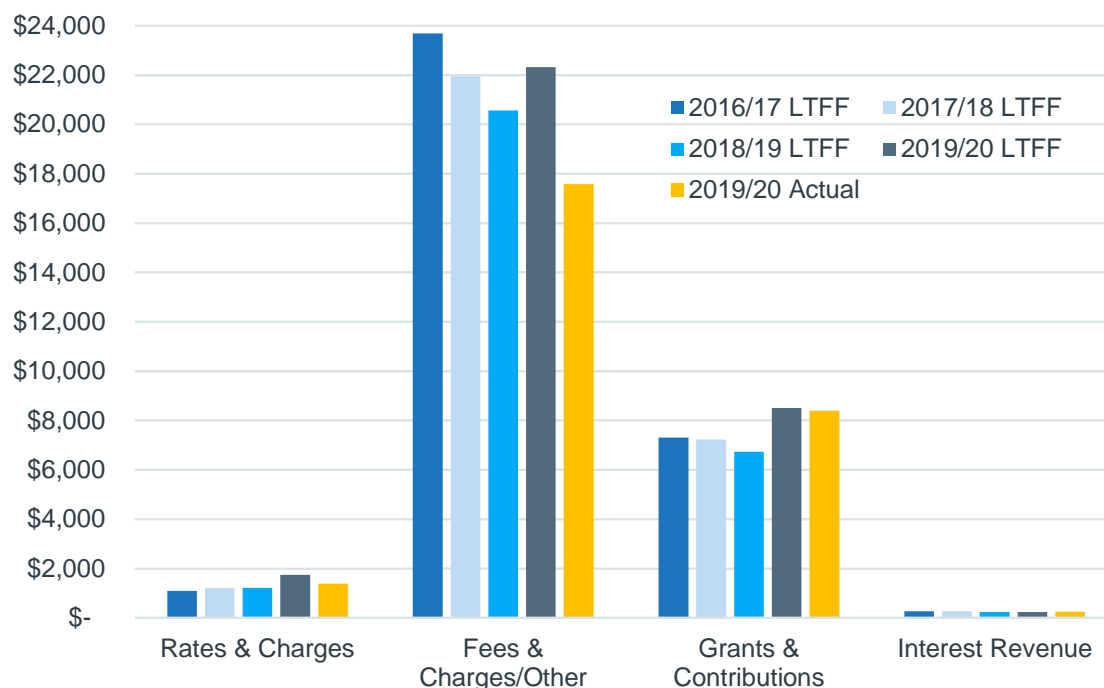
- Section 403 of the *Local Government Act 1993* requiring the plan to be prepared.
- The NSW Integrated Planning and Reporting guidelines (NSW Government 2013) outlining that the plan must be updated at least annually as part of the development of the Operational Plan.
- Section 406 of the *Local Government Act 1993* enforcing the requirements of the guidelines.

6.3.2.3 EX POST ASSESSMENT OF HISTORIC FINANCIAL FORECASTS

As a starting point, an assessment was undertaken of the accuracy of the financial projections contained in previous plans by comparing actual 2018/19 and 2019/20 actual outcomes against historic forecasts from 2016/17-2019/20.

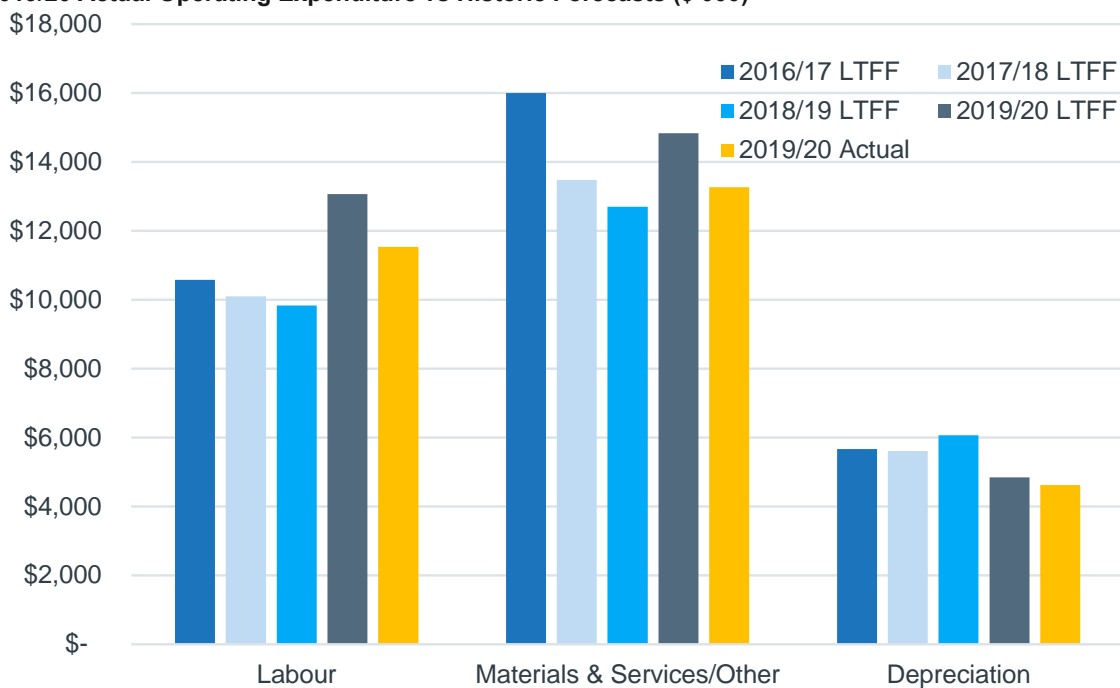
The following revenue comparisons highlight a slight under-estimation of rates and charges revenue and over-estimation of fees and charges.



2019/20 Actual Revenue vs Historic Forecasts (\$'000)

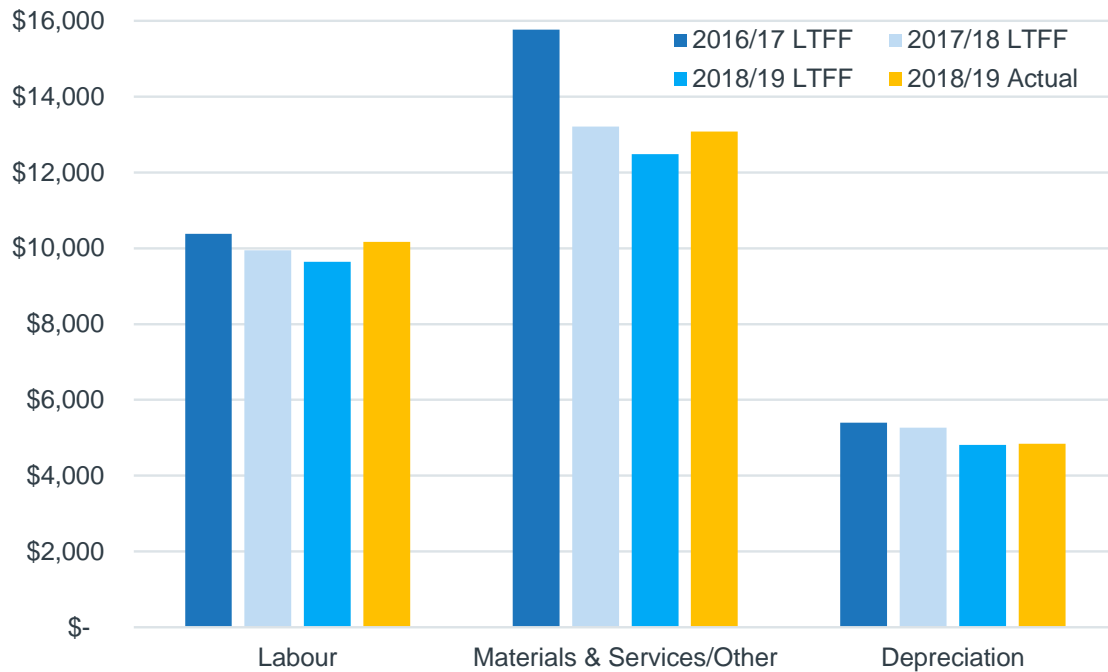
Source: AEC, NIRC. Notes: Full cost recovery and planned scenarios are used for comparative purposes.

The following operating expenditure comparisons do not really highlight any consistent under-estimation or over-estimation of labour, materials and services expenditure within the long-term financial forecasts, although there does appear to have been some over-estimation of depreciation. However, it should be noted that the recent asset revaluation and asset additions have highlighted that actual depreciation outcomes may have actually been understating NIRC's true financial liability associated with asset consumption.

2019/20 Actual Operating Expenditure vs Historic Forecasts (\$'000)

Source: AEC, NIRC. Notes: Full cost recovery and planned scenarios are used for comparative purposes.

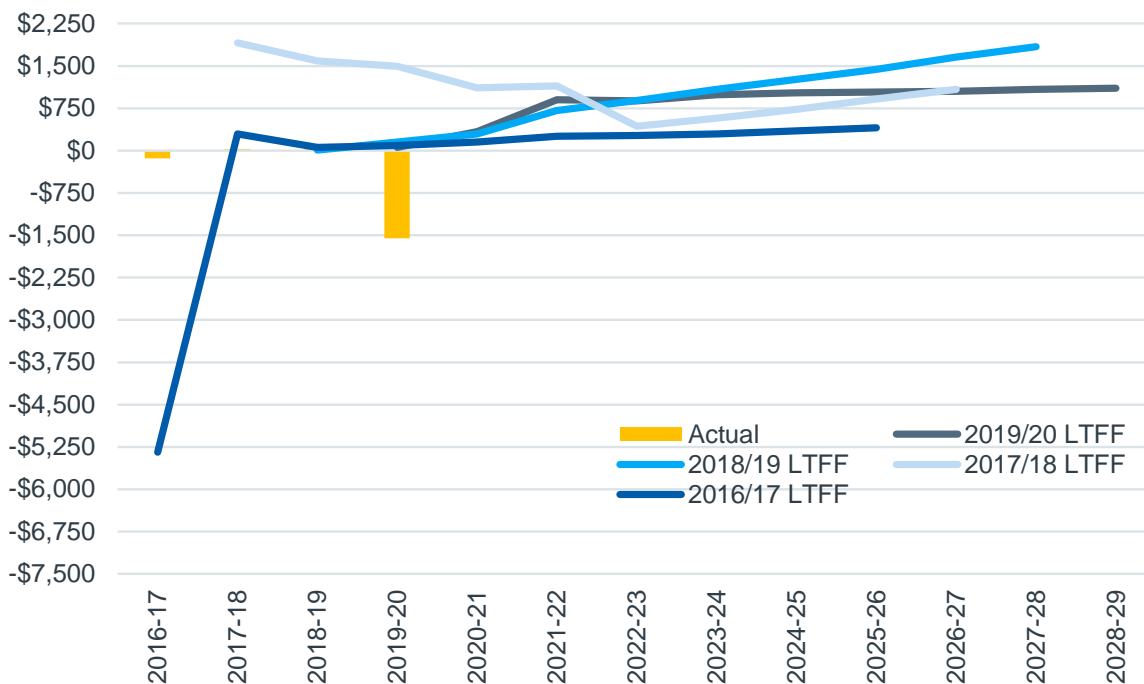
2018/19 Actual Operating Expenditure vs Historic Forecasts (\$'000)



Source: AEC, NIRC. Notes: Full cost recovery and planned scenarios are used for comparative purposes.

The following operating surplus/(deficit) comparisons highlight general positivity in the forward financial projections. However, it is important to note that the forward capital projections have only included selected near-term infrastructure upgrades and not strategic capital projects to meet ongoing service and compliance requirements given a lack of available funding.

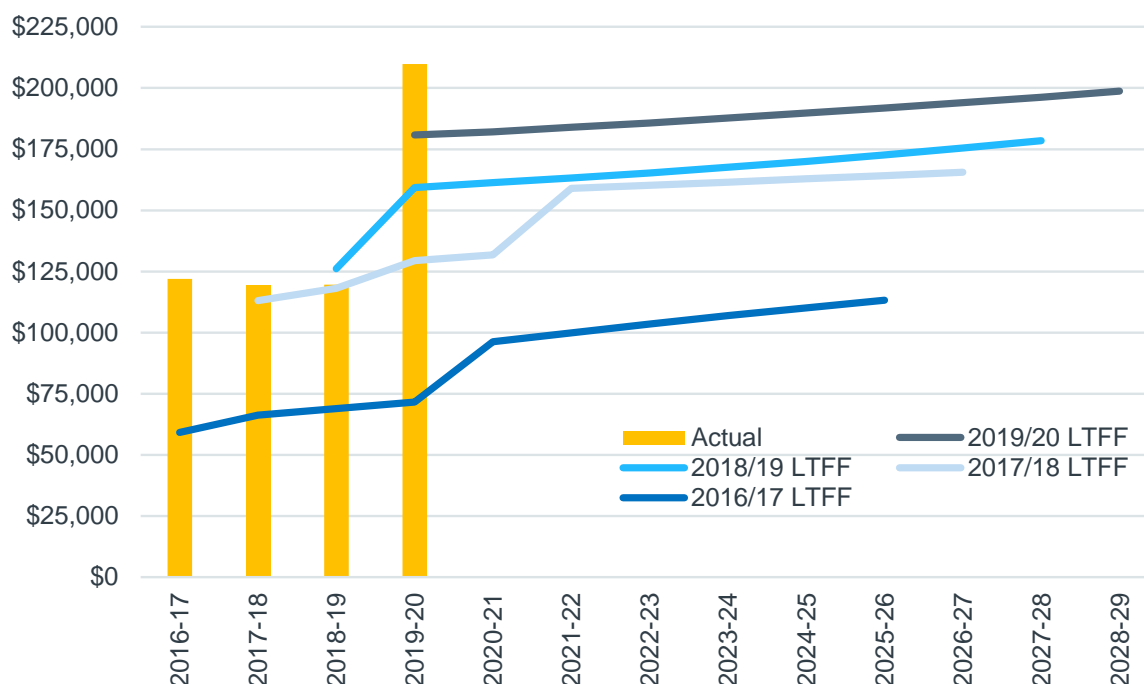
Actual Reported Operating Surplus/Deficit vs Historic Forecasts (\$'000)



Source: AEC, NIRC. Notes: Full cost recovery and planned scenarios are used for comparative purposes.

The following infrastructure, property, plant and equipment asset value comparisons highlight a consistent under-estimation in historic projections of the asset base required for NIRC to effectively service the island. As outlined above, the long-term financial forecasts generally do not include strategic capital projects to meet ongoing service and compliance requirements given a lack of available funding.

Actual Reported Value of Infrastructure, Property, Plant & Equipment vs Historic Forecasts (\$'000)



Source: AEC, NIRC. Notes: Full cost recovery and planned scenarios are used for comparative purposes.

6.3.2.4 INPUTS & ASSUMPTIONS UNDERLYING FINANCIAL FORECASTS

The following table provides a summary of the inputs and assumptions driving the most recent financial forecasts (which used the 2019/20 as the base year), as well as a high-level assessment of their appropriateness.

Inputs/Assumptions Underlying Financial Projections

Issue	Input/Assumption	Assessment of Appropriateness
OPERATING REVENUE		
Rates and Charges	↑ 1.5% per annum	<ul style="list-style-type: none"> Appropriate
User Fees and Charges	↑ 2% per annum	<ul style="list-style-type: none"> Appropriate assuming business as usual Revenues have since been significantly impacted by Covid-19 and associated reduction in visitation to the island
Operating Grants and Contributions	↑ 6.6% in 2020/21 ↑ 6.7% in 2021/22 ↑ 0.9% per annum thereafter	<ul style="list-style-type: none"> Appropriate
Interest	\$0.2-\$0.3 million per annum	<ul style="list-style-type: none"> Highly optimistic, given the long-term financial forecasts fail to include the capital projects necessary for NIRC to meet its ongoing compliance and service obligations
Other	↑ 2% per annum	<ul style="list-style-type: none"> Appropriate assuming business as usual Revenues have since been significantly impacted by Covid-19 and associated reduction in visitation to the island

Issue	Input/Assumption	Assessment of Appropriateness
OPERATING EXPENSES		
Employee Benefits	↑ 3% in 2020/21 ↑ 1.5% in 2021/22 ↑ 2% per annum thereafter	<ul style="list-style-type: none"> Understated given a combination of required resourcing to meet increasing compliance and service requirements and annual pay increases
Materials and Services + Other	↑ 2% in 2020/21-2022/23 ↑ 1% in 2023/24 ↑ 1.6% per annum thereafter	<ul style="list-style-type: none"> Understated given required resourcing to meet increasing compliance and service requirements and proposed capital projects
Depreciation	↑ 0.7% in 2020/21 ↑ 1.0-1.2% per annum thereafter	<ul style="list-style-type: none"> Understated given the outcomes of the recent revaluation which could increase depreciation by around \$2 million per annum Necessary capital projects are also not incorporated within the long-term financial forecasts and will flow through to significantly higher depreciation outcomes
Borrowing Costs	nil	<ul style="list-style-type: none"> Appropriate as long as Commonwealth funding is available to fund the necessary capital projects

Source: AEC

Overall, current long-term financial forecasts are not considered to provide an appropriate representation of NIRC's likely financial performance due to a combination of an underestimation of the resources required to meet increasing compliance and service requirements and the exclusion of large capital projects considered essential to sustainable occupancy and service provision on the island. Further, the \$2 million increase in depreciation arising from the recent asset revaluation exercise will place considerable financial pressure on NIRC without revenues increasing by a similar amount or some of these assets being divested.

6.3.2.5 REQUIRED CAPITAL PROJECTS AND CHANGES IN OPERATING PRACTICES

There is no long-term strategic funded plan for the island which outlines NIRC's financial obligations over time given that NIRC has very limited financial capacity to meet its ongoing compliance and service obligations. In February 2020, NIRC established a set of priorities through a Strategic Action Plan (NIRC 2020b) which include:

- Water security, including a new wastewater treatment plant, reuse of treated effluent, enhanced desalination plant capacity, and improved storages.
- Renewable energy, including the progression towards 100% renewable energy by 2024.
- 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.
- Population strategy, including an assessment of resource capacity, potential planning amendments, contribution from the tourism industry, and cruise ship opportunities.
- Tourism regeneration, including airline services, accommodation accreditation, enhanced facilities and experiences, development of KAVHA, targeting of market segments, and many other initiatives.
- 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.
- Connectivity, including the connection of an undersea cable and development of a data centre, free public WiFi spots, smart poles, open data platform, and day passes with Australian providers.
- 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.
- Addressing operational challenges within NIRC, 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.

Many of the above strategic objectives will have significant financial obligations attached to them in terms of both an upfront capital investment and ongoing management, operations and maintenance. The following table highlights a number of identified issues that will have a significant financial impact on NIRC that will require addressing and/or additional assistance.

The estimated financial impacts included in the table are very high-level estimates developed by AEC for discussion purposes only and have not been developed based on a first principles assessment given a lack of available information. The undersea cable has been excluded from the table given that it is assumed that NIRC would not own the applicable infrastructure nor be responsible for its ongoing management, operation and maintenance.

Identified Impacts on NIRC's Financial Performance in the Next 10 Years

Issue		Timing	Estimated Financial Impact
Wastewater Management	<ul style="list-style-type: none"> The current wastewater treatment plant is anticipated to fail within five years and investment is required in the sewerage scheme to ensure appropriate management of the island's wastewater. Balmoral Group (2019) includes an estimate of \$17.6 million for the new treatment plant. In conjunction, NIRC will need to establish trade waste management and compliance policies for those connected to the scheme to ensure the treatment plant can cope with the inflows, in addition to management and compliance policies (and resourcing) of onsite sewerage systems used by those properties not connected to the scheme. 	Within 2 years	\$18 million investment + ↑ \$0.1 million per annum (employee benefits) ↑ \$0.4 million per annum (materials and services) ↑ \$0.4 million per annum (depreciation)
Waste Management	<ul style="list-style-type: none"> NIRC needs to continue to amend its operating practices to ensure no more dumping of waste into the sea. Residual waste will need to be baled/containerised and exported to Australia for ultimate disposal. Additional capital investments will be necessary to ensure maximum reuse and treatment on the island. There are considerable stockpiles of asbestos and oils that need to be removed and disposed of in mainland Australia. 	Within 2 years	\$2 million investment + ↑ \$1 million per annum (materials and services)
First Point of Entry and Biosecurity	<ul style="list-style-type: none"> NIRC is required to comply with First Point of Entry and biosecurity requirements at the airport and ports, which will introduce additional costs of management and operation. 	Within 2 years	Uncertain at this stage
Easements	<ul style="list-style-type: none"> No easements have been formalised with landowners, which need to be compensated when formal arrangements are put in place. 	Within 2 years	\$1 million investment
Quarry	<ul style="list-style-type: none"> NIRC needs to establish a local rock quarry to meet its maintenance obligations. Establishing the quarry will incur costs, although ongoing benefits will accrue to NIRC from a reduced need to ship in essential materials. 	Within 2 years	Uncertain at this stage
Resourcing	<ul style="list-style-type: none"> At the time of writing, NIRC had a significant number of vacancies¹ that required filling which will incur recruitment costs. During the onsite consultations, it was indicated that there are many aspects of NIRC's operations that are not appropriately resourced to meet necessary compliance and service obligations (e.g. planning, environment) and appropriate resourcing of these functions will incur additional ongoing employee costs. 	Within 2 years	↑ \$0.5 million per annum (employee benefits)

¹ Vacant positions include Manager Commercial Services, Team Leader/Manager Liquor Bond, Team Leader SDA and Projects Facilitation, Senior Environmental Officer, Management Accountant, Financial Accountant, Governance Officer, Airport Operations Assistant, Plant Operator/Grounds Waste Management Centre, Field Officer Argentine Ant Eradication, Trades – Painter.

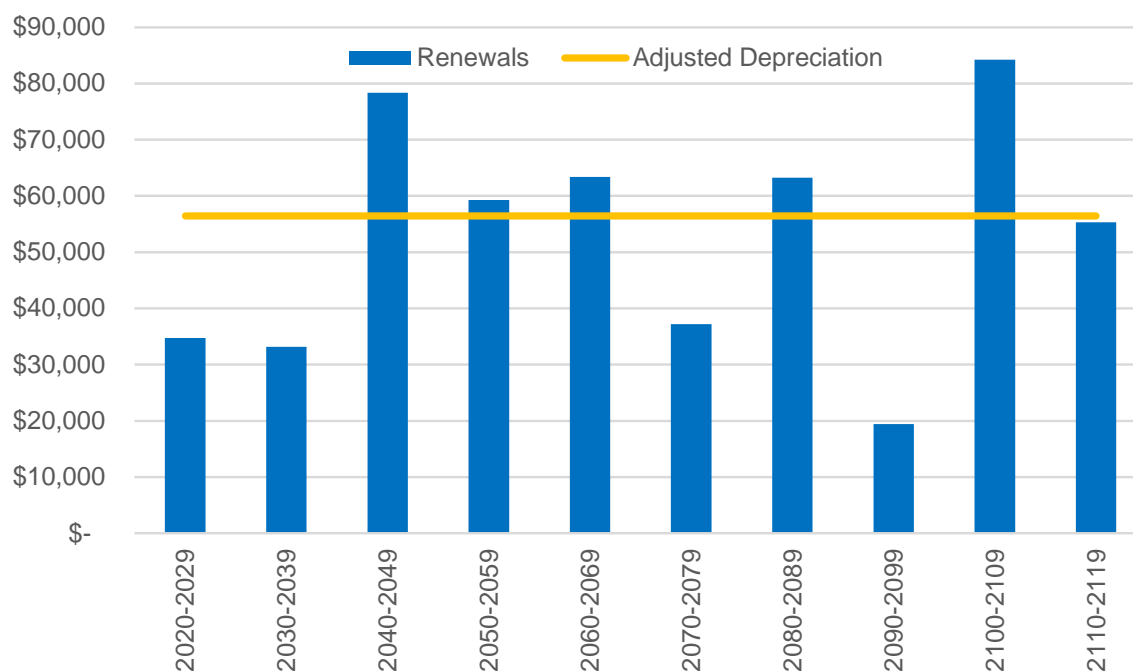
Issue		Timing	Estimated Financial Impact
Environmental Management	<ul style="list-style-type: none"> There is presently insufficient funding for NIRC to effectively meet its obligations in relation to biodiversity conservation and flora, fauna and native vegetation protection and management, which needs to be addressed. 	Within 5 years	Uncertain at this stage
Water Security	<ul style="list-style-type: none"> Investigations are currently underway into the sustainability of current water sources on the island and the potential options available to increase water security into the future. The outcomes of the study will include recommended strategies to enhance water security, which will require upfront investment and ongoing management, operation and maintenance costs that will need to be funded. In addition, there are water quality issues in at least one catchment due to PFAS contamination that may require addressing. 	Within 5 years	Uncertain at this stage
Airport	<ul style="list-style-type: none"> The recently completed Airport Master Plan includes a new passenger terminal and new air freight building by 2024/25, relocation of airport maintenance to a new facility by 2029/30 and expansion of aircraft parking apron by 2039/40, although none of these projects have been costed or included in NIRC's long-term financial forecasts. It is anticipated that the new facilities will not only increase depreciation but will also increase the operating and maintenance costs of the airport once constructed. 	Within 5 years	>\$10 million investment + ↑ \$0.1 million per annum (materials and services) ↑ \$0.2 million per annum (depreciation)
Electricity	<ul style="list-style-type: none"> NIRC has a target of achieving 100% renewable energy generation on the island by 2024. No capital project exists within the long-term financial forecasts to achieve this target, although the 2020/21 budget does include the purchase of two batteries. 	Within 5 years	Uncertain at this stage
Shipping	<ul style="list-style-type: none"> NIRC incurs freight costs of around \$1 million per annum, which are impacted by the lack of an appropriate all-weather port on the island. NIRC would benefit from reduced operating costs should an appropriate facility be constructed and funded by the Commonwealth. 	Within 5 years	Uncertain at this stage

Source: AEC

The above table highlights that in addition to the \$2 million per annum increase in depreciation expected to hit the budget in 2020/21, there may be up to a further \$3 million per annum increase in operating costs from proposed capital projects and necessary changes to NIRC's operating practices to meet compliance and service delivery requirements. This is the case even if the Commonwealth provides all of the upfront capital required to facilitate the construction and delivery of these projects. NIRC does not have sufficient financial capacity to absorb these cost increases and will require additional operational funding assistance, reduced compliance requirements and/or reduced service responsibilities to be financially sustainable.

NIRC also has a considerable infrastructure maintenance and replacement backlog that requires addressing as many assets are in poor condition. An assessment was undertaken of the theoretical renewal profile for each decade over the next 100 years for NIRC's current asset base (excluding plant and equipment) versus depreciation provided for in each decade, with the outcomes highlighted in the following figure. The peaks are primarily due to airport resurfacing.

Theoretical Renewal Profile for NIRC's Asset Base vs Depreciation (excluding plant and equipment) (\$'000)



Source: AEC. Notes: Depreciation is as per the asset register after revaluation effects which is higher than what is reported in the budget.

The Commonwealth and NIRC need to develop a strategic long-term (and funded) plan for the island in partnership with each other, with the responsibilities of each party clearly outlined and financial consequences for NIRC known. This is because managing and funding all of the issues requiring urgent attention is beyond the scale and scope of NIRC.

6.3.2.6 KEY FINDINGS

- NIRC's primary focus has been on year-to-year budget management, as opposed to long term strategic and financial planning.
- No long-term financial plan has been prepared yet for the 2020/21 budget given a lack of accounting resources, which is a legislative non-compliance for NIRC.
- The most recent long-term financial plan developed as part of the 2019/20 budget includes financial forecasts that are not representative of reality, as they exclude consideration of the capital projects and changes in operating practices required to meet NIRC's compliance and service obligations.
- A strategic long-term (and funded) plan is required for the island to address the significant challenges faced by NIRC in the delivery of essential infrastructure and services in a compliant and sustainable manner.
- NIRC does not have sufficient financial capacity to absorb the cost increases associated with required capital projects and operational adjustments – which could increase its operating costs by up to \$3 million per annum even with the Commonwealth providing all of the capital funding – and will require additional operational funding assistance, reduced compliance requirements and/or reduced service responsibilities to be financially sustainable.
- The \$2 million increase in depreciation resulting from the recent revaluation will place NIRC under additional financial pressure given its limited ratepayer base.

6.3.2.7 RECOMMENDATIONS

1. That a strategic long-term (and funded) plan for the island be developed in partnership between NIRC and the Commonwealth, with the responsibilities of each party clearly outlined.
2. That a long-term financial plan be developed inclusive of all the capital projects and changes in operating practices required to meet NIRC's compliance and service obligations and to address legacy issues.
3. That the true financial position of NIRC inclusive of necessary capital projects and operational adjustments be considered when evaluating what infrastructure and service responsibilities are retained by NIRC and in establishing the financial assistance grant that is required from the Commonwealth.



FOCUS AREA 6.3.3: REVENUE RAISING ABILITY AND SUSTAINABILITY

An evaluation of NIRC's current revenue raising abilities, including the role of user charges and land-based rating systems, and identifying ways in which revenue raising could be structured to provide a sustainable revenue base including the ability to minimise the effects of catastrophic events.

6.3.3.1 APPROACH

This section assesses the relative importance and volatility of NIRC's current revenue streams, their appropriateness in the local environment and relative to other local governments, in addition to evaluating current and potential revenue mechanisms to identify the means by which Council can be more financially sustainable into the future.

6.3.3.2 PRIOR STUDIES

Commonwealth of Australia (2019, pp.21-24) undertook a desktop assessment of the capacity of Norfolk Island to raise revenue from a range of taxes and charges comparable to those levied by State and local governments, and found that:

- Norfolk Island's capacity to raise State-type revenues is well below that of comparable communities (e.g. King Island).
- Norfolk Island's capacity to raise local government-type revenues is significantly above that of comparable communities (e.g. King Island), although this is due to above average Commonwealth financial assistance grants and the net surplus contributed by the liquor bond business enterprise.
- The level of NIRC rates levied is 22.4% below assessed capacity to pay.

In its evaluation of service delivery costs, Commonwealth of Australia (2019) considered Norfolk Island as comparable to small, very remote communities with relatively low Aboriginal and Torres Strait Islander populations. The unique circumstances of Norfolk Island were considered to be (Commonwealth of Australia 2019, p.8):

- *Its location including its remoteness, isolation and island status.*
- *Its economy, including its narrow economic base with a strong reliance on tourism, the size of the potential tax bases, the number of tourists on the Island at any one time and its wage levels*
- *Its small size, which means many services are less able to achieve economies of scale*
- *Its population characteristics including a relatively small working age population and a relatively large elderly population*
- *Its governance arrangements, which result in the need for special arrangements for the delivery of State-type services*

As a consequence of these unique circumstances, Commonwealth of Australia (2019) found that Norfolk Island was a very high cost to serve location in the provision of State-type services given its remoteness and isolation and small scale, with the cost to provide local government-type services also relatively high.

Nobbs (2020) indicates that the capacity to pay of residents of Norfolk Island is much lower than the comparable communities referenced in Commonwealth of Australia (2019), on the basis of significantly lower territory product per capita (50% lower than King island), lower median household incomes (16% lower than King Island), higher median mortgage repayments (30% higher than King Island) and higher median rental payments (8% higher than King Island).

Further, Nobbs (2020) indicates that the cost of living is much higher on Norfolk Island than the comparable communities (specifically King Island) with freight costs being roughly 250% higher, air freight costs being up to 100% higher, fuel prices being 10%-11% higher, electricity costs (family) being 58% higher, air fares being 50%-125% higher, and food prices possibly up to 30% higher. The combination of these outcomes means that households have much lower capacity to pay than considered in Commonwealth of Australia (2019).

6.3.3.3 REVENUE COMPOSITION

The following table highlights the breakdown of operating revenue by activity for NIRC in the 2020/21 budget. It is important to note that the 2020/21 budget estimates are heavily impacted by Covid-19 effects, with the two most significant activities impacted in revenue terms being the airport (revenue was \$3.2 million in 2018/19 and is estimated to drop to \$1.2 million in 2020/21) and the liquor bond (revenue was \$4.1 million in 2018/19 and is estimated to drop to \$2.8 million in 2020/21). As such and to provide a 'normalised' non-Covid-19 comparison, adjusted 2020/21 figures are also provided using the 2018/19 revenue figures for these two business enterprises.

NIRC Operating Revenue Composition, 2020/21 Budget

Revenue Breakdown	2020/21	% of Total	2020/21 adj.	% of Total	
CW SDA (Revenues + CW Payment)	\$ 6,344,585	23.7%	\$ 6,344,585	21.2%	CW Contributions
CW Grants	\$ 5,531,667	20.7%	\$ 5,531,667	18.4%	
Electricity	\$ 3,992,298	14.9%	\$ 3,992,298	13.3%	Non-Traditional Business Enterprises
Telecom	\$ 2,963,021	11.1%	\$ 2,963,021	9.9%	
Liquor Bond	\$ 2,800,446	10.5%	\$ 4,091,182	13.6%	
Airport	\$ 1,247,560	4.7%	\$ 3,230,278	10.8%	
Rates	\$ 1,205,581	4.5%	\$ 1,205,581	4.0%	More Traditional Council Functions
Waste Charges	\$ 726,750	2.7%	\$ 726,750	2.4%	
Roads Levy	\$ 550,000	2.1%	\$ 550,000	1.8%	
Sewerage Charges	\$ 315,000	1.2%	\$ 315,000	1.1%	
Other	\$ 1,046,300	3.9%	\$ 1,046,300	3.5%	
Total	\$26,723,208	100.0%	\$29,996,662	100.0%	

Source: AEC, NIRC

Notes: 2020/21 adj. applies 2018/19 revenue figures for the airport and the liquor bond to normalise these functions to account for Covid-19 impacts.

The figures highlight that 40%-44% of NIRC revenue is directly linked to the receipt of operating grants from the Commonwealth in addition to revenues and Commonwealth payments received by Council in undertaking State-type services. A further 41%-48% of NIRC revenue is directly linked to the electricity, telecom, liquor bond and airport business enterprises which are non-traditional business enterprises for local governments, with just 13%-14% of NIRC revenue linked to more traditional local government functions.

It should be noted here that it is not uncommon for local governments serving small, remote communities to have very low own source revenues from traditional local government revenue streams. These types of local governments generally have a very high reliance on intergovernmental funding and assistance in delivering infrastructure and service provision to local communities given that services are often provided at higher cost and there are diseconomies of scale in infrastructure and service provision.

6.3.3.4 REVENUE FROM MORE TRADITIONAL COUNCIL FUNCTIONS

Rates

Broad taxation reform on Norfolk Island formed part of the Norfolk Island Road Map from March 2011. The former Norfolk Island Administration developed an initial rating implementation strategy in 2014 (Norfolk Island Government 2014) which was to apply from 2014/15 prior to the establishment of NIRC. Subsequent to this, the Norfolk Island Advisory Council (2016a, p.9) recommended that "...an interim rating model be introduced

commencing 1 July 2016, and a value based system be introduced by the end of the first term of the Regional Council².

Community feedback received on Discussion Paper 2 relating to Council service delivery was summarised in Norfolk Island Advisory Council (2015b), where it was indicated that “a small number of respondents indicated support for the retention of the current Norfolk Island GST provisions” and “a small number of respondents also did not support rates, with a similar number explicitly stating they did”.

Rates were finally introduced by NIRC over a three-year period from 2016/17 to 2018/19, with a requirement established for NIRC to levy \$0.5 million in 2016/17 and at least \$1 million per annum thereafter to phase in the impact on residents and businesses. In 2016/17 and 2017/18, rates were levied as a base charge per assessment only, with a base charge per assessment plus valuation component introduced in 2018/19 following the provision of final land valuations during 2017/18. Crown land and land within KAVHA are exempt from rates.

Rates applicable in 2020/21 are outlined in the following table. The majority of rate revenue (63.2%) is sourced from residential assessments, with business and farmland assessments contributing 31.4% and 5.4%, respectively. The median residential rate levied is \$450 per annum, the median business rate levied is \$1,246 and the median farmland rate levied is \$382.

NIRC Rates, 2020/21

Rating Category	Base Rate	Ad Valorem Rate	Median Rate Levied	Revenue	% of Total
Residential	\$ 240.00	0.00233824	\$ 450	\$ 782,934	63.2%
Business	\$ 689.00	0.00557076	\$ 1,246	\$ 389,223	31.4%
Farmland	\$ 199.00	0.00122285	\$ 382	\$ 67,144	5.4%
Total			\$ 474	\$1,239,301	100.0%

Source: AEC, NIRC

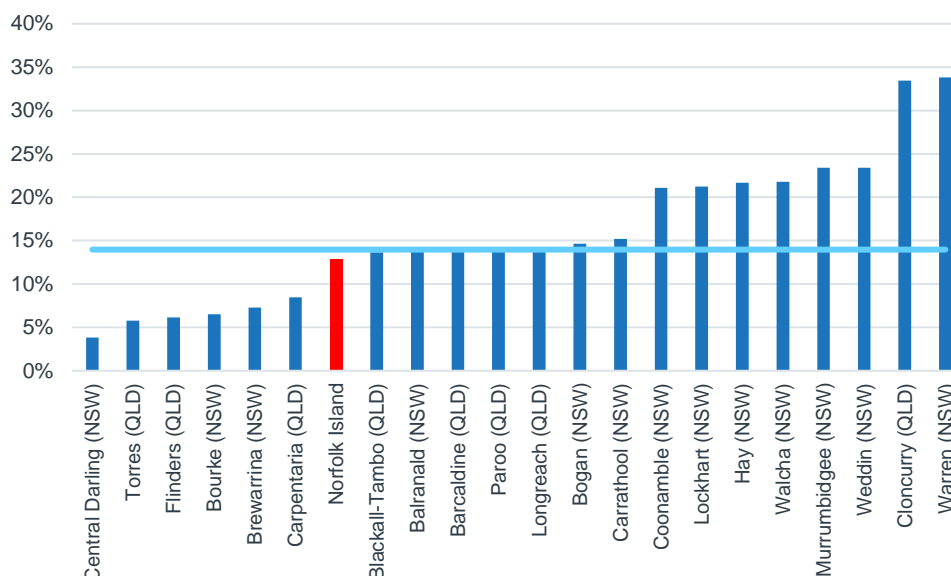
During onsite consultations, a few stakeholders raised the issue of land valuations potentially not being reflective of the relative useability of each parcel of land, even though valuations were open to objection after they were provided to landholders. Representatives from the Pitcairn community also raised concerns over the imposition of rates on land on the basis that it is considered a cultural asset passed on through the generations rather than being a disposable or saleable financial asset, and that the reinstatement of a Goods and Services Tax (GST) would be more equitable to ensure that tourists contribute to taxation revenue. (The issue of a potential GST on Norfolk Island is addressed in a subsequent section.)

It should be noted here that a considerable number of historically held properties were Commonwealth leasehold subject to a 99-year or less lease arrangements, and that under the arrangements an annual lease payment was required to be paid to the Commonwealth. The majority of these properties are now freehold following an offer by the Commonwealth for the leases to be ‘bought out’ and converted to freehold, and annual rates are now payable to NIRC on the land.

Rates revenue currently contributes just \$1.2 million (or 4%-4.5%) towards NIRC’s total operating revenue. However, when Commonwealth SDA payments and non-traditional business enterprise revenues are removed, rates contribute 13% towards NIRC’s operating revenue. The following figure highlights that the benchmark contribution of rates revenue to total operating revenue² for NSW and QLD Councils serving 1,500-5,000 residents is just under 15%, and Norfolk Island’s contribution rate of 13% is reasonably comparable to the benchmark (noting that its population level is at the lower end of the range).

² Norfolk Island total operating revenue has been adjusted to exclude the Commonwealth SDA arrangements and the business enterprises not operated by QLD and NSW Councils of this size.

Rates as a % of Total Operating Revenue vs NSW and QLD Councils Serving 1,500-5,000 Residents



Source: AEC, Council Financial Statements

Notes: Norfolk Island total operating revenue has been adjusted to exclude the Commonwealth SDA arrangements and the business enterprises not operated by QLD and NSW Councils of this size.

NIRC provides an array of facilitating infrastructure and essential services of common benefit to the local community that must be at least partially contributed to by the local community. On this basis, general rates are deemed to be an effective means by which a base contribution is provided by landholders for the provision of facilitating infrastructure and essential services of common benefit across the island, using a combination of land parcel numbers, land area and relative valuations to allocate the rating burden. Business assessments are generally levied a higher rate than residential and farmland assessments due to their increased intensity of use/activity and increased impost on infrastructure and service provision (e.g. road traffic and use).

The points raised in Nobbs (2020) regarding relatively low economic activity per capita and relatively low disposable incomes (due to the combination of relatively low incomes³ and relatively high costs of living) are acknowledged as influencing factors in the assessment of capacity to pay on Norfolk Island. Further, KPMG (2017, p.28) indicates that:

The inability of the NIRC to generate rates revenue is limited by the population size and the socioeconomic status of its community which limits their capacity to pay higher rates; generally the level of rates charged is already lower than in most LGAs.

When assessing the capacity to pay rates, two key indicators are generally observed, being:

1. Rating effort to economic activity ratio:

- Measured by total rates levied (\$1.239 million) divided by Gross Territory Product (\$81.8 million as reported in KPMG 2019).
- Indicator value of 1.52% of Gross Territory Product is comparable with the AEC Group benchmark for Australian local governments of 1.5% of Gross Regional Product.

³ Median household income on the island was quite low at the time of the 2016 Census at around 70% of the Australian median household income, and although adjustments to the Australian minimum wage were only completed in 2018 and a more accurate estimate will be produced as part of the 2021 Census, likely remain well below the national median.

2. Rating effort to household income ratio:

- Measured by median household rate (\$450) divided by median household income (\$52,624 as reported in ABS 2017).
- Indicator value of 0.86% of household income compares very favourably with the AEC Group benchmark for Australian local governments of 1.5% of household income.

The above rating effort ratios highlight that rates are not excessive on Norfolk Island, with the median rate levied on households being just 57% of the AEC Group benchmark for Australian local governments. This would appropriately account for the considerably higher cost of living on the island relative to mainland Australia. Council also has a hardship policy in place for the payment of rates.

If there are serious and real concerns surrounding the appropriateness of the valuation of land holdings, a fresh revaluation may wish to be undertaken. What is important to note here though is that an aggregate reduction in land valuations will not change the aggregate amount of rate revenue collected, as relative land valuation rather than aggregate land valuation is used to allocate NIRC's rating burden across landholders. Therefore, any revaluation will only work to address any issues associated with valuation relativities due to the existence of easements and encumbered land areas that may not have been appropriately accounted for in the initial valuation exercise in 2017/18.

Sewerage Charges

Sewerage (water assurance) charges are levied on those properties connected to the scheme. The residential charge is \$420 per annum, while commercial charges are dependent on land use and operational capacity (e.g. number of rooms) for selected land uses.

The base sewerage charge is quite low when compared to other regions, with King Island and Flinders Island households levied a charge of \$658.66, Kangaroo Island households levied a charge of \$642 and Christmas Island and Cocos (Keeling) Islands households levied a charge based on Gross Rental Value within a range of \$439.10 (minimum charge) and \$1,198.75 (maximum charge). AEC Group undertakes price benchmarking for sewerage charges levied on households in the largest 20 local governments in Queensland, and the median benchmark across those Councils is \$682 within a range of \$461-\$810.

Sewerage charges are generally set to recoup at least the recovery of direct and indirect operating costs, depreciation and interest costs. However, current sewerage charges levied by NIRC are insufficient to cover the costs of the scheme, with a shortfall of \$0.13 million expected in 2020/21. An increase in sewerage charges of 45% would be required to achieve a break-even financial position for the current scheme, which see the residential charge increased from \$420 per annum to \$609 per annum. Given the benchmarking outcomes above, there does appear to be scope to increase sewerage charges to this level.

However, with the current sewerage scheme on the verge of failure, a proposal exists to establish a new treatment plant at a cost of \$17.5 million. When the new treatment plant is operational, it is expected that scheme operating costs inclusive of depreciation will be considerably higher than the current cost base. Further, there is a potential need for package plant and/or community wastewater management system (CWMS) arrangements around the island at some point in the future to rectify ongoing water quality issues on the island, which would likely come at a cost well in excess of what could be recouped in the form of sewerage charges.

Overall, the residential sewerage charge would likely need to be of the order of in excess of \$1,000 per annum to achieve a break-even position which is unlikely to be affordable. As such, cross subsidisation of the sewerage scheme from general revenue sources (including external operating grants) will continue and likely increase into the future.

Waste Charges

Section 8 of the *Norfolk Island Waste Management Act 2003* provides NIRC with the power to impose a levy on the importer of goods imported by sea, by air or in bags (except in the case of mail, passenger personal

effects and deceased persons and receptacles), containers of livestock, prescribed specific goods or classes of goods and prescribed vehicles, plant and equipment. Section 3 of the *Norfolk Island Waste Management Regulations 2004* specifies the rates applicable for each levy, which are currently:

- \$41 per cubic metre or tonne for sea and air freight, whichever is greater.
- \$150 per container of livestock.
- \$100 per cubic metre or tonne for motor vehicles, whichever is greater.

In addition to these importation levies (i.e. 'time of purchase' waste charges irrespective of whether the imported good is disposed on the island at the end of its life), waste disposal fees are also levied at the time of disposal as per the following table. In addition to these fees, asbestos is levied a charge of \$1,500 and green waste is levied a charge of \$10 per cubic metre.

NIRC Waste Disposal Fees, 2020/21

Type	Domestic	Commercial
Non-Recyclable Box/Bag/Bin <=120L	\$ 2	\$ 4
Non-Recyclable Small Truck/Ute/Trailer	\$ 10	\$ 15
Non-Recyclable Medium Truck	\$ 15	\$ 20
Non-Recyclable Large Truck	\$ 20	\$ 25
Recyclable Box/Bag/Bin <=120L	\$ -	\$ 2
Recyclable Small Truck/Ute/Trailer	\$ -	\$ 5
Recyclable Medium Truck	\$ -	\$ 10
Recyclable Large Truck	\$ -	\$ 15
Unsorted Mixed Truck	\$ 100	\$ 100

Source: NIRC

The 2019/20 revised budget included \$1.8 million in waste (import) levies⁴ and \$67,000 in waste disposal fees. This level of total revenue is necessary to ensure business as usual NIRC waste management practices are appropriately funded. Although the waste business enterprise is estimated to report a surplus of \$0.28 million in 2020/21, NIRC is required to fund an increasing obligation to halt the disposal of residual waste into the sea at Headstone Point and also holds large stockpiles of asbestos and oil wastes that need to be addressed.

If the waste (import) levies were to be removed and replaced with higher waste disposal fees, then the disposal fee for a small truck/ute/trailer would need to increase to \$259 for domestic customers (from \$10) and to \$388 for commercial customers (from \$15) to collect the same amount of revenue, let alone the anticipated increase in costs incurred by the waste function into the future. Such waste disposal rates would place a considerable burden on the community and would increase the incidence of waste being illegally burnt, buried or dumped.

As such, while there is scope to increase waste disposal fees from those outlined in the above table, significantly increasing the reliance on the waste disposal fee is not considered a sustainable solution for funding the existing and increasing costs attributable to NIRC's waste function. It is also not deemed appropriate to further increase the waste (import) levy either, given the flow-on effects this levy has on the cost of living for the community, business input costs and ultimately the local economy. As such, cross subsidisation of the waste function from general revenue sources (including external operating grants) may be required in order for NIRC to meet its public health and environmental obligations, at least initially.

Import (custom) duties in mainland Australia are collected by the Commonwealth as a Commonwealth tax. These duties are not payable on Norfolk Island. Should the waste (import) levy no longer be receivable by

⁴ In 2020/21, waste (import) levy revenue is expected to drop significantly to \$0.6 million as a result of reduced activity.

NIRC, comparable additional operational grant funding would be required to be paid to NIRC from the Commonwealth to assist its ongoing financial sustainability.

Roads Levy

Section 8 of the *Norfolk Island Fuel Levy Act 1987* provides NIRC with the power to impose a levy on fuel of \$0.25 per litre, which is estimated to provide NIRC with \$0.4 million annually to assist in funding ongoing maintenance of the road network. As with the waste (import) levy, this revenue source is not a traditional funding source for local governments and could be considered a consolidated revenue item.

A fuel excise of \$0.423 per litre applies in mainland Australia, with the funds collected by the Commonwealth as a Commonwealth tax. This excise is not payable on Norfolk Island. Should the current fuel levy no longer be receivable by NIRC, comparable additional operational grant funding would be required to be paid to NIRC by the Commonwealth to assist in its ongoing financial sustainability.

Other

NIRC collects fees and charges and other revenue for non-business enterprise services provided across the community. Outside of the sundry revenue received for Norfolk Fuel, this revenue is relatively minor it does not have a significant impact on NIRC's overall financial sustainability. Even so, NIRC should continue to ensure that these user fees and charges are cost reflective (inclusive of overheads) and are not subsidised by the general community.

6.3.3.5 NET SURPLUSES FROM NON-TRADITIONAL BUSINESS ENTERPRISES

A detailed assessment of non-traditional business enterprises operated by NIRC – being the airport, electricity, telecom and liquor bond – is provided in a subsequent section. From a financial sustainability perspective, these business enterprises have the potential to support NIRC through the consistent delivery of net surpluses and contributions, while they also have the potential to impeded NIRC through significant and uncontrollable revenue fluctuations particularly if operating costs are largely fixed.

The following table provides an assessment of the aggregate financial performance of NIRC's non-traditional business enterprises for the past two years. A net aggregate contribution of \$0.11 million was provided to NIRC in 2019/20, but a net deduction of \$0.26 million is anticipated in 2020/21.

Aggregate Financial Performance of Non-Traditional Business Enterprises

Financial Performance	2018/19	2019/20	2020/21
Operating Revenue	\$ 13,757,657	\$ 13,324,789	\$ 11,003,325
Direct Operating Costs	\$ (11,016,043)	\$ (10,578,857)	\$ (8,692,781)
Allocated Overheads	\$ (1,008,892)	\$ (1,008,892)	\$ (808,921)
Depreciation	\$ (2,738,704)	\$ (2,639,644)	\$ (2,565,971)
Operating Surplus/(Deficit)	\$ (1,005,981)	\$ (902,604)	\$ (1,064,348)
<i>add back overheads</i>	<i>\$ 1,008,892</i>	<i>\$ 1,008,892</i>	<i>\$ 808,921</i>
Contribution to/(from) NIRC	\$ 2,911	\$ 106,288	\$ (255,427)

Source: AEC, NIRC

The following table highlights that the liquor bond is by far the best performing business enterprise, contributing \$0.62 million in 2018/29 and \$0.70 million in 2019/20, and it is budgeted to contribute \$0.84 million in 2020/21. This is because its cost profile is much more variable than that of the other infrastructure-based business enterprises. In contrast, the airport provided NIRC with a small contribution of \$0.12 million in 2018/19, before requiring subsidisation from consolidated revenue of \$0.48 million in 2019/20, with a much higher budgeted subsidy of \$1.51 million in 2020/21 as a result of Covid-19 effects on revenues and costs being largely fixed. The electricity utility also required considerable subsidisation in 2018/19 and 2019/20.

Individual Contributions to NIRC from Non-Traditional Business Enterprises

Contribution to/(from) NIRC	2018/19	2019/20	2020/21	3-year Total
Airport	\$ 119,014	\$ (475,950)	\$ (1,512,336)	\$ (1,869,272)
Electricity	\$ (617,292)	\$ (432,387)	\$ 259,991	\$ (789,687)
Telecom	\$ (114,462)	\$ 310,161	\$ 157,059	\$ 352,758
Liquor Bond	\$ 615,651	\$ 704,464	\$ 839,859	\$ 2,159,974
Total	\$ 2,911	\$ 106,288	\$ (255,427)	\$ (146,229)

Source: AEC, NIRC

An assessment of the capacity for the fees and charges levied by the business enterprises is discussed in more detail in a subsequent section, but at a high level:

- Airport fees cannot be raised too much that they impact on the competitiveness of Norfolk Island as a tourist destination.
- Electricity charges are extremely high when compared to other localities.
- Telecom charges are extremely high when compared to other localities and in considering the level of service provided.
- The liquor bond has some capacity to increase prices, but its financial performance is already outstanding relative to the value of capital invested and resources required to operate/maintain.

NIRC holds significant financial risk in being responsible for the airport, electricity and telecom business enterprises, given that the revenue from these three enterprises alone account for well over 40% of NIRC revenue (excluding SDA revenues). Given high fixed costs of operation, significant fluctuations in revenue across these enterprises will always place NIRC's financial sustainability at risk without an ongoing 'war chest' in place to cover large funding shortfalls when they occur. NIRC's financial sustainability would be improved should these enterprises no longer be its responsibility.

The liquor bond on the other hand provides NIRC with substantial contributions for very low risk. Revenue fluctuations from cyclical activity on the island are far less severe in net surplus terms given that costs can be varied accordingly. Given NIRC's limited revenue sources, in particular own source funding mechanisms, it is considered essential for NIRC to retain control of the liquor bond. In terms of the potential for additional yield from the liquor bond business enterprise, NIRC must balance the objectives of its financial sustainability as a local government against potential price gouging for liquor to cross subsidise other aspects of its operations.

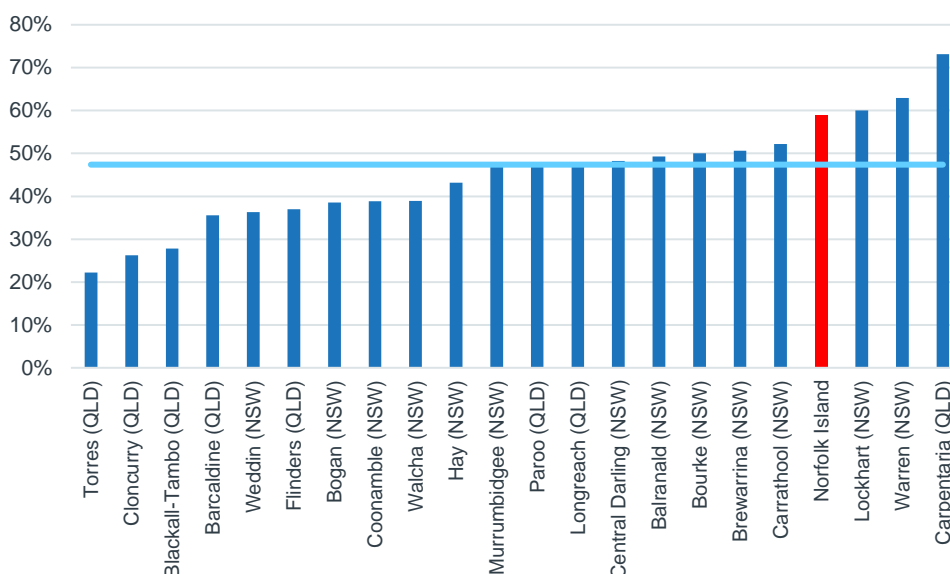
6.3.3.6 REVENUE FROM COMMONWEALTH CONTRIBUTIONS

COMMONWEALTH GRANT FUNDING

The following figure provides the percentage contribution from government operating grant funding to total operating revenue⁵ for NSW and QLD Councils serving 1,500-5,000 residents, with the median benchmark outcome being just under 50%. Norfolk Island's contribution rate of just under 60% is at the higher end of industry outcomes, although its population level is also at the lower end of the range reflecting lesser economies of scale in infrastructure and service provision.

⁵ Norfolk Island total operating revenue has been adjusted to exclude the Commonwealth SDA arrangements and the business enterprises not operated by QLD and NSW Councils of this size.

Operating Grants as a Proportion of Total Operating Revenue vs NSW and QLD Councils Serving 1,500-5,000 Residents



Source: AEC, NIRC

Notes: Norfolk Island total operating revenue has been adjusted to exclude the Commonwealth SDA arrangements and the business enterprises not operated by QLD and NSW Councils of this size.

NIRC receives grants from the Commonwealth that reflect the equivalent of the financial assistance grant payments under the *Commonwealth Local Government (Financial Assistance) Act 1995*, with the extent of these grants based on advice from the NSW Local Government Grants Commission and in recent years adjusted to incorporate the advice contained in KPMG (2017) on remote island disadvantages.

In the initial years following NIRC's establishment, financial assistance grant calculations did not appropriately consider the true cost imposition on NIRC from the delivery of local government-type services in Norfolk Island's unique circumstances and high cost environment, let alone the delivery of ancillary, non-local government-type services such as an international airport, electricity and telecommunications. While the calculations did include a number of disability factors, these were not deemed to appropriately consider all of the challenges impacting the cost of service delivery which were identified in KPMG (2017) as:

- Geographical isolation (e.g. freight/port issues, inability for shared service delivery arrangements).
- Ageing asset base and upgrade/maintenance backlog (e.g. roads, airport).
- Ongoing reform transition and governance arrangements (e.g. ineligibility for State/Territory grants, limited own source revenue generation opportunities).
- Delivery of non-traditional services (e.g. electricity, tourism, telecommunications).

Additional areas of financial support were identified in KPMG (2017) with a base total additional contribution required of \$1,548,000-\$1,648,000, as per the below:

- \$514,000 for tourism.
- \$350,000 for airport operation.
- \$200,000-\$300,000 for freight costs.
- \$200,000 for waste management.
- \$145,000 for planning and building services.
- \$75,000 for human resources.

- \$64,000 for lost efficiencies from resource sharing.
- Minor further funding support for fire and emergency services.

In addition to the above, KPMG (2017) notes that further consideration would be required for other aspects that may warrant additional funding mechanisms to reflect the need for funding support to improve asset condition and address the historical maintenance backlog, as well as appropriately reflect the non-traditional services provided by NIRC such as electricity, tourism promotion and telecommunications.

The financial assistance grant payments to NIRC have consistently increased since its establishment, as per the following table. Following the KPMG (2017) assessment, the payments have increased by \$2.61 million from \$2.45 million in 2017/18 to \$5.06 million in 2020/21 inclusive of indexation effects and a further increase is anticipated in 2021/22 of \$0.60 million. Additional annual contributions are made by the Commonwealth towards tourism, with the applicable figure being \$0.39 million in 2019/20.

Financial Assistance Grant Payments to NIRC

Year	Amount	Change
2016/17	\$1,917,090	
2017/18	\$2,449,738	27.8%
2018/19	\$3,463,738	41.4%
2019/20	\$3,991,738	15.2%
2020/21	\$5,058,738	26.7%
2021/22	\$5,662,738	11.9%

Source: NIRC

Normally, the above financial assistance grant payments may appear sufficient to support NIRC's financial sustainability. However, there are numerous and significant financial challenges on Norfolk Island that require urgent attention and will have considerable upfront and ongoing financial costs that will not be able to be funded from NIRC's other revenue sources nor via its small island community.

The lack of a clearly articulated, costed and funded long-term plan for the island makes it extremely difficult to determine the extent of financial cost that NIRC may be liable for and required to fund, and as such the extent of any additional financial support cannot be accurately identified. What is clear though is that NIRC will not be able to address these challenges on its own and that additional financial support will be required from the Commonwealth, potentially in the form of both upfront and ongoing contributions.

Service Delivery Agreements Revenue

NIRC has budgeted for revenues of \$6.34 million in 2020/21 for the provision of services funded via its SDA with the Commonwealth. This includes revenue received as a result of undertaking these services, in addition to direct payments from the Commonwealth to fund the revenue shortfall to ensure full cost recovery. The SDA provides work for staff employed by NIRC, with labour costs under the SDA totalling \$3.26 million in 2020/21.

Importantly, the SDA funds \$0.67 million of allocated NIRC overheads that may otherwise be largely fixed even without the SDA being in place. Any loss of responsibility in the provision of the services (and associated revenue and staffing) under the SDA in the future has the potential to place financial pressure on NIRC and undermine its financial sustainability.

6.3.3.7 OTHER CONSIDERATIONS

Goods and Services Tax

Prior to 2016, Norfolk Island collected a 12.5% Value-Added Tax (VAT) with the applied percentage rate subject to adjustments when required. The VAT was removed on establishment of NIRC and was not replaced with the Commonwealth's Goods and Services Tax (GST)⁶, with exemption from the GST consistent with arrangements for Christmas Island and Cocos (Keeling) Islands.

During onsite consultations, a number of stakeholders indicated their preference for the replacement of NIRC rates with a GST to ensure that tourists contribute to taxation revenue. While it may be argued that a GST would allow for an extension of broad-based taxation on the island (on top of the waste (import) levy and fuel levy), it could also be argued that if such a taxation mechanism were to be re-introduced that the revenue collected should be receivable by the Commonwealth to assist in funding its Commonwealth and State-type infrastructure and service responsibilities on the island rather than being made available to NIRC.

The question is therefore one for the Commonwealth as to whether it believes that the introduction of the GST on the island is warranted to reduce the significant annual and ongoing funding shortfall it incurs, which is likely to grow into the future. Any such decision would also need to carefully consider the offsetting administration and transaction costs associated with managing GST arrangements and compliance on a small, isolated island.

Development Contributions

With development on the island relatively limited, the establishment of a formal development contributions plan and associated charges is unlikely to significantly influence NIRC's financial sustainability. However, it would still assist NIRC in funding the facilitating infrastructure necessary to appropriately service any new development and mitigate against NIRC and the community having to finance this infrastructure during periods of development.

Growth Opportunities

The resident population of Norfolk Island has been trending lower over time. A subsequent section highlights potential focus areas for economic development that may enhance the attractiveness of the island as a place to operate a business and live, but it is highly likely that sufficient economies of scale will never be reached to significantly enhance NIRC's revenue streams relative to costs. However, what economic development will definitely do is increase the capacity to pay of residents and businesses on the island.

6.3.3.8 KEY FINDINGS

- Only 13%-14% of NIRC revenue relates to the operation of more traditional local government functions, with 40%-44% received from the Commonwealth via grants and the SDA and 41%-48% received through the operation of the non-traditional business enterprises of the airport, electricity, telecom and liquor bond.
- Regarding rates:
 - Despite rate revenue contributing less than 5% of total operating revenue for NIRC, this is the equivalent of 13% when revenue is adjusted for SDA revenues and the non-traditional business enterprises not undertaken by local governments of a similar size – an outcome that is comparable with the benchmark for NSW and QLD Councils serving 1,500-5,000 residents.
 - A reasonable and meaningful contribution must be made by island residents, farmland and businesses towards the significant costs incurred by NIRC in maintaining essential common infrastructure and service provision on the island.

⁶ Other tax exemptions include fuel, alcohol and tobacco surcharges, and custom tariffs.

- The use of rates on land is considered an appropriate mechanism to provide a base contribution by landholders, using the number of land holdings and relative valuations to allocate the rating burden.
- The level of rates levied on households and businesses is not considered excessive, with the median household rate of \$450 per annum representing just 0.86% of median household income compared with the AEC Group national benchmark of around 1.5% – rates are generally much higher in other localities.
- Some concerns were raised regarding the appropriateness of the land valuations produced in 2017/18, particularly surrounding their consideration of easements and other encumbrances.
- Regarding sewerage charges:
 - When considering charges levied in other jurisdictions, there is scope to increase sewerage charges by up to 50% to improve scheme cost recovery.
 - However, given the need to invest considerable capital in new infrastructure to meet public health and environmental obligations it is unlikely that sewerage charges – even if increased to benchmark levels – will ever be sufficient to fully recover scheme operating costs inclusive of depreciation.
 - Cross subsidisation of the sewerage scheme from general revenue sources (including external operating grants) will continue and likely increase into the future.
- Regarding waste charges:
 - While the waste (import) levy is inefficient from a user (waste generator) pays perspective, it is essential as a revenue generation mechanism given the revenue it produces to fund NIRC's existing waste function obligations.
 - Replacing the waste (import) levy with higher waste disposal fees will not work as the fees would be extreme and would incentivise the illegal burning, burial and dumping of waste.
 - However, there is some scope to increase waste disposal fees.
 - Looking ahead, cross subsidisation of the waste function from general revenue sources (including external operating grants) may be required in order for NIRC to meet its public health and environmental obligations including the cessation of dumping residual waste into the sea, at least initially.
- The fuel levy provides NIRC with an important funding source to maintain roads on the island, and any removal of the levy would need to be replaced with a corresponding increase in Commonwealth grant funding.
- While other fees and charges are unlikely to significantly influence NIRC's financial sustainability, it must ensure that user fees and charges are still cost reflective including of overheads.
- Regarding NIRC's non-traditional business enterprises:
 - NIRC's financial sustainability would be enhanced if it were no longer responsible for the operation of the non-traditional business enterprises of the airport, electricity and telecom.
 - NIRC holds significant financial risk in operating these three business enterprises, given revenue from these businesses account for well over 40% of NIRC operating revenue, fluctuations in revenues from year to year will always place NIRC's financial sustainability under significant pressure without an ongoing 'war chest' in place to cover large funding shortfalls and ongoing infrastructure investments are beyond the capacity of NIRC.
 - The liquor bond provides NIRC with substantial contributions for very low risk, and it is considered important that NIRC retain responsibility for it particularly given that revenue fluctuations from cyclical activity can be mitigated through adjustments to product purchases and liquor bond operations.
- Regarding Commonwealth contributions to NIRC:

- Operating grants account for around 60% of total NIRC operating income (after removal of SDA revenues and revenues from the non-traditional business enterprises), which is higher than the benchmark median for NSW and QLD Councils serving 1,500-5,000 residents of 50%.
- While the financial assistance grants provided to NIRC were definitely too low initially, amendments have been made in recent years to ensure that the payments made better reflect the higher costs and infrastructure/service provision challenges faced by NIRC relative to mainland local governments.
- With financial assistance grants now in excess of \$5 million per annum, NIRC is better positioned to operate from – however, there are numerous and significant financial challenges on Norfolk Island that require urgent attention and will have considerable upfront and ongoing financial costs that will not be able to be funded from NIRC's other revenue sources nor via its small island community and will require additional Commonwealth funding assistance.
- The lack of a clearly articulated, costed and funded long-term plan developed in collaboration between the Commonwealth and NIRC to meet the public health and environmental obligations and agreed strategic objectives for the island makes it extremely difficult to determine the extent of financial cost that NIRC may be liable for and required to fund, and as such the extent of any additional financial support from the Commonwealth cannot be accurately identified.
- SDA responsibilities and associated revenues received by NIRC employ a considerable number of staff and importantly from a financial sustainability perspective provided funding for allocated corporate overheads that help to reduce NIRC's cost base – as such, any removal or reduction in SDA responsibilities and revenues has the potential to undermine NIRC's financial sustainability.
- While a GST could be introduced on the island, it would merely be a revenue generation mechanism utilised by the Commonwealth should it so desire to fund the considerable additional infrastructure and services provided and maintained on the island that would otherwise be a Commonwealth or State responsibility – any potential GST revenue should not be receivable by NIRC.
- The development of a formal development contributions plan and associated charges would assist NIRC in meeting costs associated with the delivery of facilitating infrastructure during periods of development.
- While economic development opportunities will not resolve NIRC's financial sustainability issues, what it will do is make the island a more sustainable place for residents to live and businesses to operate in and enhance capacity to pay on the island.

6.3.3.9 RECOMMENDATIONS

1. That NIRC continue to levy rates on rateable assessments using a combination of a base charge and a rate in the dollar.
2. That NIRC consider the benefits and costs of requesting fresh valuations to be undertaken to ensure that land valuations appropriately reflect easements and other encumbrances (including useability) based on a combination of desktop analysis and on-ground assessment of land parcels.
3. That NIRC consider phasing in increases in the sewerage charge to more appropriate levels to ensure increased scheme cost recovery.
4. That NIRC continue to apply a waste (import) levy to help fund waste management activities.
5. That NIRC consider phasing in moderate increases in waste disposal fees to help fund increasing waste management obligations, noting that any significant increases will increase the risk of illegal burning, burial and dumping of waste.
6. That NIRC continue to apply a fuel levy to help fund road maintenance.
7. That NIRC ensures that it sets its user fees and charges on a cost reflective basis inclusive of overheads.

8. That the Commonwealth consider the transfer of responsibility for the non-traditional business enterprises of the airport, electricity and telecom out of NIRC given the significant financial sustainability risks placed on NIRC from their ongoing operation.
9. That NIRC retain responsibility for the liquor bond given its important net financial contribution to NIRC relative to other revenue sources.
10. That the Commonwealth continue to refine the financial assistance grants to account for the ongoing and changing disability factors impacting NIRC's infrastructure and service provision on the island.
11. That NIRC and the Commonwealth collaboratively develop a clearly articulated, costed and funded long-term plan developed to meet NIRC's public health and environmental obligations and agreed strategic objectives for the island.
12. That the Commonwealth retain the use of NIRC resources for the provision of SDA responsibilities where possible, given that any change in the arrangements has the potential to undermine the financial sustainability of NIRC.
13. That a GST not be adopted by NIRC as a local government revenue source, but that it be considered by the Commonwealth as a possible mechanism by which it is able to fund its ongoing and growing financial obligations on the island with due consideration given to the offsetting administration and transaction costs associated with managing GST arrangements and compliance on a small, isolated island.
14. That NIRC consider the establishment of a formal development contributions plan and associated charges to assist in funding facilitating infrastructure.



FOCUS AREA 6.3.4: BUSINESS ENTERPRISES AND UTILITIES

Reviewing the financial and cost recovery position of Council's government business enterprises, including airport, electricity, telecommunications, liquor bond, waste management and water assurance, and current and optimal ownership, management and service delivery arrangements for these enterprises.

6.3.4.1 APPROACH

Upon formation, NIRC was not only responsible for the delivery of traditional local government services but also a range of additional responsibilities resulting from its isolated location and lack of readily available alternatives. These additional responsibilities include (but are not limited to) business enterprises and utilities such as an international airport, electricity generation and supply, the liquor bond and telecommunications. Other business enterprises such as water supply, wastewater collection and treatment, and waste management are traditional local government functions in many other regions of Australia.

This section undertakes an assessment of these business enterprises by reviewing the outcomes from prior studies, benchmarking service provision responsibilities on Norfolk Island relative to a number of other Australian islands and external territories and reviewing the historic financial performance and forward financial obligations associated with each business enterprise. Consideration is then given to the optimal mechanism of ownership, management and service delivery arrangements for each enterprise that would not only enhance NIRC's financial position, but also provide an enhanced level of service to the local community and economy.

6.3.4.2 PRIOR STUDIES

Deloitte Access Economics (2014) undertook an evaluation of the business enterprises operated by Norfolk Island Administration and potential future ownership, management and service delivery arrangements that may be applied to these enterprises to introduce elements of competition or market pressure, with the following recommendations made in relation to applicable business enterprises under the current review:

- Airport – A management contract (i.e. outsourced management and operations) for the airport, closely followed by a formal Government Business Enterprise model.
- Electricity – A management contract (i.e. outsourced management and operations) for both powerhouse and reticulation.
- Telecom – A formal Government Business Enterprise model was slightly preferred over a management contract or licensing arrangements for internet and mobile services, with landline services preferred to operate under continuation of government delivery.
- Liquor Bond – Licensing arrangements for both the wholesale and retail arms, with revenue received through license fees from both wholesalers and retailers.
- Waste – A management contract (i.e. outsourced management and operations) for waste management.
- Sewerage/Water Assurance – A management contract (i.e. outsourced management and operations) for the water assurance scheme, closely followed by a formal Government Business Enterprise model.

Norfolk Island Advisory Council (2015a, p.6) indicates that while Norfolk Island government business enterprises have historically contributed significantly to total revenue, when including full lifecycle costs and reinvestment requirements to maintain service delivery at an appropriate standard, they often operated at a significant loss. Community feedback received on Discussion Paper 2 relating to Council service delivery was summarised in Norfolk Island Advisory Council (2015b), which indicated that:

Respondents strongly supported the proposed key principles, in particular highlighting the need for fair and equitable access to services, service provision at arms-length from policy development, and the growth of the role of the private sector in the service provision sector. Comments also strongly reflected the need for government businesses to compete with the private sector on a fair basis. (p.1)

In terms of the delivery model, there was a high level of support for the privatisation of Government Business Enterprises currently competing directly with the private sector or operating in areas where private operators could enter with minimal capital investment. (p.2)

Respondents indicated varying levels of support for the continuation of some government business activities... there was general support for retaining government businesses where the private sector is not currently providing similar services... there was general support for the privatisation of the liquor bond and of telecom/internet service provision... a number of respondents highlighted the significance of ensuring that privatisation of government businesses does not lead to their replacement with a privately owned monopoly. (p.3)

Norfolk Island Advisory Council (2016a, p.8) recommended governance and operational reform be applied such that Council "...divest businesses to the private sector wherever possible" and that "the Advisory Council recommends the management of current Norfolk Island government business activities sit outside of the core functions of the Regional Council, and an alternative professional and independent management and oversight model be established by the Australian Government".

This is reiterated in a letter from the Norfolk Island Advisory Council Chair to the Minister for Territories, Local Government and Major Projects on the Norfolk Island Regional Council Framework:

Community feedback indicates a general desire for a small Regional Council which directly undertakes core activities and outsources service delivery to the private sector where possible.

Government business activities currently owned and operated by the Administration of Norfolk Island provide a unique challenge. While there will be a need to continue the delivery of these functions on-island, the Advisory Council does not believe they should be a core function of the Regional Council, but managed independently under a separate governance structure.

6.3.4.3 BENCHMARKING OF SERVICE PROVISION RESPONSIBILITIES

The table on the following page provides a snapshot of the responsibilities for business enterprises and utilities on selected islands and external territories of Australia.

NIRC's service provision responsibilities are the greatest of the sample of Australian islands and external territories observed, with the closest comparator being Lord Howe Island where the Lord Howe Island Board (NSW Statutory Authority) governs the care, control and management of the island. The Lord Howe Island Board comprises seven members, four of whom are appointed by the island community and three of whom are elected by the Minister for the Environment to represent the interests of business, tourism and conservation. However, the Lord Howe Board is only responsible for a domestic airport, is not responsible for widespread provision of telecommunications provision and is not responsible for a centralised wastewater system.

With respect to the Indian Ocean Territories, Councils are only responsible for waste management, with the Commonwealth responsible for arranging the delivery of most other business enterprise services using private providers and WA state business enterprises.

Table X: Benchmarking of Responsibilities for Business Enterprises and Utilities on Selected Islands and External Territories of Australia

Service	Kangaroo Island	Tiwi Islands	Christmas Island	Norfolk Island	King Island	Flinders Island	Cocos (Keeling) Islands	Lord Howe Island
Population	4,702	2,453	1,843	1,748	1,585	906	544	382
Local Governance (Reporting to...)	Council (SA Govt)	Council (Land Council/ NT Govt)	Council (CW Govt)	Council (CW Govt)	Council (TAS Govt)	Council (TAS Govt)	Council (CW Govt)	Board (NSW Govt)
Airport	Council (Domestic Airport)	Council (Domestic Airport)	CW via Toll Remote Logistics (Domestic Airport)	Council (International Airport)	Council (Domestic Airport)	Council (Domestic Airport)	CW via Toll Remote Logistics (Domestic Airport)	Board (Domestic Airport)
Electricity Generation & Supply	SA Power Networks	Power & Water Corporation	CW (Indian Ocean Territories Power Service)	Council	Hydro Tasmania	Hydro Tasmania	CW (Indian Ocean Territories Power Service)	Board
Telecommunications	Private (predominantly Telstra)	Private	Private (Indian Ocean Territories Telecom)	Council	Private (predominantly Telstra)	Private (predominantly Telstra)	Private (Indian Ocean Territories Telecom)	Private (Internet café/ Anchorage Restaurant Wifi)
Liquor Bond	n.a.	n.a.	n.a.	Council	n.a.	n.a.	n.a.	Board
Water	SA Water	Power & Water Corporation	Water Corporation WA	n.a (all decentralised via bores, rainwater)	Taswater	Taswater	Water Corporation WA	n.a (all decentralised via bores, rainwater)
Sewerage	Council	Power & Water Corporation	Water Corporation WA	Council	Taswater	Taswater	Water Corporation WA	n.a. (all decentralised via septic)
Waste Management	Fleurieu Regional Waste Authority	Council	Council	Council	Council	Council	Council	Board

Source: AEC

Notes: SA = South Australia, NT = Northern Territory, CW = Commonwealth, TAS = Tasmania, NSW = New South Wales, WA = Western Australia, Govt = Government.

6.3.4.4 AIRPORT

Background

NIRC is responsible for the management and operation of Norfolk Island International Airport. Given the isolation of Norfolk Island, the airport is considered a critical piece of infrastructure for anyone off-island wishing to visit the island and anyone on-island wishing to leave the island. The airport is also used for air freight to and from the island, as well as for emergency medical evacuations from the island.

Norfolk Island is not a transportation hub but a destination in its own right and as such the number and frequency of flights to/from the island are limited. Presently, Air New Zealand is the only regular passenger transport (RPT) airline servicing the island with the Commonwealth underwriting flights provided by the airline. There are presently two RPT flights to/from Brisbane and one flight to/from Sydney each week which represents around half of the pre-Covid-19 flight schedule.

Financial Performance

The following table details the actual financial performance of the airport in 2018/19 and 2019/20, and the budgeted financial performance of the airport in 2020/21 under originally budgeted depreciation estimates and with inclusion of the new depreciation estimates following the recent revaluation and runway reseal project.

Table X. Financial Performance of Norfolk Island Airport

Financial Performance	2018/19	2019/20	2020/21	2020/21 adj
Operating Revenue	\$ 3,302,450	\$ 2,584,089	\$ 1,247,560	\$ 1,247,560
Direct Operating Costs	\$ (1,662,504)	\$ (1,580,003)	\$ (1,254,771)	\$ (1,254,771)
Allocated Overheads	\$ (104,081)	\$ (104,081)	\$ (110,396)	\$ (110,396)
Depreciation	\$ (1,520,932)	\$ (1,480,037)	\$ (1,505,125)	\$ (2,867,456)
Operating Surplus/(Deficit)	\$ 14,933	\$ (580,031)	\$ (1,622,732)	\$ (2,985,063)
<i>add back overheads</i>	<i>\$ 104,081</i>	<i>\$ 104,081</i>	<i>\$ 110,396</i>	<i>\$ 110,396</i>
Contribution to/(from) NIRC	\$ 119,014	\$ (475,950)	\$ (1,512,336)	\$ (2,874,667)

Source: AEC, NIRC

Notes: 2020/21 values are as per initial budget estimate. 2020/21 adj values are as per initial budget estimate but with depreciation adjusted for recent revaluation outcomes. 2019/20 overheads have been used to reflect overheads in 2018/19.

NIRC indicates that the airport has not really contributed much financially in the past to its bottom line, and the above table highlights that it has been a significant financial drain on NIRC in 2019/20 and 2020/21 due to the effects on tourist visitation and airport passenger throughout from Covid-19. Airport revenues are primarily driven by passenger fees which are 100% reliant on the level of tourist visitation, while airport costs are largely driven by depreciation and labour costs which are largely fixed in nature and are not tied to the level of visitation.

Following an estimated loss for the airport of \$0.58 million in 2019/20 resulting from the introduction of border controls for the entire June quarter 2020, the initially budgeted deficit for 2020/21 was \$1.62 million. However, the deficit for 2020/21 is now expected to be considerably larger than this amount as a consequence of the return to pre-Covid-19 flight services being delayed for longer than anticipated and a massive increase in depreciation resulting from the recent revaluation and the runway reseal project. The above table shows that just including the depreciation adjustment would now require a contribution from NIRC of \$2.87 million to keep the airport afloat in 2020/21, an amount which is likely to be beyond the financial capacity of NIRC.

Strategic Plan

An Airport Master Plan (Leading Edge Aviation Planning Professionals 2020) was recently completed via a \$0.2 million contribution from the Commonwealth, with the Master Plan forming the basis for the timing of any potential future investment in airport infrastructure.

Demand projections within the Master Plan (p.33) are as follows:

- Base Forecast – Increase in annual passenger throughput from 64,800 in 2020 to 92,200 in 2040.
- High Forecast – Increase in annual passenger throughput from 64,800 in 2020 to 151,800 in 2040.
- Low Forecast – Increase in annual passenger throughput from 64,800 in 2020 to 76,800 in 2040.

The Master Plan (p.71) includes the following airport development projects over the forecast horizon, all of which are assumed to be funded through external funding rather than via the airport business/NIRC:

- New passenger terminal to be completed by 2024/25.
- New air freight building to be completed by 2024/25.
- Relocation of airport maintenance to a new facility to be completed by 2029/30.
- Expansion of aircraft parking apron to be completed by 2039/40.

Even with these projects, the Master Plan (p.72) forecasts significant operating surpluses for the airport of \$2.1 million in 2020/21 to \$3.1 million in 2039/40. However, importantly the Master Plan (p.73) highlights that these estimates do not include consideration of capital funding and depreciation and states that while “... *the financial performance forecast for the next twenty years shows operating profits, the return gain is not sufficient to cover the cost of capital improvements proposed*” and that “... *the airport will still require full support from the Commonwealth to develop its facilities to ensure safe and efficient airport operations so that the airport can reach its full potential and service the population and local economy*”.

Sustainability of the Airport as a Business Enterprise

The airport made a very small surplus in 2018/19. However, it should be noted that upon establishment NIRC inherited an historic airport loan from the Commonwealth which was from works undertaken in 2002/03. The Commonwealth waived this loan which had an outstanding amount of \$10.9 million in April 2019 following requests by NIRC, acknowledging NIRC's limited financial capacity and inability to pay the loan back.

With the shock to passenger throughput towards the end of 2019/20, the airport recorded a considerable deficit of \$0.58 million. The deficit was originally budgeted to increase to \$1.62 million in 2020/21 due to ongoing Covid-19 effects on passenger throughput, but this deficit could now well exceed \$3 million due to the combined effects of extensions to limited flights to/from the island and the increase in depreciation resulting from the recent revaluation and the runway reseal project. With the potential addition of a new terminal building as proposed in the Master Plan, airport operating costs will only continue to increase.

The airport can no longer be considered a viable commercial business enterprise as it is highly likely to sustain substantial ongoing operating deficits into the future even when flight services return to pre-Covid-19 levels which will continue to undermine NIRC's financial sustainability. One response could be to keep increasing passenger and landing fees, although if these fees are raised too much, they will impact on the competitiveness of Norfolk Island as a tourist destination and could have the effect of reducing passenger throughput which would have broader effects on the island's economy and viability.

The airport runway reseal was recently undertaken at a cost of nearly \$49 million, with the Commonwealth contributing \$43.3 million in grant funding to the project. An additional \$0.4 million has been provided by the Commonwealth for screening equipment under the Regional Airport Security Screening Fund. These types of projects are beyond the financial capacity of NIRC and it will be the Commonwealth's responsibility to continue to fund such works.

Commonwealth of Australia (2019, pp.31-32) rightly states that “*the Norfolk Island airport is unlike airports operated by mainland local governments*”, given that it “...*must accommodate the large jets major airlines use to provide services over the long distance to Sydney and Brisbane*” and Council “...*cannot fund capital expenditure to replace or upgrade the assets*”. It notes that “...*airports in other regional centres in Australia receive substantial subsidies from the Commonwealth for infrastructure upgrades*”. However, even if the Commonwealth did continue to commit to funding the airport’s ongoing capital renewal and upgrade works, NIRC cannot afford to fund the depreciation associated with these assets and as such will always record operating deficits.

In addition to the recent substantial capital funding commitments provided to NIRC for airport infrastructure and equipment, the Commonwealth underwrites passenger and freight airline services to/from Norfolk Island at a significant additional financial cost each year. The fact that flights have to be underwritten and subsidised further highlights the lack of commercial viability of the airport and flights to/from the island.

Ownership and Management/Service Delivery Arrangements

NIRC is the only local government in Australia that is responsible for an international airport.

Deloitte Access Economics (2014) recommended the adoption of a management contract (i.e. outsourced management and operations) or a formal Government Business Enterprise model for the airport on the basis that these models would provide incentives under private sector principles for its operation, including routes and land and facility development and leasing.

However, the Deloitte Access Economics (2014) recommendation presumes that the airport has influence over its future growth and development when in fact it is reliant on the Commonwealth underwriting airline services and Commonwealth funding for all asset renewals and upgrades. The addition of new routes or flights may require similar underwriting arrangements and also may undermine existing underwriting arrangements.

In considering potential commercialisation of the airport, there would be limited interest unless fees and charges are increased and the airport’s profitability and risk profile were substantially improved. Even so, with the Commonwealth required to underwrite air services to the island and with the recent decision by Air New Zealand to only maintain limited flights, the airport is not considered an attractive commercial venture. In fact, it will likely require considerable ongoing financial contributions into the future to keep it afloat the size of which are likely to be well beyond the financial capacity of NIRC.

During onsite consultations, NIRC indicated that there is limited flexibility in flight scheduling under current arrangements between the Commonwealth and Air New Zealand, and on tourism and economic development grounds it must have some form of input or control over the airport’s operations.

The table on the following page provides a high-level assessment of the ownership, management and service delivery options for the airport.

6.3.4.4.1 KEY FINDINGS

- The airport is a critical piece of economic and social infrastructure of Norfolk Island.
- The airport is not a commercial venture, with flight services having to be underwritten by the Commonwealth and revenue insufficient to cover operating costs inclusive of depreciation.
- The airport is highly likely to sustain substantial ongoing operating deficits into the future even when flight services return to pre-Covid-19 levels which will continue to undermine NIRC’s financial sustainability – the financial risk to NIRC will also remain extremely high should it continue to own and manage the airport given the reliance on tourist visitation numbers to fund fixed operating costs.
- The capacity to increase fees and charges to enhance airport profitability is limited given the flow-on impacts of reduced competitiveness of the island as a tourist destination on the economy and community.

- The ongoing financial contributions to keep the airport afloat are likely to be well beyond the financial capacity of NIRC.
- Viable alternative arrangements may include:
 - Retention of the airport by NIRC, but with an increase in operating grants provided to NIRC by the Commonwealth of in excess of \$1 million per annum – noting that this arrangement would continue to place NIRC under significant financial risk.
 - The transfer of ownership and management of the airport to the Commonwealth, subject to NIRC having input into decision making on services and service levels given the importance of the airport on the local economy and community.
 - The transfer of ownership of the airport to the Commonwealth, with NIRC retaining management and operational control for a nominated annual lease fee and the Commonwealth having some input into decisions impacting on its assets.



Table X. Ownership and Management/Service Delivery Options for Norfolk Island Airport

	NIRC Managed	CW Managed	Privately Managed
NIRC Owned	<ul style="list-style-type: none"> As per current arrangements. NIRC remains reliant on Commonwealth funding for all major capital works projects including renewals. NIRC incurs ongoing operating deficits that will require subsidisation from other revenue sources, or it will continue to incur operating deficits as a local government. NIRC remains susceptible to substantial financial shocks during times of low tourist visitation that have the potential to threaten its financial sustainability. NIRC remains in control of the airport, albeit with assets primarily decided upon by the Commonwealth as funder. NIRC has limited influence over flight services which need to be underwritten by the Commonwealth. <p>OUTCOME: ? <i>Only viable with considerable capital <u>and</u> operational funding assistance to NIRC from the Commonwealth.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> NIRC remains reliant on Commonwealth funding for all major capital works projects including renewals. NIRC incurs ongoing operating deficits that will require subsidisation from other revenue sources, or it will continue to incur operating deficits as a local government. NIRC remains susceptible to substantial financial shocks during times of low tourist visitation that have the potential to threaten its financial sustainability. NIRC loses control of the airport's day-to-day management. NIRC remains in control of the strategic management of the airport, albeit with assets primarily decided upon by the Commonwealth as funder. NIRC is required to resource oversight of the private operator. NIRC has limited influence over flight services which need to be underwritten by the Commonwealth. <p>OUTCOME: ☒ <i>Not considered to produce any net benefit to the community.</i></p>

	NIRC Managed	CW Managed	Privately Managed
CW Owned	<ul style="list-style-type: none"> • Transfer of airport ownership/assets to the Commonwealth removes the depreciation funding liability from NIRC. • NIRC could either lease the airport from the Commonwealth on a peppercorn basis or for an annual fixed amount (below the depreciation value). • NIRC is less susceptible to substantial financial shocks during times of low tourist visitation. • NIRC remains in control of airport management, albeit with assets primarily decided upon/funded by the Commonwealth. • The Commonwealth would likely want to be involved in decision-making impacting on its assets. • NIRC has limited influence over flight services which need to be underwritten by the Commonwealth. <p>OUTCOME: ?</p> <p><i>Despite being the funder of the airport, the Commonwealth, would not have management control over its assets which is likely to produce strategic and operational issues as well as potential capital funding uncertainties in the future.</i></p>	<ul style="list-style-type: none"> • Transfer of airport ownership/assets to the Commonwealth removes the depreciation funding liability from NIRC. • NIRC has no direct financial exposure to passenger throughput at the airport. • NIRC could potentially retain some control of the airport's day-to-day management and operations by establishing an SDA-type arrangement to operate the airport. • NIRC loses control of the airport's strategic management, unless arrangements are put in place with the Commonwealth for joint decision making on strategic outcomes to occur. • NIRC has limited influence over flight services which need to be underwritten by the Commonwealth. <p>OUTCOME: ☑</p> <p><i>The Commonwealth is responsible for funding and management of the airport, which is appropriate given the significant ongoing renewal requirements and border requirements, although NIRC should have input into decision making over flight service routes/frequencies given their significance to the island's economy and community.</i></p>	<ul style="list-style-type: none"> • Transfer of airport ownership/assets to the Commonwealth removes the depreciation funding liability from NIRC. • NIRC has no direct financial exposure to passenger throughput at the airport. • NIRC loses control of the airport's day-to-day and strategic management. • NIRC has limited influence over flight services which need to be underwritten by the Commonwealth. <p>OUTCOME: ☒</p> <p><i>Not considered to produce any net benefit to the community.</i></p>

	NIRC Managed	CW Managed	Privately Managed
Privately Owned	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Transfer of airport ownership/assets to the private investor removes the depreciation funding liability from NIRC. NIRC has no direct financial exposure to passenger throughput at the airport. NIRC loses control of the airport's day-to-day and strategic management. There would be minimal to no interest in the airport as a commercial investment venture given the need for flight services to be underwritten by the Commonwealth and a lack of profitability without considerable increases in fees. Increased fees may reduce the competitiveness of Norfolk Island as a tourist destination which would have broader negative effects on the local economy. Private investment would only occur on the basis of ongoing financial support being provided by the Commonwealth under strict contractual arrangements, which would be unlikely to produce any net financial benefits to any party outside of the private investor. <p>OUTCOME: ☒ <i>Not a viable option given the lack of commercial viability of the airport and the importance of the airport to the island's economy and community.</i></p>

Source: AEC

6.3.4.5 ELECTRICITY

Background

NIRC is responsible for electricity generation and supply to Norfolk Island residents and businesses. It also integrates solar power generated supply into the network to maintain network stability. Electricity is currently generated through diesel generators.

Electricity is supplied to users at a cost of \$0.74/kWh, plus an annual grid access charge of \$148 (paid quarterly). For properties with solar power generation on premises, an annual photovoltaic grid access charge of \$104 is levied for each kW of capacity installed. Current solar generation capacity is estimated at 1.4MW. There is presently a moratorium on the installation of additional renewables on premises as the network is unable to effectively cope with peak demands. Further, any solar power feed-in nets off electricity consumption from the network and as such the effective feed-in tariff received by premises with renewables on premises is \$0.74/kWh.

Financial Performance

The following table details the actual financial performance of the electricity utility in 2018/19 and 2019/20, and the budgeted financial performance of the electricity utility in 2020/21 under originally budgeted depreciation estimates and with inclusion of the latest depreciation estimates following the recent revaluation.

Table X Financial Performance of Electricity Utility

Financial Performance	2018/19	2019/20	2020/21	2020/21 adj
Operating Revenue	\$ 3,210,946	\$ 3,660,572	\$ 3,992,298	\$ 3,992,298
Direct Operating Costs	\$ (3,168,400)	\$ (3,402,890)	\$ (3,192,707)	\$ (3,192,707)
Allocated Overheads	\$ (40,000)	\$ (40,000)	\$ (37,323)	\$ (37,323)
Depreciation	\$ (659,838)	\$ (690,069)	\$ (539,600)	\$ (571,385)
Operating Surplus/(Deficit)	\$ (657,292)	\$ (472,387)	\$ 222,668	\$ 190,883
<i>add back overheads</i>	<i>\$ 40,000</i>	<i>\$ 40,000</i>	<i>\$ 37,323</i>	<i>\$ 37,323</i>
Contribution to/(from) NIRC	\$ (617,292)	\$ (432,387)	\$ 259,991	\$ 228,206

Source: AEC, NIRC

Notes: 2020/21 values are as per initial budget estimate. 2020/21 adj values are as per initial budget estimate but with depreciation adjusted for recent revaluation outcomes. 2019/20 overheads have been used to reflect overheads in 2018/19.

Considerable operating deficits were recorded by the electricity utility in 2018/19 and 2019/20. The 2020/21 budget currently anticipates a modest operating surplus on the back of higher electricity prices and some cost reductions.

Strategic Plan

There is no formalised strategic business plan for the electricity utility, although NIRC's Strategic Action Plan (NIRC 2020b) targets increased use of renewable energy including the progression towards 100% renewable energy by 2024 which is consistent with community feedback contained in Norfolk Island Advisory Council (2015b, p.2) which highlighted "...support for a greater reliance on renewables in the generation of electricity for Norfolk Island".

Hydro Tasmania (2018b) developed an implementation plan for electricity generation on the island, principally to reduce costs and increase renewables. The initial project involves the establishment of a 1MW centralised solar farm and 2MW battery storage, which would help NIRC to achieve a 45% renewable energy contribution target. In the 2020/21 budget, NIRC has committed to the purchase of two 1MW batteries in addition to the purchase of a new, smaller generator at a cost of \$2.4 million as part of the first phase of adopting the identified initial strategy and to optimise operating costs. The batteries are anticipated to arrive on the island in November 2020.

Sustainability of Electricity as a Business Enterprise

There have been numerous investigations and reports into the electricity utility and the poor condition of the network with many components requiring renewal and reinvestment. As a consequence of the poor condition of the network, the focus is on reactive rather than proactive maintenance. The asset consumption ratio for the network as a whole is 49%, highlighting that the network is ageing and in need of renewal and reinvestment.

Deloitte Access Economics (2014, p.63) found that:

Due to a shortage of funds maintenance has tended to occur on a reactive rather than proactive basis – responding to issues as and when they occur rather than attempting to ensure that they don't occur in the first place. The quality of infrastructure is poor and the extent to which the existing network will be able to cater to future demand is unclear. In other words, it seems relatively clear that extensive infrastructure upgrades will be required in the near future, but how this will be paid for is less than clear.

Hydro Tasmania (2018a, p.21) found that “...a significant amount of major powerhouse infrastructure is nearing end of life and generally in average to poor condition” which was to be aided somewhat by the installation of three new diesel generators in 2018. However, it also indicated that “...reliability, among other things, is linked to the asset condition and maintenance procedures and as assets continue to age, the underlying risk of increased plant outages increases, which may have a future impact on reliability” (p.38). Hydro Tasmania (2018b, p.49) highlighted the need for additional capital expenditure to renew and replace the ageing infrastructure across the network, making specific reference to the low voltage switchboard, fuel farm and transformers.

No specific capital projects exist within the long-term financial forecasts to ensure appropriate asset renewal and replacement, nor to achieve the 100% renewable energy target (beyond the capital costs included within the 2020/21 budget for the two batteries and new, smaller generator). As such, the full financial impact of maintaining appropriate infrastructure and service standards and achieving the strategy of 100% renewable energy is unknown at this point in time. What is evident, however, is that costs are only likely to increase rather than decrease.

The issue at hand then becomes how the network is able to be funded as the capacity for electricity charges to be increased is very limited given current charges are extremely high when compared to other localities. Importantly, Hydro Tasmania (2018a, p.33) indicates that “most, if not all, Australian islands receive either a state, territory or federal government subsidy, reducing the retail cost charged to the customer”, yet Norfolk Island residents and businesses are not afforded such a subsidy arrangement which adds significantly to the cost of living and doing business on the island. This is in part due to the State disconnect, where the Commonwealth is required to step in as the de-facto State partner.

With extremely high electricity prices and a potentially growing cost base, the electricity utility is not considered a sustainable business enterprise in its own right. A funded, strategic plan is required for the business to both meet its infrastructure and service delivery obligations, target the outcome of 100% renewable energy, and ensure that electricity charges levied on local residents and businesses do not place them at a relative disadvantage. This strategy is likely to require capital funding and operational subsidisation from the Commonwealth, either directly or via a State partner.

Ownership and Management/Service Delivery Arrangements

Electricity generation and supply is traditionally a State responsibility, with current State arrangements either via Government Business Enterprises or privatised and owned and operated through corporate entities. The Commonwealth is responsible for the provision of electricity to the Indian Ocean Territories through the Indian Ocean Territories Power Service. Electricity supply on Lord Howe Island is via the Lord Howe Island Board. Generally, electricity generation and supply on Australian islands and territories and in remote areas benefit from subsidised electricity charges.

Deloitte Access Economics (2014) recommended the adoption of a management contract (i.e. outsourced management and operations) for the electricity utility on the basis that it would provide an incentive for the manager to maximise profitability of, and drive efficiencies within, the business.

It is questioned whether there would be measurable benefits from transferring management and operational responsibility to a private operator whose first priority would be profit maximisation, particularly when much of the infrastructure is in poor condition and electricity prices are already very expensive relative to other territories and islands in Australia. It may also conflict with NIRC's desire to progress towards 100% renewable energy by 2024.

It would appear more appropriate for the Commonwealth or a willing State partner be responsible for the management and operation of the electricity utility, as long as such a model provides measurable benefits to the local community in the form of lower prices. The Commonwealth – as Norfolk Island's de-facto State – has a degree of responsibility in ensuring that electricity charges are not significantly different to those levied in other jurisdictions of Australia.

The table on the following page provides a high-level assessment of the ownership, management and service delivery options for the electricity utility.



Table X Ownership and Management/Service Delivery Options for Electricity Utility

	NIRC Managed	CW Managed	Privately Managed
NIRC Owned	<ul style="list-style-type: none"> As per current arrangements. NIRC has limited financial capacity to ensure appropriate asset renewal and replacement, in addition to the required investment to achieve 100% renewable energy. NIRC needs to ensure that electricity charges are set at a level that achieves cost recovery, which is likely to see charges increase from current levels through the medium term. NIRC remains in control of the electricity utility and has influence over all strategic, management and operational decisions. NIRC needs to ensure it has the appropriate technical and skilled management and staff to provide modern and reliable electricity services to the community. <p>OUTCOME: ? <i>Only viable with considerable capital <u>and</u> operational funding assistance to NIRC from the Commonwealth.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> NIRC and the private operator have limited financial capacity to ensure appropriate asset renewal and replacement, in addition to the required investment to achieve 100% renewable energy. Private operator needs to ensure that electricity charges are set at a level that achieves cost recovery plus a profit component, which is likely to see charges increase from current levels through the medium term. NIRC loses control of day-to-day management. NIRC remains in control of the strategic management of the electricity utility, noting that these decisions would flow through to electricity charges. NIRC is required to resource oversight of the private operator. <p>OUTCOME: ☒ <i>Not considered to produce any net benefit to the community.</i></p>

	NIRC Managed	CW Managed	Privately Managed
CW Owned	<ul style="list-style-type: none"> • Transfer of electricity utility ownership/assets (and depreciation) to the Commonwealth with management and operation of the electricity utility undertaken by NIRC via an arrangement similar to the SDA. • NIRC has no direct financial exposure to the electricity utility, in particular costs associated with necessary infrastructure upgrades. • Strategic direction is determined by the Commonwealth as the asset owner, although there is potential for decision-making to be undertaken in consultation with NIRC as the community representative. • The Commonwealth has the ability to provide a subsidy to ensure electricity charges are not excessive relative to other Australian jurisdictions. • NIRC needs to ensure it has the appropriate technical and skilled management and staff to provide modern and reliable electricity services to the community. <p>OUTCOME: ? <i>Only viable with considerable capital funding assistance from the Commonwealth to support the utility and with NIRC input on strategy.</i></p>	<ul style="list-style-type: none"> • Transfer of electricity utility ownership/assets to the Commonwealth for management and operation by a willing State partner or similar. • NIRC has no direct financial exposure to the electricity utility, in particular costs associated with necessary infrastructure upgrades. • NIRC loses control of day-to-day management. • Strategic direction is determined by the Commonwealth as the asset owner, although there is potential for decision-making to be undertaken in consultation with NIRC as the community representative. • The Commonwealth has the ability to provide a subsidy to ensure electricity charges are not excessive relative to other Australian jurisdictions. • The State partner has the requisite skills and redundancy to cope with resourcing requirements at short notice. <p>OUTCOME: ✓ <i>Produces a beneficial outcome by ensuring appropriate service delivery at reduced risk and at an affordable cost.</i></p>	<ul style="list-style-type: none"> • Transfer of electricity utility ownership/assets to the Commonwealth for management and operation by a private operator. • NIRC has no direct financial exposure to the electricity utility, in particular costs associated with necessary infrastructure upgrades. • NIRC loses control of day-to-day management. • Strategic direction is determined by the Commonwealth as the asset owner, although there is potential for decision-making to be undertaken in consultation with NIRC as the community representative. • The Commonwealth has the ability to provide a subsidy to ensure electricity charges are not excessive relative to other Australian jurisdictions. • The private operator has the requisite skills and redundancy to cope with resourcing requirements at short notice. <p>OUTCOME: ✓ <i>Produces a beneficial outcome by ensuring appropriate service delivery at reduced risk and at an affordable cost.</i></p>

	NIRC Managed	CW Managed	Privately Managed
Privately Owned	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Transfer of electricity utility ownership/assets to a private investor and operator. NIRC has no direct financial exposure to the electricity utility, in particular costs associated with necessary infrastructure upgrades. NIRC loses control of day-to-day and strategic management. The private operator has the requisite skills and redundancy to cope with resourcing requirements at short notice. Commercial interest in the electricity utility may not exist given the limited scale and scope of services provided and the poor condition of, and risks attached to, much of the network. Profit maximisation is the focus of the private operator, which may see electricity charges continue to increase. Private investment may only occur on the basis of ongoing financial support being provided by the Commonwealth under strict contractual arrangements, which would be unlikely to produce any net financial benefits to any party outside of the private investor. <p>OUTCOME: ? <i>Loss of control by both NIRC and Commonwealth has the potential to result in funding and service delivery issues.</i></p>

Source: AEC

6.3.4.5.1 KEY FINDINGS

- The electricity utility is an essential service for both residents and businesses on Norfolk Island and it is imperative that a highly reliable service be provided at the lowest possible price so as to not impact on the attractiveness or affordability of the island as a place to live and do business.
- Presently electricity charges are well in excess of charges levied in other Australian jurisdictions, including island communities, given that there is no State or Commonwealth subsidy provided to keep charges affordable and consistent with other jurisdictions.
- The electricity utility is not really a commercial venture, given the essential nature of the service, the scale and scope of the services provided and a lack of competition.
- Prices are generally set with reference to the cost base although NIRC has recorded considerable operating deficits in 2018/19 and 2019/20.
- The ongoing investment required to maintain the electricity utility is considered significant relative to NIRC's financial capacity, and the only way appropriate renewal and reinvestment and the progression towards 100% renewable energy can be achieved under current arrangements is through further increases in already very high electricity charges and/or with an explicit pricing subsidy provided by the Commonwealth.
- Viable alternative arrangements may include:
 - Retention of the electricity utility by NIRC, contribution of capital by the Commonwealth to achieve appropriate renewal of and reinvestment in assets in poor condition in addition to the progression towards 100% renewable energy, and the potential provision of an explicit pricing subsidy to ensure electricity charges are not prohibitive relative to other Australian jurisdictions.
 - The transfer of ownership and management of the electricity utility and associated assets to the Commonwealth who would either utilise and fund a State partner or private operator to run the business, in addition to the potential provision of an explicit pricing subsidy to ensure electricity charges are not prohibitive relative to other Australian jurisdictions.
 - The transfer of ownership of the electricity utility and associated assets to the Commonwealth, with NIRC retaining day-to-day management and operational control under an SDA-type arrangement and the potential provision of an explicit pricing subsidy to ensure electricity charges are not prohibitive relative to other Australian jurisdictions.

6.3.4.6 TELECOM UTILITY

Background

NIRC provides carrier grade telecommunications services to the Norfolk Island community via Norfolk Telecom under the Norfolk Island Telecommunications Act 1992, including Telecom, Internet and Mobile. The island has historically only had access to a 2G mobile network and internet reliability is poor given the inadequacies of infrastructure to meet consumer needs and modern-day service standards. A new 3G/4G network being introduced in late 2020 which will enhance service provision to include fast broadband mobile data.

Financial Performance

The following table details the actual financial performance of the telecom utility in 2018/19 and 2019/20, and the budgeted financial performance of the telecom utility in 2020/21 under originally budgeted depreciation estimates and with inclusion of the new depreciation estimates following the recent revaluation.

Table X Financial Performance of Norfolk Telecom

Financial Performance	2018/19	2019/20	2020/21	2020/21 adj
Operating Revenue	\$ 3,153,079	\$ 2,887,495	\$ 2,963,021	\$ 2,963,021
Direct Operating Costs	\$ (2,764,943)	\$ (2,168,835)	\$ (2,339,916)	\$ (2,339,916)
Allocated Overheads	\$ (142,811)	\$ (142,811)	\$ (112,238)	\$ (112,238)
Depreciation	\$ (502,598)	\$ (408,499)	\$ (466,046)	\$ (601,611)
Operating Surplus/(Deficit)	\$ (257,273)	\$ 167,350	\$ 44,821	\$ (90,744)
<i>add back overheads</i>	<i>\$ 142,811</i>	<i>\$ 142,811</i>	<i>\$ 112,238</i>	<i>\$ 112,238</i>
Contribution to/(from) NIRC	\$ (114,462)	\$ 310,161	\$ 157,059	\$ 21,494

Source: AEC, NIRC

Notes: 2020/21 values are as per initial budget estimate. 2020/21 adj values are as per initial budget estimate but with depreciation adjusted for recent revaluation outcomes. 2019/20 overheads have been used to reflect overheads in 2018/19.

The telecom utility has recorded mixed operating performance in recent years.

Strategic Plan

There is no formalised strategic business plan for the telecom utility, although NIRC's Strategic Action Plan (NIRC 2020b) targets enhanced connectivity, including the connection of an undersea cable and development of a data centre, free public WiFi spots, smart poles, open data platform, and day passes with Australian providers.

Mobile service provision is also moving from a 2G network to a 3G/4G network, providing greater reliability, increased speeds and a more modern service.

Sustainability of Telecom as a Business Enterprise

Capital investment in the 3G/4G network was only made possible by the provision of \$3.45 million in Commonwealth grant funding under the Building Better Regions Fund Infrastructure Projects Stream Round 2. The original budget for the project was \$4.6 million, with NIRC initially estimating its contribution to be \$1.15 million. However, projected costs for the project are now estimated to be in excess of \$5.3 million, meaning NIRC's required contribution has increased by in excess of \$0.7 million.

The move to the new 3G/4G mobile network in November 2020 will significantly change the demand profile for data on the island and will significantly impact on the telecom utility's current business model. Initially, there is a reasonably high level of financial risk given the uncertain nature of take-up and utilisation of the service and data. Historically, data has been charged out to customers at a heavily discounted rate and with data costs being very high, the increased availability and use of data on the island may place financial pressure on the telecom utility unless data costs are passed through in full.

Telecom charges are already very high when compared to other localities and in considering the level of service provided and increases in charges will only serve to increase the cost of living and doing business on the island.

It is very difficult to assess the sustainability of the telecom utility as a business enterprise, beyond stating that there will be increasing financial pressure placed on NIRC to ensure the delivery of appropriate landline, mobile and internet services on the island. In fact, owning and operating the telecom utility imposes a considerable financial risk to NIRC given the significance of the revenues and costs attributable to the business relative to NIRC's other controllable revenue streams.

Further, components of the network remain in very poor condition, as reflected by the asset consumption ratio for the network as a whole of 39% which clearly highlights that the network is ageing and in need of additional renewal and reinvestment.

NIRC had the opportunity to take advantage of an undersea cable in 2016, which was not progressed due to the Commonwealth indicating that the nbn would be made available to the island. While there has been increased uptake of the nbnSky Muster service on the island, the service has not provided the required level of connectivity and the island (and its economy and community) remains constrained without access to an undersea cable. Obviously, NIRC does not have the financial capacity to undertake nor maintain the investment required for such connectivity and any such infrastructure would need to be the responsibility of the Commonwealth or a third party.

Ownership and Management/Service Delivery Arrangements

Commonwealth of Australia (2019) highlights that telecommunications was excluded from its analysis on the cost of local and State service delivery on the basis that it "*...is normally a Commonwealth responsibility*" (p.xi) and "*there is no other jurisdiction in Australia that operates its own telecommunications government business enterprise*" (p.32). It notes that Christmas Island is part of the Australian network via Telstra subject to domestic call fees, with Telstra being under a Universal Service Obligation to ensure standard telephone and mobile services are reasonably accessible to all people in Australia on an equitable basis – this does not apply on Norfolk Island likely as a result of legacy issues and potentially the timing of the transition away from self-government in 2016.

Deloitte Access Economics (2014) recommended the adoption of a Government Business Enterprise model for the telecom utility on the basis that it would facilitate appropriate management and reporting within a framework targeted at optimising service delivery, maximising profitability, and driving operating efficiencies.

Telecom services are generally provided by the private sector, with government objectives and subsidised service provision achieved through arrangements such as the Commonwealth's Universal Service Obligation with Telstra. These arrangements help to ensure that appropriate capital investment and service provision occurs in remote areas without significantly different cost-reflective charges being levied on customers in these areas. Such an arrangement would prove beneficial to Norfolk Island residents and businesses.

The table on the following page provides a high-level assessment of the ownership, management and service delivery options for the telecom utility.



Table X Ownership and Management/Service Delivery Options for Telecom Utility

	NIRC Managed	CW Managed	Privately Managed
NIRC Owned	<ul style="list-style-type: none"> As per current arrangements. NIRC has limited financial capacity to ensure appropriate asset renewal and replacement, in addition to the required investment to enhance service levels to modern standards. NIRC needs to ensure that telecom charges are set at a level that achieves cost recovery, which is likely to see charges increase from current levels through the medium term. NIRC remains in control of the telecom utility and has influence over all decisions. NIRC needs to ensure it has the appropriate technical and skilled management and staff to provide modern and reliable telecom services to the community. <p>OUTCOME: ? <i>Only viable with considerable capital and operational funding assistance to NIRC from the Commonwealth.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> NIRC and the private operator have limited financial capacity to ensure appropriate asset renewal and replacement, in addition to the required investment to enhance service levels to modern standards. Private operator needs to ensure that telecom charges are set at a level that achieves cost recovery plus a profit component, which is likely to see charges increase from current levels through the medium term. NIRC loses control of day-to-day management. NIRC remains in control of the strategic management of the telecom utility, noting that these decisions would flow through to telecom charges. NIRC is required to resource oversight of the private operator. <p>OUTCOME: ☒ <i>Not considered to produce any net benefit to the community.</i></p>
CW Owned	<ul style="list-style-type: none"> Transfer of telecom utility ownership/assets (and depreciation) to the Commonwealth with management and operation of the telecom utility undertaken by NIRC via an arrangement similar to the SDA. NIRC has no direct financial exposure to the telecom utility, in particular costs associated with necessary infrastructure upgrades and any potential undersea cable. Strategic direction is determined by the Commonwealth as the asset owner, although there is potential for decision-making to be undertaken in consultation with NIRC as the community representative. The Commonwealth has the ability to provide a subsidy to ensure telecom charges are not excessive relative to other Australian jurisdictions. NIRC needs to ensure it has the appropriate technical and skilled management and staff to provide modern and reliable telecom services to the community. <p>OUTCOME: ? <i>Only viable with considerable capital funding assistance from the Commonwealth to support the utility and with NIRC input on strategy.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Transfer of telecom utility ownership/assets to the Commonwealth for management and operation by a private operator. NIRC has no direct financial exposure to the telecom utility, in particular costs associated with necessary infrastructure upgrades and any potential undersea cable. NIRC loses control of day-to-day management. Strategic direction is determined by the Commonwealth as the asset owner, although there is potential for decision-making to be undertaken in consultation with NIRC as the community representative. The Commonwealth has the ability to provide a subsidy to ensure telecom charges are not excessive relative to other Australian jurisdictions (e.g. universal service obligation provided to Telstra for service delivery on Christmas Island). The private operator has the requisite skills and redundancy to cope with resourcing requirements at short notice. <p>OUTCOME: ☑ <i>Produces a beneficial outcome by ensuring appropriate service delivery at reduced risk at an affordable cost.</i></p>

	NIRC Managed	CW Managed	Privately Managed
Privately Owned	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Transfer of telecom utility ownership/assets to a private investor and operator. NIRC has no direct financial exposure to the telecom utility, in particular costs associated with necessary infrastructure upgrades. NIRC loses control of day-to-day and strategic management. The private operator has the requisite skills and redundancy to cope with resourcing requirements at short notice. Commercial interest in the telecom utility is unlikely to exist given the limited scale and scope of services provided and the poor condition of, and risks attached to, much of the network. Private investment would only occur on the basis of ongoing financial support being provided by the Commonwealth under an arrangement such as the universal service obligation with Telstra to ensure that telecom charges are not excessive, but service standards are appropriate. Any investment in an undersea cable would require appropriate consideration by all affected parties. <p>OUTCOME: ☑ <i>Produces a beneficial outcome by ensuring appropriate service delivery at reduced risk at an affordable cost.</i></p>

Source: AEC

6.3.4.6.1 KEY FINDINGS

- The telecom utility is an essential service for both residents and businesses on Norfolk Island and it is imperative that a highly reliable service be provided at the lowest possible price so as to not impact on the attractiveness or affordability of the island as a place to live and do business.
- Presently telecom charges are well in excess of charges levied in other Australian jurisdictions, including many island communities, given that there is no Commonwealth universal service obligation subsidy provided to keep charges affordable.
- The telecom utility is not really a commercial venture, given the essential nature of the service, the scale and scope of the services provided and a lack of competition.
- Prices are generally set with reference to the cost base and NIRC has recorded mixed operational performance for the business in recent years with operating conditions expected to get more challenging into the future.
- The ongoing investment required to maintain the telecom utility is considered significant relative to NIRC's financial capacity, and the only way appropriate renewal and reinvestment and the progression towards 100% renewable energy can be achieved under current arrangements is through further increases in already very high telecom charges and/or with an explicit pricing subsidy provided by the Commonwealth.
- Viable alternative arrangements may include:
 - Retention of the telecom utility by NIRC, contribution of capital by the Commonwealth to achieve appropriate renewal of and reinvestment in assets in poor condition as well as necessary infrastructure and service upgrades, monitoring the implications for costs and required cost recovery and introducing a pricing subsidy or alternative arrangements if service provision becomes cost prohibitive for the local community.
 - The transfer of ownership and management of the telecom utility and associated assets to the Commonwealth who would utilise and fund a private operator to run the business, in addition to the potential provision of an explicit pricing subsidy to ensure telecom charges are not prohibitive relative to other Australian jurisdictions.
 - The transfer of ownership of the telecom utility and associated assets to Telstra, with the Commonwealth providing Telstra with subsidisation under universal service obligation arrangements to ensure telecom charges are not prohibitive relative to other Australian jurisdictions.

6.3.4.7 LIQUOR BOND

Background

Section 75 of the *Norfolk Island Liquor Act 2005* prohibits the importation of liquor into Norfolk Island except in the following instances:

- Under the authority of the Commonwealth Minister.
- As accompanied personal effects or unaccompanied personal or household effects of aircraft or ship passengers or crew members aged 18 years and over.

Outside of the above, NIRC has a legislated monopoly for the sole importation of liquor products into Norfolk Island, with the liquor bond selling products from its single retail store at Burnt Pine and products in bulk lots to restaurants, clubs and hotels.

The following pricing incentives are provided by the liquor bond:

- 20% discount for travellers of age for up to three litres of spirits/liqueurs each visit to the island to encourage on-island purchasing rather than via duty free.
- Quantity discounts for licensed premises at a 10% discount for bulk purchases above \$1,500 but less than \$2,500 and a 15% discount for bulk purchases above \$2,500.
- Quantity discount for the bulk importation of wine via the liquor bond and with pre-approval from the liquor bond manager with a value above \$5,000 in a single shipment, with a mark-up of only 20% applied.

Financial Performance

The following table details the actual financial performance of the liquor bond in 2018/19 and 2019/20, and the budgeted financial performance of the liquor bond in 2020/21.

Table X Financial Performance of Liquor Bond

Financial Performance	2018/19	2019/20	2020/21
Operating Revenue	\$ 4,091,182	\$ 4,192,633	\$ 2,800,446
Direct Operating Costs	\$ (3,420,196)	\$ (3,427,130)	\$ (1,905,387)
Allocated Overheads	\$ (722,000)	\$ (722,000)	\$ (548,964)
Depreciation	\$ (55,336)	\$ (61,040)	\$ (55,200)
Operating Surplus/(Deficit)	\$ (106,349)	\$ (17,536)	\$ 290,895
<i>add back overheads</i>	<i>\$ 722,000</i>	<i>\$ 722,000</i>	<i>\$ 548,964</i>
Contribution to/(from) NIRC	\$ 615,651	\$ 704,464	\$ 839,859

Source: AEC, NIRC

Notes: 2019/20 overheads have been used to reflect overheads in 2018/19.

The liquor bond provides a substantial financial contribution to NIRC before the allocation of overheads, which are significantly overstated (due to inappropriate allocations) given the level of resourcing required to manage the liquor bond is minor relative to other aspects of NIRC's operations. The total contribution provided to NIRC from the liquor bond before overheads was \$0.7 million in 2019/20.

Strategic Plan

A business plan exists for the liquor bond, which targets \$5 million in revenue for the business by 2022/23. Prioritised actions contained within the business plan include (NIRC, 2019, pp.21-22):

- Improved traction with sales and marketing initiatives with all three customer categories (residents, visitors and licensed premises).
- Customer focused trading hours including both Sunday trading and modified winter trading hours.
- Customer service upskilling including product knowledge.

- Development of the airport kiosk location opportunity to enable the serving/consumption of alcohol and potential exportation of alcohol.
- Broadening of the retail Liquor Licensing Laws to potentially permit additional retailers into the local liquor market.
- Reliable internet service.
- Improved utilisation of the Point of Sale inventory system.
- Reliable shipping service that removes barriers to effective inventory control.
- Combatting liquor import leakage via Administrators approvals.
- Introduction of Licensed Premises Pricing Review recommendations.

Some of the above actions have already been partially or fully implemented, although many remain outstanding with Covid-19 having a significant impact on business turnover.

Sustainability of Liquor Bond as a Business Enterprise

The liquor bond is a financially sustainable business enterprise in its own right and is expected to remain highly profitable into the future. The liquor bond can be sustainably operated with minimal risk to NIRC's financial sustainability, given that the most significant cost component of the business is trading stock which can be adjusted according to sales.

Identified risks to the business include:

- Capacity to adjust and maintain appropriate trading stock is impacted by the current infrequency and lack of capacity of sea freight to the island.
- Very high and increasing cost of sea freight is impacting pricing and profitability.
- Risk of being undermined by Administrator capability (under Ministerial authority) to approve liquor importation outside of the liquor bond.
- Apparent increasing prevalence of purchases online from residents and businesses from off-island retailers.
- Potential expansion of on-island brewing and distilling for resale that may require licensing approvals and fees at some point.

The liquor bond has some capacity to increase prices, but its financial performance is already outstanding relative to the value of capital invested and resources required to operate/maintain. In terms of the potential for additional yield from the liquor bond, NIRC must balance the objectives of its financial sustainability as a local government against potential price gouging for liquor to further cross subsidise other aspects of its operations.

Ownership and Management/Service Delivery Arrangements

Deloitte Access Economics (2014) recommended the adoption of licensing arrangements for the liquor bond on the basis that it would incentivise profit maximisation, retaining control over licensing conditions, providing a greater differential between wholesaling and retailing of liquor on the island, and providing for increased choice for the community in what alcohol is purchased, where and at what times.

When considering the appropriateness of alternative arrangements, it is important to consider the scale of the island and the type of demand for liquor on the island. Further consideration should also be given to the net financial benefits to NIRC – which is constrained in terms of its controllable revenue streams – from retaining the liquor bond, benefits that may be used to assist in the provision and maintenance of essential infrastructure and services across the island.

Given NIRC's limited revenue sources, in particular own source funding mechanisms, it is considered essential for NIRC to retain control of the liquor bond. Norfolk Island Advisory Council (2015a, p.6) indicates that the

liquor bond on Lord Howe Island remains in public ownership (Lord Howe Island Board) and provides an important source of revenue for the island. The same applies to Norfolk Island and NIRC.

Further, the level of financial risk and required level of technical/skilled resourcing associated with the liquor bond is limited, and as such NIRC's financial sustainability is threatened by continuing to operate the business. Conversely, the removal of the business from NIRC's control would work to further threaten its financial sustainability given the considerable financial contributions made each year.

Any shortcomings of the current NIRC ownership, management and service delivery model (e.g. range, opening hours) should be clearly identified, and a strategy established to enhance service levels into the future. It is also understood that the shipping issues faced by the island significantly constrain the liquor bond in its business operations, impacting on product availability and selection.

6.3.4.7.1 KEY FINDINGS

- The liquor bond provides an important service to residents, visitors and licensed premises on the island.
- The liquor bond provides considerable operating profits/contributions to NIRC on a consistent basis, which are used to fund essential infrastructure and service provision to the local community.
- The liquor bond does not place NIRC at significant financial or resourcing risk, given that its cost base can be adjusted to a large part in response to shifts in demand and revenues.
- Establishing alternative ownership, management and/or service delivery arrangements has the potential to threaten NIRC's financial sustainability given the significance of the operating contributions provided by the business relative to NIRC's other controllable revenue sources.
- The liquor bond could be more effective if the island's shipping issues were resolved.
- Any leakage associated with legislative loopholes and online purchasing is currently deemed to be relatively immaterial, although it is important that these issues remain under observation.
- The liquor bond must continue to improve its service offering to meet the needs of residents, visitors and licensed premises to ensure that its monopoly does not significantly impact on product choice and availability across the island.



6.3.4.8 SEWERAGE

Background

NIRC operates a centralised sewerage system, referred to as the Water Assurance Scheme, which services the built-up areas of Burnt Pine and Middlegate. This system was constructed in the late 1980s after it was discovered that the groundwater supply was heavily contaminated from inappropriate effluent disposal methods. The scheme transports wastewater to a treatment plant where effluent is treated at a basic level before being disposed via an outfall pipe off Headstone Cliff into a small bay, south of the Headstone Creek, into the ocean. Biosolids are also discharges into the ocean.

Sewerage charges are levied on properties connected to the scheme. However, during onsite consultations, it was indicated that not all properties within the sewerage scheme service area are connected, with unconnected properties not levied a sewerage charge.

The current reticulated sewerage system only services around 20% of residences on the island. Remaining premises on the island use onsite systems, many of which are also failing and pose a risk of groundwater contamination and are a risk to the environment and public health. There is presently no effective management, monitoring and compliance of these onsite systems.

Financial Performance

The following table details the actual financial performance of the airport in 2018/19 and 2019/20, and the budgeted financial performance of the sewerage utility in 2020/21 under originally budgeted depreciation estimates.

Table X Financial Performance of Sewerage Utility

Financial Performance	2018/19	2019/20	2020/21
Operating Revenue	\$ 379,785	\$ 247,619	\$ 315,000
Direct Operating Costs	\$ (390,444)	\$ (302,812)	\$ (316,487)
Allocated Overheads	\$ (31,250)	\$ (31,250)	\$ (29,434)
Depreciation	\$ (103,826)	\$ (107,371)	\$ (104,000)
Operating Surplus/(Deficit)	\$ (145,736)	\$ (193,814)	\$ (134,921)
<i>add back overheads</i>	<i>\$ 31,250</i>	<i>\$ 31,250</i>	<i>\$ 29,434</i>
Contribution to/(from) NIRC	\$ (114,486)	\$ (162,564)	\$ (105,487)

Source: AEC, NIRC

Notes: 2019/20 overheads have been used to reflect overheads in 2018/19.

The sewerage scheme reports a consistent annual operating deficit, which equated to \$0.16 million in 2019/20 before the allocation of \$0.03 million in overheads. With considerable investment required to renew and upgrade the scheme to meet necessary environmental and public health standards, the size of this deficit is expected to get significantly larger in the near term.

Strategic Plan

There is no formalised strategic business plan for the sewerage utility, although NIRC's Strategic Action Plan (NIRC 2020b) targets enhanced water security, including a new wastewater treatment plant and reuse of treated effluent. Further, investigations have been undertaken into the necessary investment required to overcome issues with the scheme and to replace ageing assets, as well as potential beneficial reuse of treated effluent to help mitigate water security issues on the island, via NSW Government (2019) and Balmoral Group (2019). However, there has been no financial assessment of the implications for NIRC and sewerage customers from such an investment.

Sustainability of Sewerage as a Business Enterprise

An increase in sewerage charges of 45% would be required to achieve a break-even financial position for the current run-down scheme, which would see the residential charge increased from \$420 per annum to \$609 per annum, a level more in line with benchmarking outcomes.

However, the condition of current infrastructure is such that there are significant deficiencies with the scheme's concrete, metalworks and pumping systems, with the treatment plant also expected to fail within five years (NSW Government 2019). Consequently, there is an urgent need for substantial investment in the scheme to ensure appropriate management of the island's wastewater to mitigate against significant environmental and public health risks.

Balmoral Group (2019) includes an estimate of \$17.6 million for the new treatment plant, with corresponding cost increases estimated by AEC to potentially be up to \$0.9 million per annum. Depreciation alone would increase by \$0.4 million per annum. The costs of the scheme will likely exceed the community's affordability without the provision of operational subsidies by NIRC and ultimately the Commonwealth. As such, the sewerage utility is not considered a business enterprise with a profit focus, but rather an essential service to the community where cost recovery is targeted to the extent it can be whilst also considering customer capacity to pay.

Further consideration of the impact of the proposed new scheme on NIRC and the community needs to be undertaken beyond what was provided in the Balmoral Group (2019) report. Consideration also needs to be given to any potential pre-treatment devices required at commercial premises (e.g. grease traps) to ensure that any new treatment plant is able to deal with wastewater receipt given that there is presently no legislative requirement for such devices to be installed.

NIRC must also have the power and capacity to enforce poorly maintained and non-compliant onsite sewerage systems, in addition to considering alternative means by which onsite sewerage systems across the island can be improved given their contamination of watercourses, groundwater and some ocean areas in proximity of the coast. There is a potential need for package plant and/or community wastewater management system (CWMS) arrangements around the island at some point in the future, which would likely come at a cost well in excess of what could be recouped in the form of sewerage charges.

Ownership and Management/Service Delivery Arrangements

Deloitte Access Economics (2014) recommended the adoption of a management contract (i.e. outsourced management and operations) for the sewerage utility on the basis that it would provide an incentive for the manager to maximise profitability of, and drive efficiencies within, the business, as well as ensure that critical infrastructure upgrades are undertaken prior to profits being distributed to government.

The above recommendation fails to recognise the poor state of the infrastructure and the lack of commercial viability of the scheme once the scheme is renewed to an appropriate standard and a modern wastewater treatment plant is installed. The sewerage utility is not a commercial business enterprise, but rather an essential service to protect the local environment and public health, as well as potentially provide a future opportunity to assist in overcoming identified water security issues on the island.

The table on the following page provides a high-level assessment of the ownership, management and service delivery options for the sewerage utility.



Table X. Ownership and Management/Service Delivery Options for Sewerage Utility

	NIRC Managed	CW Managed	Privately Managed
NIRC Owned	<ul style="list-style-type: none"> As per current arrangements. NIRC has limited financial capacity to ensure appropriate asset renewal and replacement, in addition to the required investment to enhance service levels to modern standards. NIRC needs to ensure that telecom charges are set at a level that achieves cost recovery, which is likely to see charges increase from current levels through the medium term. NIRC remains in control of the telecom utility and has influence over all decisions. NIRC needs to ensure it has the appropriate technical and skilled management and staff to provide modern and reliable telecom services to the community. <p>OUTCOME: ? <i>Only viable with considerable capital and operational funding assistance to NIRC from the Commonwealth.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> NIRC and the private operator have limited financial capacity to ensure appropriate asset renewal and replacement, in addition to the required investment to enhance service levels to modern standards. Private operator needs to ensure that telecom charges are set at a level that achieves cost recovery plus a profit component, which is likely to see charges increase from current levels through the medium term. NIRC loses control of day-to-day management. NIRC remains in control of the strategic management of the telecom utility, noting that these decisions would flow through to telecom charges. NIRC is required to resource oversight of the private operator. <p>OUTCOME: ☒ <i>Not considered to produce any net benefit to the community.</i></p>
CW Owned	<ul style="list-style-type: none"> Transfer of telecom utility ownership/assets (and depreciation) to the Commonwealth with management and operation of the telecom utility undertaken by NIRC via an arrangement similar to the SDA. NIRC has no direct financial exposure to the telecom utility, in particular costs associated with necessary infrastructure upgrades and any potential undersea cable. Strategic direction is determined by the Commonwealth as the asset owner, although there is potential for decision-making to be undertaken in consultation with NIRC as the community representative. The Commonwealth has the ability to provide a subsidy to ensure telecom charges are not excessive relative to other Australian jurisdictions. NIRC needs to ensure it has the appropriate technical and skilled management and staff to provide modern and reliable telecom services to the community. <p>OUTCOME: ? <i>Only viable with considerable capital funding assistance from the Commonwealth to support the utility and with NIRC input on strategy.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Transfer of telecom utility ownership/assets to the Commonwealth for management and operation by a private operator. NIRC has no direct financial exposure to the telecom utility, in particular costs associated with necessary infrastructure upgrades and any potential undersea cable. NIRC loses control of day-to-day management. Strategic direction is determined by the Commonwealth as the asset owner, although there is potential for decision-making to be undertaken in consultation with NIRC as the community representative. The Commonwealth has the ability to provide a subsidy to ensure telecom charges are not excessive relative to other Australian jurisdictions (e.g. universal service obligation provided to Telstra for service delivery on Christmas Island). The private operator has the requisite skills and redundancy to cope with resourcing requirements at short notice. <p>OUTCOME: ☑ <i>Produces a beneficial outcome by ensuring appropriate service delivery at reduced risk at an affordable cost.</i></p>

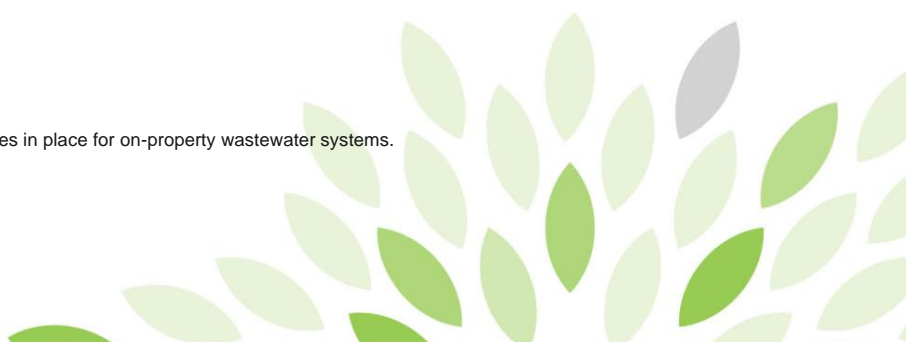
	NIRC Managed	CW Managed	Privately Managed
Privately Owned	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Not a realistic option. <p>OUTCOME: ☒ <i>Not a viable option.</i></p>	<ul style="list-style-type: none"> Transfer of telecom utility ownership/assets to a private investor and operator. NIRC has no direct financial exposure to the telecom utility, in particular costs associated with necessary infrastructure upgrades. NIRC loses control of day-to-day and strategic management. The private operator has the requisite skills and redundancy to cope with resourcing requirements at short notice. Commercial interest in the telecom utility is unlikely to exist given the limited scale and scope of services provided and the poor condition of, and risks attached to, much of the network. Private investment would only occur on the basis of ongoing financial support being provided by the Commonwealth under an arrangement such as the universal service obligation with Telstra to ensure that telecom charges are not excessive, but service standards are appropriate. Any investment in an undersea cable would require appropriate consideration by all affected parties. <p>OUTCOME: ☑ <i>Produces a beneficial outcome by ensuring appropriate service delivery at reduced risk at an affordable cost.</i></p>

Source: AEC

6.3.4.8.1 KEY FINDINGS

- The sewerage utility is an essential service for both residents and businesses on Norfolk Island and it is imperative that a highly reliable service be provided at the lowest possible price so as to not impact on the attractiveness or affordability of the island as a place to live and do business.
- Considerable capital investment is required in the sewerage scheme to overcome identified issues with the scheme, protect the local environment and public health, treat effluent to modern standards and potentially assist the island's water security issues.
- The extent of this capital investment and associated operating costs (including depreciation) will not be able to be recouped through sewerage charges and some form of subsidisation will likely be required, although the extent of this subsidisation is yet to be determined.
- The sewerage utility is not really a commercial venture, given the essential nature of the service, the scale and scope of the services provided, ongoing losses which will become more and more significant, and a lack of competition.
- Any new treatment plant may require a review of wastewater quality discharged into the scheme and the potential need for pre-treatment facilities on commercial premises with trade waste in addition to an associated licensing and inspection regime (and applicable fees) – these arrangements would require appropriate legislative provisions if they do not currently exist.
- Outside of the reticulated sewerage scheme, there is a need for NIRC to introduce appropriate regulation and compliance monitoring of private onsite sewerage systems with appropriate licensing and inspection fees levied on affected properties⁷ – these arrangements would require appropriate legislative provisions if they do not currently exist.
- All properties located within the sewerage scheme service area must be connected and levied the applicable sewerage charges – this is important for NIRC on financial grounds and for the island on environmental and public health grounds.
- Viable alternative arrangements may include:
 - Retention of the sewerage utility by NIRC, contribution of capital by the Commonwealth to achieve appropriate renewal of and reinvestment in assets in poor condition in addition to the required investment to upgrade treatment to a modern-day standard to protect the local environment and public health and take advantage of effluent reuse opportunities.
 - The transfer of ownership and management of the sewerage utility and associated assets to the Commonwealth who would either utilise and fund a State partner to run the business, in addition to the potential provision of an explicit pricing subsidy to ensure sewerage charges are not prohibitive relative to other Australian jurisdictions.
 - The transfer of ownership of the sewerage utility and associated assets to the Commonwealth, with NIRC retaining day-to-day management and operational control under an SDA-type arrangement and the potential provision of an explicit pricing subsidy to ensure sewerage charges are not prohibitive relative to other Australian jurisdictions.

⁷ The Lord Howe Island Board has a schedule of fees and charges in place for on-property wastewater systems.



6.3.4.9 WASTE MANAGEMENT

Background

NIRC is responsible for the safe processing and disposal of waste generated on the island. NIRC operates two waste management facilities, being the waste management centre adjacent the airport and the Headstone tip where selected residual waste streams are disposed into the ocean.

Waste streams presently diverted from disposal into the ocean include cars, clean plastics, glass, aluminium cans, white goods, E-waste, car tyres, batteries, printer cartridges, waste oils and asbestos. Waste oils and asbestos are stockpiled on the island until they are able to be exported to mainland Australia for safe disposal.

It is estimated that up to 1,500 tonnes of waste per annum is still disposed into the Marine Park at Headstone, with the waste primarily comprised of builders waste, bulky metal items, furniture and other bulky items, paper, cardboard, unclean plastics, offal/food scraps and other waste contaminated with food scraps.

The waste function faces significant operating constraints, including (but not limited to):

- The inability to site a landfill on the island to deal with residual wastes, requiring residual waste to be shipped to mainland Australia for disposal⁸ – noting the present lack of a sea freighter to Australia, meaning residual waste must be stockpiled or disposed into the ocean.
- High cost to process and export recyclables to Australia (when shipping is available) and/or New Zealand for processing.
- A lack of economies of scale in waste processing, impacting the viability of available technologies (e.g. waste to energy) to appropriately deal with selected waste streams.

With the waste function being a very high cost operation, waste disposal fees cannot be used as the primary means by which the function can achieve cost recovery. The primary revenue mechanism used by NIRC to fund the waste function is an import levy under Section 8 of the *Norfolk Island Waste Management Act 2003*.

Financial Performance

The following table details the actual financial performance of the waste function in 2018/19 and 2019/20, and the budgeted financial performance of the budget in 2020/21.

Table X. Financial Performance of Waste Function

Financial Performance	2018/19	2019/20	2020/21
Operating Revenue	\$ 955,027	\$ 809,496	\$ 976,750
Direct Operating Costs	\$ (1,692,707)	\$ (1,446,883)	\$ (521,112)
Allocated Overheads	\$ (140,000)	\$ (140,000)	\$ (69,202)
Depreciation	\$ (111,212)	\$ (143,757)	\$ (108,000)
Operating Surplus/(Deficit)	\$ (988,892)	\$ (921,144)	\$ 278,436
<i>add back overheads</i>	<i>\$ 140,000</i>	<i>\$ 140,000</i>	<i>\$ 69,202</i>
Contribution to/(from) NIRC	\$ (848,892)	\$ (781,144)	\$ 347,638

Source: AEC, NIRC

Notes: 2019/20 overheads have been used to reflect overheads in 2018/19.

Significant operating deficits were recorded by the waste function in 2018/19 and 2019/20, impact on Council's overall financial performance in both years. The 2020/21 budget for the waste function is not a realistic representation of ongoing operating obligations, with revenues including a \$0.25 million Commonwealth operating contribution, the cost of freighting of waste off-island almost entirely excluded from the budget and

⁸ The Basel Convention prevents residual waste from being shipped to landfill in New Zealand.

other cost centres being subject to substantial cuts (resulting in direct costs being reduced by \$0.93 million from 2019/20 actuals). As such, significant and increasing operating losses are highly likely for the waste function into the future.

Strategic Plan

NIRC's Strategic Action Plan (NIRC 2020b) targets environmental advancements, including improved waste management practices. NIRC's Environmental Strategy 2018-2023 (NIRC 2018) includes "*reduce, reuse and recover waste and end disposal of waste into the sea*" as a tactic to achieve its Objective 1: Use and Manage our Resources Wisely. Norfolk Island Advisory Council (2015b, p.2) also indicates that community feedback "*...suggested the existing waste and environmental management practices should be improved to deliver better social and environmental outcomes for Norfolk Island through increased recycling and decreased burning of waste and dumping at sea*".

Ann Prince Consulting developed a Waste Management Strategic Plan for the former Administration of Norfolk Island in 2015. While a copy of the report was unable to be sourced for this review, the Administration of Norfolk Island (2015) implementation plan developed in response to the strategic plan was sourced. The implementation plan indicates that the initiatives included within the Waste Management Strategic Plan were not considered achievable as a result of a lack of available resources and funds. Consequently, a prioritised list of revised actions was included in the Administration of Norfolk Island (2015) implementation plan.

The major initiatives achieved since the development of the Waste Management Strategic Plan include:

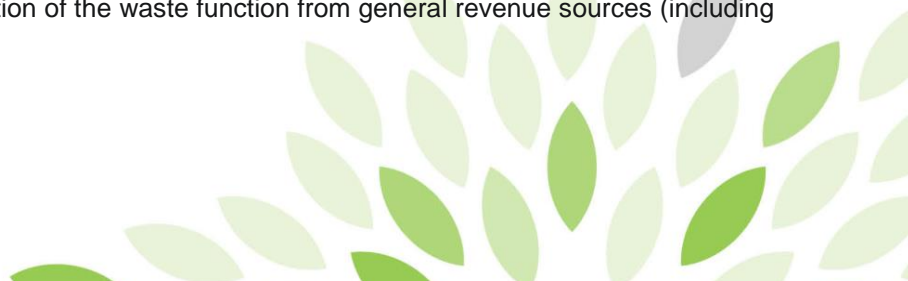
- High density multi-purpose baler and sort line to deal with aluminium cans, steel cans, PET plastics, soft plastics, residual waste streams without organics, textiles and cardboard/paper.
- In-vessel aerated composting system to deal with organic waste streams – noting that this is yet to be operational due to poor strategic planning and management relating to the associated development application and site preparation works.
- Metal baler to deal with car bodies, white goods, sheet metal and scrap metal – noting that installation delays have also been experienced due to poor strategic planning and management.

There is no clear, funded plan to implement other necessary initiatives to achieve the requirement for NIRC to stop disposing of waste into the ocean, which has been identified as a significant issue that must be addressed within a limited timeframe by the Commonwealth given it is prohibited under the Commonwealth Environmental Protection and Biodiversity Conservation Act Regulation 2000. Deadlines set for NIRC to achieve zero waste to ocean outfall have simply been continually extended.

Sustainability of Waste Management as a Business Enterprise

The waste function is financially unsustainable and requires significant subsidisation from other revenue sources under current operating practices. Moving to zero waste disposal to ocean will work to considerably increase the costs of the waste function and will make it even more financially unsustainable. The waste function will incur ongoing operating losses of \$1 million to \$2 million per annum, even when appropriate capital investments are made to facilitate appropriate waste processing and disposal (e.g. baling and containerisation of all waste unable to be reused on the island) which are a matter of priority.

Increasing waste disposal fees may reduce the extent of the operating deficits, but only at the margin, and may result in inappropriate waste disposal across the island such as illegal dumping, on-property burial and/or on-property burning. Removal of the import levy will result in much greater operating deficits unless waste disposal fees were set at ridiculously high levels. It is not deemed appropriate to further increase the waste (import) levy, given the flow-on effects this levy has on the cost of living for the community, business input costs and ultimately the local economy. As such, cross subsidisation of the waste function from general revenue sources (including



Commonwealth capital and operating grants) is required in order for NIRC to meet its public health and environmental obligations.

An additional consideration is that waste recycling framework bills are currently before Parliament (Recycling and Waste Reduction Bill 2020 and associated provisions) which would see the progressive implementation of bans on waste plastic, paper, glass and tyre exports outside of Australia, placing the transportation of these recyclables to New Zealand at risk. This legislation must not apply to Norfolk Island.

Ownership and Management/Service Delivery Arrangements

Deloitte Access Economics (2014) recommended the adoption of a management contract (i.e. outsourced management and operations) for the waste management function on the basis that it would provide an incentive for the manager to maximise profitability of, and drive efficiencies within, the business, but did note that some form of government involvement would be desirable.

While waste management has some characteristics of a business enterprise in that it is a significant revenue-generating function, it is important to note that the waste function is primarily funded through a broad-based taxation mechanism (import levy) not available to other local governments in mainland and waste disposal fee revenues are relatively minor. Further, the primary objectives of NIRC's waste management function should be on the protection of public health and the environment and applying commercial cost recovery and profit-making principles to the waste management function are unlikely to be appropriate.

As such, the application of commercialisation principles to the waste function would be inappropriate and would likely incentivise inappropriate waste disposal behaviours by waste generators across the island given the very high cost of waste disposal. Waste management must remain a function of NIRC, subject to appropriate oversight and compliance monitoring from a State partner and/or the Commonwealth. However, it is clearly evident that the appropriate management and processing of waste on the island is beyond the financial capacity of NIRC and the community and requires ongoing funding assistance from the Commonwealth in order for environmental and public health obligations to be met.

6.3.4.9.1 KEY FINDINGS

- Dumping of waste into the Marine Park must cease as a matter of urgency, although this can only occur if the funding and logistical obstacles are addressed by NIRC and the Commonwealth – presently, NIRC does not have the financial capacity to meet these obligations alone.
- The waste oil and asbestos stockpiles on the island also need to be addressed as a matter of priority, noting that this is also impacted by the lack of sea freight from the island to mainland Australia which is impacted by the lack of an appropriate all-weather port.
- Commercialisation principles should not apply to a waste function operating in a unique environment such as Norfolk Island, as the adoption of cost recovery pricing would be unaffordable for the economy and community and has the potential to result in adverse waste disposal behaviours across the island such as illegal dumping, on-property burial and/or on-property burning.
- The focus instead should be on ensuring environmental and public health outcomes are achieved within such a complex environment, whilst still providing regulatory and pricing signals that incentivise waste minimisation and appropriate source separation.
- NIRC should remain responsible for waste management, noting that the cost of appropriate management and processing of waste on the island is beyond the financial capacity of NIRC and the community and requires ongoing funding assistance from the Commonwealth in order for environmental and public health obligations to be met.



- There is presently no clear, funded plan to implement the remaining initiatives to achieve the requirement for NIRC to stop disposing of waste into the ocean and this needs to be developed in collaboration with and with the funding support of, the Commonwealth.
- NIRC should be subject to enhanced accountability and transparency regarding how waste is disposed on and off the island, with oversight and compliance monitoring from a State partner and/or the Commonwealth.
- Any potential legislative restrictions placed on the export of recyclables outside of Australia must not apply to Norfolk Island given recyclables are regularly sent via sea freight to New Zealand.

6.3.4.10 ISSUE OF EASEMENTS

During the onsite consultation discussions, it was identified that easements for NIRC's utilities are presently not subject to formal arrangements and agreements. The impact of the easements ranges from a sewer line running along a fence line to running down the centre of some properties impacting the ability to site a house in a conventional manner on a block.

A number of years ago, the Valuer General identified a list of affected properties without registered easements which totalled between 150 and 200 assessments and an initial estimate of just under \$1 million was indicated to be the potential compensation required for loss of land value.

At present, there is no formal plan for NIRC to formalise these arrangements and provide appropriate compensation to landowners, with the issue having been set aside on the basis that NIRC had no funding capacity to resolve the issue.

The lack of formal arrangements for easements places NIRC's service delivery at risk, given that there are no formal arrangements or rights by which it is able to enter properties to resolve infrastructure and service issues. Further, strategic infrastructure and service planning cannot reliably occur unless these easements are formalised.

6.3.4.11 RECOMMENDATIONS

1. NIRC holds considerable financial risk in being responsible for the airport, electricity, telecom, sewerage and waste businesses.
2. Given high fixed costs of operation, significant fluctuations in revenue across these enterprises will always place NIRC's financial sustainability at risk without an ongoing 'war chest' in place to cover large funding shortfalls when they occur.
3. That alternative arrangements be introduced for the airport that reduce the financial exposure of NIRC to the airport's reliance on revenue from tourist visitation and high fixed operating costs, with a preference for airport ownership to be transferred to the Commonwealth.
4. That alternative arrangements be considered for the electricity, telecom and sewerage utilities, which may involve one or more of the following:
 - a. 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 with assets not on NIRC's books and with the Commonwealth funding any operational shortfall on an ongoing basis to ensure affordability – a Board arrangement may be desirable 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.

- b. Transfer of responsibilities for electricity and/or sewerage to a State partner or similar, with the Commonwealth funding any operational shortfall on an ongoing basis to ensure affordability.
 - c. Divestment of the telecom function to Telstra, with the Commonwealth ensuring appropriate service provision at an affordable price under a universal service obligation arrangement.
- 5. That the introduction of any alternative arrangements maximises the employment of local workers rather than utilising outsourcing, outside of skill requirements unavailable on-island.
- 6. That responsibility for the liquor bond remain with NIRC given the significant financial contribution it provides, and the limited financial and resourcing risk attached to the business enterprise.
- 7. That responsibility for the waste function remain with NIRC, but with the necessary capital and operational funding assistance provided by the Commonwealth to ensure that it is able to meet its environmental and public health obligations as a matter of urgency.
- 8. That the easements required to operate the utilities servicing the island be formalised, with appropriate compensation payments arranged.



FOCUS AREA 6.3.5: FIRE SERVICES

Assessing the current fire service arrangement to the community and airport, the financial implications of each of these services to NIRC and the community, and any potential improvements that may be achievable to enhance Council's overall financial position.

6.3.5.1 APPROACH

This section provides an overview of the current community and airport fire service arrangements on the island, the cost of these arrangements to NIRC and the local community, and potential alternative arrangements that would enhance NIRC's financial position.

6.3.5.2 CURRENT ARRANGEMENTS

NIRC is presently responsible for resourcing the provision of fire services to both the community (local fire response) and the airport (coverage for regular passenger flights to and from the island) via the same team of fire fighters.

Community fire services are considered a state level responsibility and are therefore funded by the Commonwealth under the SDA with NIRC, with the Commonwealth indicating a 2020/21 budget amount of \$0.46 million. As such, the provision of these services does not place a financial impost on NIRC and the local community.

The Aviation Rescue and Fire Fighting Service (ARFFS) is considered a NIRC responsibility under current arrangements. The current ARFFS facility opened in 2010, and with the airport being classified as Category 6 there needs to be a minimum of two fire-fighting vehicles in place^[1]. In the absence of formal arrangements in place with a State partner or Air Services Australia (ASA), NIRC staff have faced issues with ensuring appropriate access to the necessary training (and training facilities).

The cost of ARFFS is only partly funded through a passenger fee, which was \$2.60 in 2019/20 and has been increased to \$5.20 in 2020/21. The net financial cost to NIRC and the local community of the ARFFS was \$0.35 million in 2018/29 and \$0.19 million in 2019/20, and is estimated to grow to \$0.30 million in 2020/21 despite a doubling in the applicable passenger fee (due to reduced passenger numbers from Covid-19). To put this financial shortfall into perspective, it equates to \$170 per resident on the island. Even if passenger numbers had been retained at pre-Covid-19 levels, the ARFFS would have still made a substantial loss in 2020/21 which would need to be subsidised by the local community.

6.3.5.3 POTENTIAL ALTERNATIVE ARRANGEMENTS

Norfolk Island Airport is the only Category 6 airport in Australia where fire services are not provided by ASA. The current arrangements are providing a considerable financial impost on NIRC and the local community. In

^[1] NIRC presently has two Rosenbauer Panther CA5 firefighting tenders with a combined value of around \$2.5 million and a command vehicle to support the ARFFS.



addition, an organisation like ASA would have the necessary hard and soft infrastructure to ensure appropriate resourcing and training of the ARFFS function.

While it would be more appropriate for the services to be the responsibility of the CW and/or ASA, the biggest issue to overcome in separating community fire services from airport fire services is that the same resources are used by both functions.

Earlier this year, Council identified three alternative options that may be considered in removing the funding shortfall and/or any potential transfer of responsibility for airport fire services to the Commonwealth, which are outlined in the following table. Separately, Council also questioned the need for the airport to be a Category 6 airport rather than a Category 5 airport, with only one truck required for the latter (and a reduced cost of operation).

Future ARFFS Responsibility/Funding Options

Option	Description	Assessment
Option 1: Integrate Service Provision with ASA	<ul style="list-style-type: none"> Full integration of ARFFS with ASA Staff and vehicles either: <ul style="list-style-type: none"> Retained by NIRC, trained by ASA and provided via 'wet lease' arrangements Transitioned to ASA Facilities and equipment either leased or sold to ASA 	<ul style="list-style-type: none"> The actual structure adopted could be influenced by the interdependency of resources used for both airport and community fire service requirements Ensures that ASA governs the resourcing and training of the ARFFS at its specified service standard Potential loss of control by NIRC over resourcing and local staffing arrangements No funding requirement of NIRC and the local community in the provision of ARFFS
Option 2: Extend Commonwealth SDA Funding to Include ARFFS	<ul style="list-style-type: none"> Include ARFFS within the SDA given it is a Commonwealth responsibility Retain existing staff and ownership of vehicles, facilities and equipment Ensure standard of services – including training facilities – is appropriate relative to requirements Commonwealth receives ARFFS passenger fee revenue 	<ul style="list-style-type: none"> Dual resourcing of community and airport fire services can be retained NIRC will need to ensure appropriate training facilities are in place and access to a CASA-approved third-party training provider Retention of control by NIRC over resourcing and local staffing arrangements No funding requirement of NIRC and the local community in the provision of ARFFS
Option 3: Increase ARFFS Passenger Fee to Remove Funding Shortfall	<ul style="list-style-type: none"> Further increase the ARFFS passenger fee to ensure 100% cost recovery After a 100% increase in the fee in 2020/21, a further 150%-400% increase may be required to break even depending on the level of actual visitation 	<ul style="list-style-type: none"> Dual resourcing of community and airport fire services can be retained Retention of control by NIRC over resourcing and local staffing arrangements Target of no net funding requirement of NIRC and the local community in the provision of ARFFS Actual financial outcomes will vary by year depending on actual visitation and financial risk remains with Council during periods of downturn Potential reduction in the attractiveness (and competitiveness) of Norfolk Island as a tourist destination given increased passenger fees to visit the island

Source: AEC, NIRC

Affected Council staff prefer Option 2 on the basis that it will enable the provision of a public safety fire and rescue service to both the community and users of the airport, as well as providing ongoing job security. The most appropriate option will, however, be somewhat dependent on the overarching decision on the future arrangements for the airport itself. If the airport were to no longer be the responsibility of NIRC, then Option 1 would likely be the most viable option from a governance and operations perspective.



6.3.5.4 KEY FINDINGS

- NIRC and the local community are presently subsidising the ARFFS to the extent of up to \$0.3 million per annum – equal to \$170 per resident – despite a doubling in the ARFFS passenger fee in 2020/21.
- ARFFS is deemed to be a Commonwealth function, with ASA generally responsible for these services.
- Further increases in passenger fees to fund ARFFS are not considered viable in a competitive tourism market.
- Depending on the future arrangements for the Norfolk Island Airport (discussed in the preceding section), ARFFS should either fall under the Commonwealth SDA with NIRC or be integrated within ASA.

6.3.5.5 RECOMMENDATIONS

1. That the Commonwealth and NIRC consider the most appropriate option for the ARFFS to ensure that NIRC and the local community are not subsidising the service, noting that NIRC's financial sustainability position would be most enhanced if it were not responsible for funding the service at all and any risks associated with fluctuating passenger fee revenues are removed altogether.



FOCUS AREA 6.3.6: THE STATE DISCONNECT

Determining the financial implications associated with the “State disconnect” for matters such as lack of accessibility to grants and economic stimulus opportunities that may otherwise be made available to Councils across Australia to enhance financial viability during times of adversity.

6.3.6.1 APPROACH

This section undertakes an assessment of the current arrangements between the Commonwealth and NIRC in the provision of State-type services and assesses the potential financial implications for NIRC from not having a State Government to provide additional financial support in the delivery of infrastructure and community services.

6.3.6.2 CURRENT ARRANGEMENTS

The Commonwealth is responsible for the delivery of State-type services on Norfolk Island. A substantial portion of these services is presently provided by NIRC through the SDA with the Commonwealth. However, in the absence of a willing State partner, there is no formal mechanism by which NIRC can apply for operating or capital grants that would normally be provided by State and Territory Governments across Australia. Further, minimal State-level support to NIRC and the community exists to reflect the absence of a willing State partner. Examples include infrastructure assistance, natural resources management, environment, tourism, remote area electricity subsidies and home builder grants.

Onsite consultations specifically highlighted the following:

- Systemic and structural deficiencies in the arrangements between Council and the Commonwealth as its State in the absence of a willing State partner.
- Inability to access State-type grants for essential infrastructure and community service projects.
- A lack of funding and resourcing for environmental works and practices, which is exacerbated by a lack of State funding opportunities such as not being a declared natural resources management region and the inability to access funding for essential works through programs such as the National Landcare Program, in addition to not being provided support under an equivalent entity such as NSW Local Land Services.
- Inability to access comparable tourism funding such as the \$300 million NSW Regional Growth Environment and Tourism Fund, lack of a tourism State partner such as Destination NSW and other factors (e.g. inability to participate in Australian Tourism Awards given the lack of a State or Territory pathway).
- Inability for businesses and residents to access Covid-19 economic stimulus packages offered by States or Territories⁹.

It is important to note that the Commonwealth has provided considerable direct financial assistance to NIRC in the delivery of key projects in recent years, beyond what would otherwise be provided to other local governments across Australia. As such, any direct comparison with other local governments may not be appropriate, although it is important to recognise the funding capacity issues for NIRC in the delivery of

⁹ A specific Covid-19 economic stimulus package was established by the Commonwealth for Norfolk Island (as with the Indian Ocean Territories) via NIRC that was developed in consultation with NIRC to deliver local projects and create local jobs. The package included \$5.45 million in funding across 22 different projects, with an additional \$0.475 million provided for tourism promotion (on top of the amount provided by the Commonwealth to NIRC as part of the annual budget process). It was considered that a direct replication of state measures would not have appropriately considered the unique nature of Norfolk Island.

tourism support to the local economy and the delivery of significant environmental obligations in the absence of a formal State-type framework.

6.3.6.3 BENCHMARKING

Queensland

AEC Group/KPMG (2017) includes a detailed assessment of State grants provided to local government in Queensland in 2017 and provides insight into the level and type of financial support provided on an ongoing basis. It was found that there are around 70 grant programs provided to local governments from the Queensland Government each year, with funding generally falling into three broad categories:

- Funding of core local government responsibilities such as transport, water, and community infrastructure and facilities.
- Funding for the fulfilment of government policies such as environment, culture or art.
- Funding for the delivery of State-type services such as health, education and licensing.

Infrastructure-related grants were found to account for the majority of grants provided. In 2015/16, when grants totalled \$401 million, \$357 million was allocated to infrastructure-related projects. On a per capita basis, grants in 2015/16 equated to \$2,480 in Indigenous local government areas, \$290 in resource-based local government areas, \$194 in rural and remote local government areas, \$99 in coastal local government areas and \$26 in South East Queensland local government areas. For Queensland local governments serving a population of between 1,000 and 5,000 persons, the median outcome was \$1,944 per capita (within a range of \$188 to \$4,371). Excluding Indigenous local government areas, this outcome was \$603 per capita (within a range of \$188 to \$4,164).

Adjusting for the higher value of grants subsequently provided in 2016/17 of \$570 million¹⁰, the median outcome for Queensland local government areas serving 1,000 to 5,000 persons but excluding Indigenous local government areas is \$856 per capita which would equate to \$1.49 million per annum for NIRC. Indexing this value by 2% per annum over four years equates to \$1.61 million per annum.

New South Wales

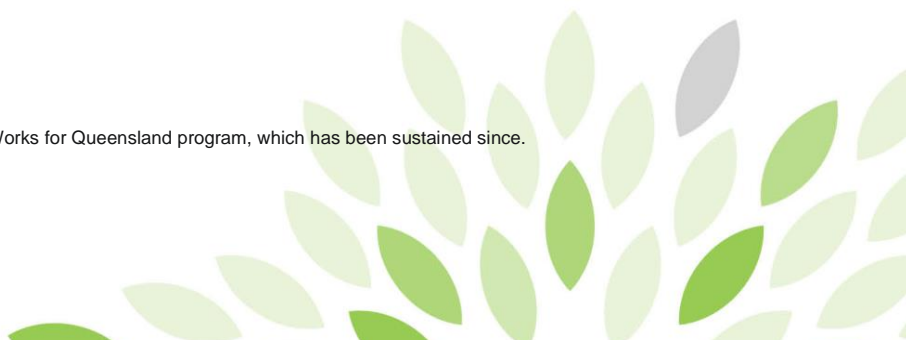
An assessment was undertaken of the State operating and capital grants reported in 2017/18 and 2018/19 by 14 NSW local governments serving a population of between 1,000 and 5,000 persons, with adjustments made to remove grants for fire and emergency services, flood damage, aged care, preschool and any local government reforms.

The average annual operating grant provided to these local governments by the State equated to \$270 per capita, while the average annual capital grant provided to these local governments by the State equated to \$830 per capita. This would equate to \$1.91 million per annum for NIRC, with \$0.47 million per annum in operating grants and \$1.44 million per annum in capital grants. Indexing this value by 2% per annum over two years equates to \$1.99 million.

6.3.6.4 AVAILABLE OPTIONS

It is difficult to apply a traditional Commonwealth, State and local government model to Norfolk Island, particularly when it comes to funding, given the unique circumstances of infrastructure and service delivery on

¹⁰ The increase in grants was largely due to the addition of the Works for Queensland program, which has been sustained since.



the island. As such, there are a number of available options for consideration by the Commonwealth and NIRC to overcome the identified 'State disconnect', including:

- Provision of a fixed amount to reflect capital and operational funding support that would normally be provided within a State governance framework, with the total amount being at least \$2 million per annum (possibly broken into 25% operational and 75% capital).
- Establish a long-term, funded infrastructure and service delivery plan between the Commonwealth and NIRC that considers all aspects of infrastructure and service delivery, including components that would normally be provided financial and non-financial assistance under a formal State governance framework.
- Once a willing State partner is established, have that State partner provide the requisite funding and support via existing programs and policies with the State partner being reimbursed by the Commonwealth for any support provided – until this occurs, appropriate direct funding support would be required from the Commonwealth.

6.3.6.5 KEY FINDINGS

- NIRC's financial sustainability and ability to meet its service obligations suffer from an absence of financial and non-financial support that would normally be delivered by a State or Territory government.
- This is particularly the case in the delivery of tourism support to the local economy and in meeting its significant environmental obligations, as well as in the replacement and upgrade of essential infrastructure and community services (albeit to a lesser extent given the special and significant grant funding provided by the Commonwealth on a project by project basis).
- Local businesses are also affected by the absence of targeted economic stimulus programs and other levels of support targeted to them in other local government areas with a State framework in place.
- Benchmarking of State Government support in Queensland and NSW suggests that NIRC could access at least \$2 million per annum based on the median provision of grants on a per capita basis, with its unique circumstances meaning that support could be significantly greater than this amount.
- Several options are available to the Commonwealth and NIRC to overcome the financial and non-financial impacts identified, including:
 - The provision of additional, specified annual operational and capital funding support to NIRC by the Commonwealth based on established benchmarks.
 - The establishment and delivery of an agreed long-term, funded program of infrastructure and service delivery between the Commonwealth and NIRC to meet service obligations.
 - Delivery of financial and non-financial support via a State partner, with the Commonwealth compensating the State partner – with support provided directly to NIRC in the interim.

6.3.6.6 RECOMMENDATIONS

1. 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 service obligations.



- c) Delivery of financial and non-financial support via a State partner, with the Commonwealth compensating the State partner – with support provided directly to NIRC in the interim.



FOCUS AREA 6.3.7: FINANCIAL SUSTAINABILITY RISKS

Identifying financial sustainability risks for NIRC and develop potential mitigation actions

6.3.7.1 APPROACH



Identified Financial Sustainability Risks and Potential Mitigation Actions

Impact Area	Impact Description	Impact	Likelihood	Rating	Mitigation Actions
Unsustainable Financial Position	<p>A combination of the depreciation impact from the recent revaluation and capital projects and the anticipated capital projects and changes to operating practices required for NIRC to meet its compliance and service obligations will make NIRC financially unsustainable even if tourist visitation returned to normal.</p> <p>There is potential for NIRC to run out of cash to fund its operations in the very near future.</p> <p>Potential financial impacts associated with climate change impacts as well as mitigation and response mechanisms will place further pressure on NIRC's financial sustainability into the future¹¹.</p>	Extreme	Very High	Extreme	<p>Develop a collaborative relationship with the Commonwealth in developing a clear framework for funding assistance, in addition to a funded long-term strategic plan for the island that has allocated responsibilities, actions and delivery timelines.</p> <p>Ensure that all the projects that need to occur within the forecast period to maintain essential service provision whilst protecting public health and environmental outcomes are included in the long-term financial forecasts, even if it means that forecasts highlight an unsustainable financial position for NIRC.</p> <p>Ensure that the mix of operational revenue streams available to NIRC are maximised.</p> <p>Where NIRC remains financially unsustainable, consider potential reductions in services and service levels and/or the transfer of infrastructure and service responsibilities and funding to other parties.</p>
Volatility in Tourist Visitation	<p>The Covid-19 experience has highlighted the significant financial and operational implications of a substantial drop in tourist visitation to the island on NIRC.</p> <p>This is primarily because of the significance of NIRC's current revenue streams tied to tourist visitation, when NIRC's cost base is largely fixed irrespective of tourist visitation.</p>	Extreme	Moderate	Very High	<p>Ensure NIRC's financial capacity in terms of operating surpluses and cash/funding availability can deal with unanticipated shocks for extended periods.</p> <p>Where substantial risks remain, consider potential reductions in services and service levels and/or the transfer of infrastructure and service responsibilities tied to tourist visitation (e.g. airport) to other parties.</p>
Biosecurity and First Port of Entry Costs	Biosecurity and First Port of Entry requirements are likely to place a high cost burden on NIRC.	High	High	High	Transfer responsibilities (at the very least funding responsibilities) for biosecurity and First Port of Entry requirements to the Commonwealth.
Resourcing Constraints	NIRC has historically had a relatively high level of staff turnover, with vacancies in key positions, impacting the ability to meet infrastructure and service obligations.	High	High	High	<p>Develop a strategy to increase the attractiveness of working for NIRC to reduce staff turnover in key positions.</p> <p>Identify areas of under-resourcing and determine a funded strategy and program to fill these positions in collaboration with the Commonwealth.</p>
Inappropriate Long-Term Financial Forecasts	<p>Long-term financial forecasts are only as good as the inputs and assumptions underlying them.</p> <p>NIRC's most recent forecasts do not accurately reflect near-term and medium-term financial obligations and therefore do not appropriately represent whether NIRC is financially sustainable.</p> <p>Necessary capital projects and changes in operating practices are excluded from current forecasts due to a lack of funding and certainty and therefore understate future costs.</p>	High	Moderate	High	<p>Review the identified issues with the inputs and assumptions underlying the long-term financial forecasts.</p> <p>Ensure that all the projects that need to occur within the forecast period to maintain essential service provision whilst protecting public health and environmental outcomes are included in the long-term financial forecasts, even if it means that forecasts highlight an unsustainable financial position for NIRC.</p>
Inadequate Planning and Prioritisation of Capital Projects	NIRC has experienced significant cost over-runs on some major projects due to unanticipated costs.	High	Moderate	High	<p>Ensure appropriate upfront planning is undertaken including detailed design incorporating all direct and indirect requirements to ensure practical delivery of the project.</p> <p>Ensure lifecycle costs are considered in project evaluations and financial sustainability impact assessments, including additional operating costs incurred.</p> <p>Ensure capital projects align with an established long-term strategic plan for the island.</p> <p>Utilisation of a project management framework to guide project delivery and enhance overall project management capability within the organisation.</p>

¹¹ Refer to Commonwealth of Australia (2020) identifies a long list of recommendations to enhance Norfolk Island's capacity to deal with climate change, many of which may impact the costs incurred by Council over time.

					Ensure capital investment prioritisation principles and detailed project evaluations are upheld.
Infrastructure Failure	Infrastructure failure resulting in an immediate investment requirement when available cash is limited, and borrowing may have long-lasting financial sustainability effects.	High	Moderate	High	Improved asset management planning and proactive rather than reactive response mechanisms. Ensure condition assessments are undertaken of key infrastructure items. Identify what assets need to be replaced/renewed and when and include the funding of these necessary capital works projects within a capital works program and long-term financial forecasts.
Government Grants	The provision of funding assistance to NIRC from the Commonwealth may be subject to decision making of the day. As such, there is a degree of uncertainty over the contributions that will be received into the future.	High	Moderate	High	Develop a collaborative relationship with the Commonwealth in developing a clear framework for funding assistance, in addition to a funded long-term strategic plan for the island that has allocated responsibilities, actions and delivery timeframes. Maximise own source revenue to minimise reliance on external operational funding assistance. Maximise the use of external capital funding for planned strategic infrastructure priorities rather than ad-hoc asset additions.
Natural Disasters	Infrastructure and service impacts from natural disasters have the potential to impose significant additional costs on NIRC	High	Moderate	High	Ensure there is access to Commonwealth funding in instances of rebuilding after natural disasters. Maintain an up to date condition register so that damages can be easily assessed. Ensure that when assets are rebuilt that they are fit for purpose and not gold-plated at a higher ongoing expense to the community. Ensure resourcing is sufficiently agile to cope with the peaks and troughs in associated project management and delivery demands.
Stockpiling of Waste on Island	Legacy asbestos and oil wastes are stockpiled on the island, with this stockpile growing given the inability to ship it to New Zealand and the lack of a ship to mainland Australia. With waste disposal into the sea needing to stop, this could extend to other wastes. NIRC does not have the funds to deal with this issue in a timely manner.	Moderate	Very High	High	Arrange access to a ship to mainland Australia and/or overcome port issues. Approach the Commonwealth for funding to remove this waste from the island. Develop a funded long-term waste strategy in collaboration with the Commonwealth to ensure waste disposal into the sea no longer occurs and all residual waste is transported off island.
Cost Shifting / Regulatory Change	Cost shifting and regulatory/legislative changes can impose considerable costs on local governments and local communities.	Moderate	Moderate	Moderate	Promote the provision of compensation payments for imposed regulatory changes (to the extent possible).
Cost Indexation	Higher than forecast cost indexation for operating costs and/or capital costs.	Moderate	Moderate	Moderate	Monitor capital and operating costs and adjust long-term financial forecasts and infrastructure and service delivery accordingly.

Source: AEC



FOCUS AREA 6.3.8: SCOPE FOR ECONOMIC EXPANSION

Scoping potential for expanding the Island's current economic base and the potential for new opportunities.

6.3.8.1 APPROACH

This section highlights the key outcomes relating to the promotion of economic development on the island from prior studies, considers the current economic characteristics and circumstances, identifies the barriers to sustainable economic growth and social prosperity, and then considers and prioritises potential opportunities, actions and investments to expand the island's current economic base.

6.3.8.2 PRIOR STUDIES

Most of the key findings and recommendations contained within the economic development strategy prepared by SGS Economics & Planning (2015) remain relevant and applicable in the current environment for Norfolk Island's development and attractiveness as a destination for residents, business operators and visitors. The prioritisation framework included within SGS Economics & Planning (2015) highlights that there are a number of infrastructure and service issues that need to be rectified first before capital expansion and the establishment of new facilitating infrastructure should occur.

Taking account of the framework established in SGS Economics & Planning (2015) and preliminary outcomes from this review, the following priorities are evident:

- Priority 1 – Deliver/upgrade essential infrastructure (e.g. water, electricity, roads, telecommunications, airport, port, waste management, health) to service current residents and visitors to the island to meet minimum standards and meet compliance requirements, and establish a sustainable means by which this infrastructure can be funded in an ongoing manner including maintenance and renewal.
- Priority 2 – Identify additional essential infrastructure and maintenance costs and/or potential limiting constraints to accommodate increases in residential population and/or visitors and establish a sustainable means by which these costs can be funded in an ongoing manner including maintenance and renewal.
- Priority 3 – Establish and prioritise the key projects that have the potential for a catalytic and/or significant impact on the attraction of additional residents, business operators and visitors to the island (e.g. modern telecommunications network, port development reducing freight costs and risks and enhancing cruise ship visitation), and establish a sustainable means by which these projects can be funded in an ongoing manner including maintenance and renewal.

Norfolk Island Advisory Council (2016b) includes a summary of the community feedback received in response to a questionnaire on economic development on the island, with notable outcomes provided below:

- Tourism
 - Collaboration and cooperation across key stakeholders to attract more tourists to the island, and to provide and market a broader selection of tourist experiences.
 - Continued Commonwealth support for airline services and direct flights from more destinations.
 - Attraction of new events and new tourist segments (e.g. families, high end, short breaks).
 - Expansion of high end tourist accommodation and improvement in tourism products.
 - Enhanced commercialisation opportunities at the KAVHA site.
 - Review of tourism strategy, as well as marketing strategy and budget.
- Infrastructure
 - Internet services comparable to mainland Australia.

- Upgrade to piers to enhance access.
- Upgrades to road network.
- Subsidisation of air and sea freight, flights and infrastructure projects.
- Environment
 - Protection and preservation of the natural environment from damage by pests and agricultural runoff, burning and waste disposal into the sea.
 - Separation of organic waste for composting.
 - Promotion of sustainable population growth.
- Business and Skills Development
 - Less restrictive quarantine practices for imports and exports.
 - Provision of assistance to the food, craft and cottage industries.
 - Reduction in business costs such as freight, electricity, and telephone and internet services.
 - Encouragement of research projects and partnerships.
 - Enhanced access to education and training opportunities.

Hindle Enterprise Group (2017) developed an economic development implementation plan for Norfolk Island, which included a selection of more micro-level strategies based on:

- Outcomes from hands-on consultation and workshops with local businesses across a range of issues.
- The identification of limiting factors to economic development (e.g. telecommunications, freight, passenger flight capacity, distance and high dependency on tourism activity).
- The identification of opportunities for economic development (e.g. diversifying tourism products and markets, enhanced leveraging of KAVHA, promotion of sustainable development).

6.3.8.3 CURRENT ECONOMIC CONTEXT AND ADDRESSING BARRIERS TO SUSTAINABLE ECONOMIC GROWTH AND SOCIAL PROSPERITY

Norfolk Island's population in 2019 is reported at 1,735 persons (ABS 2020), with the population having a median age of 49 years compared with 38 years for Australia as a whole (ABS 2017). There is a relatively low proportion of persons aged 15-34 years on the island due to younger people leaving the island for study or work opportunities. Median household income on the island was quite low at the time of the 2016 Census at around 70% of the Australian median household income¹² (ABS 2017).

KPMG (2019) indicates that Norfolk Island's Gross Territory Product (GTP) was estimated at just under \$82 million in 2015/16, with Centre for International Economics (2017) outlining that Norfolk Island's per capita GTP is 45% lower than per capita Gross Domestic Product for Australia.

Norfolk Island is heavily reliant on tourism as the primary driver of economic activity, with KPMG (2019) indicating that approximately 40% of Norfolk Island economic activity is related to tourism¹³. The average visitor population during the course of the year is estimated at around 600 tourists, with the majority of visitors generally of an older demographic. Visitation by persons aged less than 50 years has historically been quite low. The wholesale/retail trade and accommodation/food services sectors are the largest employers on the island, contributing around 40% of industry employment over the past 25 years, while the services sectors have been growing their share of island employment at the expense of the agriculture and manufacturing/construction sectors.

¹² Noting that adjustments to the Australian minimum wage were only completed in 2018 and a more accurate estimate of incomes since this occurred will be produced as part of the 2021 Census.

¹³ Centre for International Economics (2017) indicates 58% of Norfolk Island's economic activity relating to the tourism trade.

The issues associated with a lack of economic diversification on the island have never been more apparent than during Covid-19. National restrictions on people movement have decimated the tourism industry and visitation to Norfolk Island.

The island's current economic base is extremely constrained by the lack of connectivity, both digital and physical, and current arrangements for connectivity do not have long term security or sustainability.

The following table outlines identified barriers to sustainable economic growth and social prosperity on Norfolk Island.

Barriers to Sustainable Economic Growth and Social Prosperity on Norfolk Island

Issue	Description
Significant Environmental Issues	<ul style="list-style-type: none"> Two of the key pillars of NIRC's Community Strategic Plan 2016-2026 are "<i>An environmentally sustainable community</i>" and "<i>A healthy and safe community</i>", yet the environment is significantly impacted by poor wastewater management and associated stormwater quality and the disposal of waste into the marine park. There is presently a lack of funding for, and resourcing of, environmental management, protection and compliance monitoring and enforcement on the island. The continuation of current practices will continue to place the environment and public health at risk, as well as having a potential impact on the attractiveness of the island as a tourist destination, e.g. Emily Bay is marketed as being in the top 10 beaches of the South Pacific yet is subject to ongoing water quality issues that place the public at significant health risk following rainfall events.
Connectivity – Sea	<ul style="list-style-type: none"> There is a lack of an appropriate all-weather port on the island, which is severely limiting shipping options, as current infrastructure is based on superseded unloading methods. Shipping and sea freight are very expensive and currently infrequent with limited capacity, which impacts the delivery of services and the importing and exporting of goods, ultimately impacting the cost of living and the viability of commercial operations. Sea freight presently only occurs from New Zealand, meaning that any non-recyclable waste required to be disposed has to be stockpiled on the island or burnt and disposed into the sea. In the past two years alone, sea freight costs have increased by around 100%, with NIRC indicating that the liquor bond is required to pay around \$550 per cubic metre for its supplies. A ports strategy is being developed to determine a more sustainable port arrangement for the island and will consider options and feasibility of infrastructure and location.
Connectivity – Air	<ul style="list-style-type: none"> Access to and from Norfolk Island is a key facilitator of economic activity, and the location, frequency and number of flights are major contributing factors to the retention and potential expansion of economic activity. Flights to and from the airport are via international airports in Australia and New Zealand (when operating). Flight capacities are insufficient relative to bed capacity on the island, resulting in low occupancy rates for accommodation providers. The Commonwealth underwrites flights to and from the island and NIRC is not a party to the agreement it has with Air New Zealand, and there is a lack of responsiveness of flight numbers and capacities to market forces in peak times. The recent announcement by Air New Zealand that it will only provide one flight per week to Sydney and Brisbane through to the end of March 2021 will continue to place considerable financial pressure on island businesses. Air freight services are limited in terms of frequency and capacity and are also expensive.
Connectivity – Digital	<ul style="list-style-type: none"> Norfolk Island's digital connectivity to mainland Australia is currently dependent on satellite communication (NBNSky Muster and the Norfolk Island Telecommunications Satellite Service) which is constrained by a range of factors including low reliability, high cost and intermittent speed.
Water Security Concerns	<ul style="list-style-type: none"> A reliable and safe water supply is required to support a sustainable economy and community. No centralised, reticulated water supply exists on the island, with island residents and businesses reliant on rainwater tanks and groundwater for everyday use. A recent drought event has highlighted the limited water sources on the island relative to demands, with the amount of rainfall having declined by around 20% and an increasing reliance on depleting groundwater resources. PFAs has also contaminated some of the groundwater on the island.

Source: AEC, GWI

6.3.8.4 ECONOMIC DEVELOPMENT OPPORTUNITIES

The following table highlights selected opportunities to strengthen and diversify the economic base of Norfolk Island.

Opportunities to Strengthen and Diversify the Economic Base of Norfolk Island

Issue	Opportunity	Description
Environment and Public Health Immediate Priority	Provision of essential infrastructure to remove actual and potential threats to the environment and for anyone living on or visiting the island	<ul style="list-style-type: none"> The Norfolk Island Environment Strategy 2018-2023 states that “<i>the future of Norfolk Island is directly linked to the sustainable use and preservation of the island’s natural resources</i>” (p.7), and that “<i>a majority of people in the community indicated they were highly committed to preserving a healthy environment on Norfolk Island and identified that it was very important that the island is an environmentally sustainable community</i>” (p.iii) Most of the priority actions within the Norfolk Island Environment Strategy 2018-2023 remain applicable, albeit with a greater degree of urgency in many instances particularly surrounding wastewater management, waste management and water security. NIRC does not have the financial capacity to deal with these issues and without appropriate external funding the issues will likely remain unaddressed.
Connectivity – Air Immediate Priority	Re-establish pre-Covid-19 routes and frequencies	<ul style="list-style-type: none"> The recent announcement by Air New Zealand that it plans to continue reduced flights through to the end of March 2021 will have a significant impact on the local economy as visitor numbers remain very low. With JobKeeper being phased down and out over the same timeframe, many businesses will struggle to remain solvent and employment on the island will be significantly impacted. It is imperative to re-establish pre-Covid-19 routes and frequencies to take advantage of the opportunities available to attract visitors from the mainland whilst they have limited other travel options of a similar nature.
Connectivity – Air High Priority	Investigate the viability of additional routes and/or frequencies	<ul style="list-style-type: none"> There is more bed capacity on the island than there is seating capacity on available flights to the island. The addition of new flights via new routes and greater frequencies will increase the reach of the island to potential tourists, although this would also need to be combined with targeted marketing initiatives. It is expected that there would be significant latent demand in the Australian market for travel given the restrictions that have been (and remain in some instances) in place. The ability to take short stays rather than week-long stays would provide potential visitors with greater flexibility.
Connectivity – Sea High Priority	Establish improved port arrangements to reduce business and living costs on the island	<ul style="list-style-type: none"> The current shipping arrangements are unsustainable as they are not only restricting the delivery of goods to the island, but they are also placing a significant and increasing financial impost on businesses and residents. A ports strategy is currently being developed to determine a more sustainable port arrangement for the island and will consider options and feasibility of infrastructure and location.
Connectivity – Digital High Priority	Establish an international submarine cable connection	<ul style="list-style-type: none"> NIRC must address the digital divide created by its geographic isolation to support new jobs and industries and improve social and community resilience through a more vibrant and sustainable economy. Investment in a submarine cable network would enable Norfolk Island to ‘trade’ with the world in an online marketplace, export knowledge, and allow residents to develop professional and digital skills and work on off-island business. Increased connectivity via the submarine cable would also help to attract investment opportunities that consume, use or create vast amounts of data and compute capacity in a secure location. An economic analysis of current and future demand and opportunities for Norfolk Island to be part of the global economy need further research, analysis and development of a business case in preparation for investment in a more sustainable future.

Issue	Opportunity	Description
Connectivity – Digital High Priority	Establish a Norfolk Island data centre to support the delivery of frontline services and new economic opportunities	<ul style="list-style-type: none"> The growing demand for digital and data services require increased connectivity and accessibility. A data centre would provide reliable accessibility for key frontline services (such as health, education, border force, AFP, etc.) as well as support for local businesses and residents. Together with the submarine cable development, a data centre would be an economic multiplier resulting in: <ul style="list-style-type: none"> The ability to build local innovation and industry hubs around the capability provided in the island, with optional start-up incubator models taking advantage of services delivered digitally. Localised storage of data for local industry growth and economic development. High levels of security, redundancy and resilience for core business systems and data. Increased local government revenue from new businesses and residents.
Tourism High Priority	Market the island to higher-value demographics and enhanced product offering	<ul style="list-style-type: none"> The island is currently well established as a destination for an ageing demographic, but there is an opportunity to broaden the tourist market by aligning the island's distinguished characteristics to higher-value demographics. An enhanced ecotourism opportunity exists on the island, particularly if it is able to achieve 100% renewable energy, 100% wastewater reuse and enhanced waste management and local reuse – however, the significant environmental issues on the island would first need to be addressed given they conflict with the principles of ecotourism. Wellness tourism is also an opportunity worth focussing on. The quality and diversity of the tourism offering would need to occur both in terms of accommodation and the variety of visitor experiences available on and around the island. There is potential to increase the tourism potential and revenue generation at KAVHA. There is potential for a greater prevalence of walkways and tracks around the island to enhance the island's appeal to walking and hiking tourists.
Tourism High Priority	Take advantage of event-based tourism opportunities	<ul style="list-style-type: none"> A significant number of events take place on the island (e.g. music, craft, sports, food), which provides a significant boost to tourism operators and the local economy. However, there remains greater potential for direct marketing of the Island for events leading to the development of niche markets, e.g. health and wellbeing, sporting, recreational fishing, weddings, etc.
Circular Economy & Import Substitution High Priority	Reduce the importation of goods by focussing on the development of local product sources and manufacturing	<ul style="list-style-type: none"> Commonwealth of Australia (2020) identifies a need for Norfolk Island to develop a circular economy as part of a strategy to mitigate against climate change. Import substitution/replacement would assist in ensuring self-sufficiency during extended periods of potentially limited access to essential supplies. With the extremely high cost of freight to the island, on-island product sourcing would also reduce these costs and instead keep these funds within the local economy. An assessment could be undertaken of the type and quantity of products brought onto the island via air and sea freight, and the extent to which high volume products could be sourced and/or produced on the island (e.g. on-island rock sourcing is vital for the future maintenance programs of NIRC, additional meat and dairy products may be able to be produced on-island rather than imported).
Agriculture Moderate Priority	Leverage the strengths of Norfolk Island to cultivate high yield agricultural goods	<ul style="list-style-type: none"> Maximise the availability of land and resources for the cultivation and production of a range of agricultural goods for increased local use (import substitution) and potential export, including complementary medicines. Reduced barriers to agricultural industry development. Work with local producers and industry experts to identify production opportunities and export markets. It is acknowledged that Regional Development Australia Norfolk Island (RDA Norfolk Island) is presently undertaking an Agribusiness Incubator project on the island to build agricultural entrepreneurship on the island whilst simultaneously building a Norfolk Island food brand and enhancing agribusiness and agrimanufacturing opportunities on the island.
Defence Moderate Priority	Establish Norfolk Island as a first line of defence and a defence base for Australia	<ul style="list-style-type: none"> Investigate the potential for the Department of Defence to leverage Norfolk Island's location in the South Pacific, utilising the airport and ports as part of defence preparedness.

Issue	Opportunity	Description
Skills Enhancement Moderate Priority	Enhance the skills base of those living on the island	<ul style="list-style-type: none"> Local skills need to be developed across most sectors to enhance customer service, technical capacity and operational efficiencies, as well as to exploit potential business development opportunities on the island. Where local skills are unavailable, it is important for expertise to be brought onto the island to help facilitate on-the-ground learning and knowledge transfer to others on the island over time.

Source: AEC, GWI

6.3.8.5 KEY FINDINGS

- There have been many studies into the local economy and how it could be diversified beyond tourism activity – the findings of these past studies remain relevant in the current context.
- Facilitating and essential infrastructure and service provision is still considered the immediate priority for the local economy as it provides a fundamental base from which the local economy and community can function in a sustainable manner – immediate priority should be placed on solid waste and wastewater management to ensure protection of public health and the environment.
- Air, sea and digital connectivity are all considered significant barriers to economic development and potential broadening and diversification of the local economy, and all must be addressed as a high priority.
- Tourism will remain a significant contributor to the local economy, and there are opportunities to expand and improve on the current product offering in terms of both accommodation and the variety of visitor experiences, in addition to marketing the island to a higher-value demographic for ecotourism and wellness experiences as well as for additional events.
- Other areas requiring further consideration and assessment include the identification and activation of opportunities for import substitution, increased agribusiness and agrimanufacturing activity on the island, potential additional defence capabilities, and enhancing the skills of local workers.

6.3.8.6 RECOMMENDATIONS

- That the Commonwealth and NIRC – in conjunction with the appropriate representative group/s – develop an action plan to address known barriers to economic development and accepted opportunities for industry growth.

That the Commonwealth and NIRC – in conjunction with the appropriate representative group/s – develop business cases to explore the economic viability of identified opportunities to expand the economic base of Norfolk Island.

6.4 SYSTEMS CAPABILITY



FOCUS

- 6.4.1 Reviewing the current approach to budgeting and exploring the market for the potential move of budgeting processes from spreadsheets to an on-line platform, considering upfront and ongoing costs, resourcing and training requirements, and ongoing productivity and accuracy implications.
- 6.4.2 Identifying and prioritising process and system improvements to optimise the efficiency of Council's use of its ERP system Civica, including a review of models and modules to enhance analysis and decision making processes relating to plant/assets, the allocation of management and corporate support overheads, stores inventory management and ordering systems, procurement and purchase cards, external trust accounts, payroll, and asset management.
- 6.4.3 Assessment of Systems current state and business need assessment - A current state report: assessing the current NIRC ICT systems within the context of people, business process and information; and identifying future business needs and how they are or are not supported by the current systems.
- 6.4.4 Definition of target state - A future state brief outlining key future business and financial requirements and the ideal future state of systems and processes that will enable these requirements to be achieved.
- 6.4.5 Gap analysis - Blueprint outlining the systems, processes and capability changes required to transition from the current state to the desired future state in stages (short, medium and long-term).
- 6.4.6 Development of practical / fit-for purpose recommendations - Report consolidating all above deliverables and providing recommendations for NIRC next steps to achieve improved service delivery, resilience and sustainability through information systems.

FOCUS AREA 6.4.1: BUDGETING SYSTEMS AND APPROACH

Reviewing the current approach to budgeting and exploring the market for the potential move of budgeting processes from spreadsheets to an on-line platform, considering upfront and ongoing costs, resourcing and training requirements, and ongoing productivity and accuracy implications.

6.4.1.1 APPROACH

This section provides a high-level overview of the current systems approach to budgeting. It contrasts the use of incumbent tools with supporting recommendations to improve financial budgeting, reporting and transparency.

6.4.1.2 CURRENT PRACTICE

Operational budgeting

NIRC currently uses an incremental budgeting process which is based on the prior year's budget figures as a starting point for forward financial planning. Incremental budgeting is appropriate where the primary cost drivers remain relatively constant from year to year, however there is a risk that this approach will not adequately plan for the range of potential external factors that may affect Norfolk Island (due to its isolation, lack of a State partner and/or Commonwealth administration) or the delivery of new services which may differ from the previous 12 months. It may also not take into account funds levelling conducted in the previous year.

NIRC staff have a limited understanding of the existing finance system resulting in an inability to fully exploit many system features including, but not limited to, budgeting and management reporting. The existing structure of the general ledger is over complicated for a Council of NIRC's size and it confuses staff working with financial reports and cost allocations. As a result, decisions are being made across NIRC that are not supported by accurate data e.g. the Council's current cashflow issues resulted from inaccurate reporting.

The allocation of overheads in the budget process has not been systematic resulting in unexplainable variations between Council business units. Poor allocation of overheads prevents the monitoring and reporting of the costs and effectiveness of delivering Council services. This is evident when overheads impact on service agreements with external delivery partners.

Additionally, the management of financial periods has been ad hoc with budgets and year-to-date (YTD) expenditure being frequently changed leading to a lack of confidence in reported data.

All budget planning and ongoing management is currently conducted in spreadsheets even though NIRC has licensed both the financials and business intelligence modules of the core ERP platform, Civica. Therefore, the budgeting process is manually intensive and prone to human error.

Long term financial planning

The long term financial planning process stimulates discussion and engenders a long range perspective for Council decision makers by combining financial forecasting with strategy. NIRC engages in Long Term Financial Planning in accordance with the requirements of the NSW Integrated Planning and Reporting Framework. The current Long Term Financial Plan (LTFP) for the 10-year period of 2019 to 2029 aims to address the financial implications arising from NIRC's Community Strategic Plan, Delivery Program and Annual Operational Plan.

To support the development of the LTFP, financial modelling to forecast the Council's financial future for the coming 10 years is modelled in spreadsheets. The final LTFP is a tool to prevent financial challenges, guide decision making and problem solving, and inform decisions which influence the balance between the Council's corporate objectives and long term financial challenges. The LTFP does not indicate what services or proposals should be funded, rather it addresses areas that impact on Council's ability to fund its services and capital works whilst maintaining financial sustainability.

Norfolk Island Regional Council's current LTFP covers the period 2019/20 to 2028/29. It recognises its current and future financial capacity, to continue delivering quality services, facilities and infrastructure to the community while commencing new initiatives and projects to achieve the goals set down in the Norfolk Island Community Strategic Plan.

The LTFP includes:

- Projected income and expenditure
- Balance sheet
- Cash flow statement
- Planning assumptions used to develop the plan
- Sensitivity analysis – highlights factors most likely to affect the plan
- Financial modelling for different scenarios
- Methods of monitoring financial performance

Assumptions within the LTFP are based on CPI forecasts, interest rate expectations, employee award increases, loan repayment schedules, and other special income and costs.

Although the LTFP is documented in accordance with legislation, the primary focus of NIRC has been on year-to-year budget management, as opposed to long term planning and monitoring. The lack of sufficient reserves, combined with poor decision-making based on misleading financial reporting and uncertainty about the Commonwealth's agenda with regard to infrastructure and program spending, has prevented commitment to a longer term plan.

6.4.1.1 FINANCIAL MANAGEMENT PRACTICE

Prior to the recent 2020 restructure, all budgets were prepared by the CFO, leading to a lack of ownership and responsibility at the operational level. Managers received limited support in managing their allocated funding resulting in less than ideal financial management and debt recovery practices. A lack of transparency about financial modelling, the finance system and the budget planning process remains.

Post the 2020 restructure, NIRC is in market to recruit a qualified accountant. Currently there is no accountant on staff to manage the financial management practices or the finance system, however in the interim, these are overseen by the Manager of Corporate and Finance.

6.4.1.2 MOVE OF BUDGETING PROCESSES FROM SPREADSHEETS TO AN ONLINE PLATFORM

Since 2016, NIRC has maintained a licence for the Civica Authority Business Intelligence Solution (BIS) which interfaces directly to the Civica Finance Solution. However, BIS has not been configured for budget planning and management and, although paid for, is not currently being utilised. Configuration of BIS together with simplification of the Chart of Accounts and General Ledger would enable relevant data to be imported seamlessly for manipulation, analysis and reporting.

NIRC has also purchased OpenGov's Permits and Licencing module to manage visitor entry permits in the short term and licencing and registration commencing in the near future. Since commencing this work, NIRC has expressed a strong desire to increase its level of transparency with the local community and the Commonwealth about Council's budget planning and expenditure. There is an option to extend the current arrangement with OpenGov to implement further modules which focus on increasing transparency through Budgeting and

Planning, which includes operating budgeting, capital and workforce planning, and an online budget book. Although Civica has an analytics program in addition to BIS, it is not known if it is designed to deliver or support a community facing interface or dashboard as required for increased transparency with the local community and the Commonwealth.

High level strengths and weaknesses of both options are summarised below in Table X.

Table X: Advantages and Disadvantages of OpenGov vs Civica

System	Advantages	Disadvantages
OpenGov Budgeting and Planning	<ul style="list-style-type: none"> • Web-based interface • Collaborative budget book creation with web publishing • Includes capital and workforce planning • Integration possible with ERP (Civica), Excel, and other systems • Cloud-hosted SaaS (in AWS) • Focus on transparency and community access to data • Intuitive interface designed to uplift literacy. 	<ul style="list-style-type: none"> • Additional licensing, implementation, and maintenance costs • Requires an implementation partner.
Civica Authority Business Intelligence Solution (BIS)	<ul style="list-style-type: none"> • No additional cost – NIRC already holds licence and is in year 4 of a 5-year contract (approximately 18 months remaining) • Web-based interface • Operational data is accessible by non-financial staff, without needing to grant access to core financial system • Reports can be saved as templates to be formatted in Excel whilst containing data from BIS • Integration with MS Office • Integrates with other Authority modules • Smart analytical tools to enquire, analyse, report and budget against key organisational information • Data visualisation. 	<ul style="list-style-type: none"> • Poor configuration of Civica currently impacts reliability of data for budget planning, management and reporting • Current implementation and configuration of the general ledger and chart of accounts is unnecessarily complex • Civica has not responded to requests for system support in a responsive manner.

Both budget planning tools have the capabilities required to support financial planning and reporting. Success with either product will rely on reconfiguration of the existing chart of accounts and general ledger, as both products will source data from the Civica Financial module.

This provides NIRC with a clear opportunity to leverage the existing investment in the Civica product, maximise cross-application features, minimise vendor management and benefit from training, which demonstrates the interrelations across the range of Civica modules. An increased level of responsiveness and revised support arrangement with the vendor will need to be negotiated.

However, the current licensed modules of Civica will not help the Council to increase transparency about financial expenditure with the local community or reporting against the Commonwealth service delivery agreement. An additional product will be required to meet this need.

6.4.1.3 RECOMMENDATIONS:

1. Reconfigure Civica Authority to meet the business requirements of NIRC with an initial focus on simplifying the chart of accounts, general ledger and reference tables. As the basis for all financial management reporting these two indexes are critical to accurately record all financial transactions during each accounting cycle.

2. Improve integration between the Civica Finance module and other corporate systems to leverage the revised chart of accounts.
3. Negotiate an improved support plan with Civica to improve responsiveness.
4. Establish a mentoring relationship with a sister council using Civica, such as Port Hastings, to encourage knowledge sharing and professional development.
5. Provide staff with training in the use of Civica as the core enterprise platform.
6. Implement an alternate solution, such as OpenGov Enterprise Cloud, to improve transparency across the budgeting and planning process and assist with long term financial modelling.

6.4.2 FOCUS AREA: OPTIMISING ENTERPRISE RESOURCE PLANNING (ERP)

Identifying and prioritising process and system improvements to optimise the efficiency of Council's use of its ERP system Civica, including a review of models and modules to enhance analysis and decision making processes relating to plant/assets, the allocation of management and corporate support overheads, stores inventory management and ordering systems, procurement and purchase cards, external trust accounts, payroll, and asset management.

6.4.2.1 APPROACH

This section summarises the current modules of the ERP system Civica licensed to NIRC and includes a high-level analysis of the investment made in Civica to date. It also identifies current pain points relating to data and information systems informed by interviews with NIRC staff and provides recommendations for improvement to enhance operations.

6.4.2.2 IDENTIFYING AND PRIORITISING PROCESS AND SYSTEM IMPROVEMENTS TO OPTIMISE THE EFFICIENCY OF COUNCIL'S USE OF IT'S ERP SYSTEM CIVICA

Civica Authority (Civica) is an enterprise resource planning (ERP) platform used extensively across the local government sector to better serve local communities. NIRC implemented the Civica platform on premise in the 2016/2017 financial year.

The Civica contract was executed on 27 June 2016. Licensing is not perpetual, and the contract has a minimum term of 5 years from go-live, which was in 2017. Therefore, NIRC is in year 4 of a 5-year contract. An upgrade to the latest version of Civica (v7.1) is currently in progress.

Civica modules

NIRC uses Civica primarily for financial management and payroll data. However, licences for other modules have been purchased but not utilised, therefore, the full functionality of the system is not currently being leveraged or exploited to benefit NIRC operations. The lack of adoption of Civica functionality has resulted in poor financial planning, and decision-making being based on incomplete, inaccurate or untimely data due to a lack of integration between Council's systems. It has also led to the management of data in spreadsheets to manage Council assets, licensing and registration, inventory and procurement cards.

According to the current Civica contract executed on 27 June 2016 and subsequent statement of work, NIRC is licensed for the following Civica products and modules as outlined in Table X.

Table X: Overview of Civica Products and Modules

Module	Description
Financial systems	
General Ledger	<ul style="list-style-type: none">– Chart of Accounts in line with Authority Best Practice GST– Security– Calendars and Periods– Journal Processing (inc. uploads)– Account Maintenance– Allocation Processing Enquiries– Balance Journals at Live
Accounts Payable	<ul style="list-style-type: none">– Enquiries– Supplier/Creditor Management Invoice Entry/upload– Credit Notes

Module	Description
	<ul style="list-style-type: none"> – Creditor Payments (chq or eft)
Work Order Budgeting	<ul style="list-style-type: none"> – Project Costing Job/Project costing
OLR/Purchasing	<ul style="list-style-type: none"> – Management Maintenance Enquiries – Order Processing – Online Requisition/Purchase Orders
Inventory	<ul style="list-style-type: none"> – Stock Management including requisition capability Linked to Procurement – Enquiries – Maintenance
Bank Reconciliation	<ul style="list-style-type: none"> – Electronic Bank File Upload
Payroll	<ul style="list-style-type: none"> – Enquiries – Timesheets Weekly/Fortnightly Processing – Leave
Human Resources	<ul style="list-style-type: none"> – Employee Kiosk – Online Leave – Organisational Structure
Land Information Systems (Property & Revenue)	
Name and address Register	<ul style="list-style-type: none"> – Enquiries Management
Property/Streets	<ul style="list-style-type: none"> – Enquiries – Property Management Maintenance – Sub-division Consolidation
Accounts Receivable	<ul style="list-style-type: none"> – Debtor Management Enquiries – Invoice Entry/upload – Credit Notes
Rates	<ul style="list-style-type: none"> – Enquiries Maintenance Current Valuations.
Receipting	<ul style="list-style-type: none"> – Cash Receipting – Agency Receipting
Companion Animals	<ul style="list-style-type: none"> – Management Maintenance Enquiries Registration
Integration GIS	<ul style="list-style-type: none"> – Standard integration
Services	
Applications (DAs)	<ul style="list-style-type: none"> – Maintenance – Enquiries – Smart Fees – 1 Word template created for Building – 1 Word template created for Planning
General Registers	<ul style="list-style-type: none"> – 1 Word template created Licencing Register – Leasing Register – One pre-configured register (e.g. food premises, swimming pools, bins.) Cemeteries plus one other
Licences & Permits	<ul style="list-style-type: none"> – Detail under General Registers
Customer Request Management	<ul style="list-style-type: none"> – Lodgement – Enquires – CRM choice from Civica's Best Practice recommendation standard category list (with one workflow task linked to each category) – 1 Word template created
Online Applications (OLA)	<ul style="list-style-type: none"> – Lodgement
Reporting	
Business Intelligence	<ul style="list-style-type: none"> – Standard installation of BIS for one environment. – BIS standard GL & WO combined with budgeting view Administration Training – Basic Operational Training
Excel Reporting Wizard	<ul style="list-style-type: none"> – Used for financial reports – Report writing training for 2 departments (4 users)
Document Management	
HP RMB Records Management	<ul style="list-style-type: none"> – HP RMB software installation – RMB technical administration training Support for install issue resolution Project team power user training – RM8 configuration requirements gathering workshop RMB configuration workshop – RM8 train the trainer training RM8 environment install UAT issue resolution – Go live checks and configuration documentation – Go-live support Standard integration
Asset Management	

Module	Description
Assets	<ul style="list-style-type: none"> – Work Orders – Asset Accounting (link to CVR) – Links to Authority Customer Request Management – Links to documents stored on local fileserver or EDRMS – Links to Council's GIS – Data Migration Scoping exercise – Fleet Maintenance – Inspection Management – Strategic Asset Management (SAM) – Mobile Assets
Corporate Performance Management	
Performance Manager	– Standard implementation in accordance with service definition appendix
InfoCouncil	– Standard templates

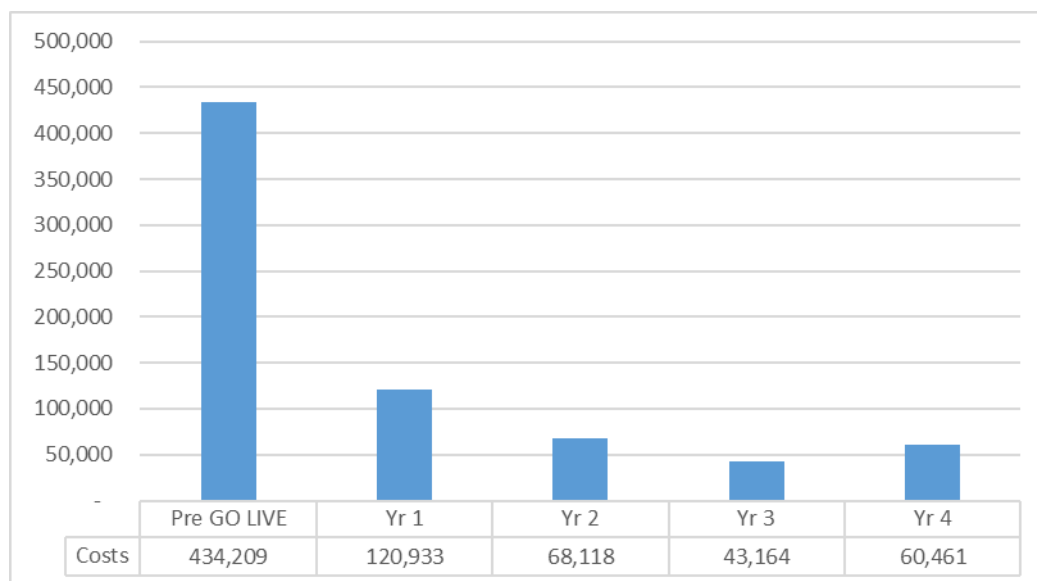
The existing contract also includes the following 3rd party software and tools as outlined in Table X.

Table X: Summary of Third Party Software and Tools

3rd Party Software	Description
HPRM8 now CM9 (20 users)	– An electronic document and records management system (EDRMS)
Websphere	– Application and integration middleware
Client Server (4J's)	– Client server model
Minutes and Agendas (InfoCouncil)	<ul style="list-style-type: none"> – Automation of the complex workflow that makes up the local government meeting process, including: <ul style="list-style-type: none"> o Report writing and approval o Agenda compilation, publication and distribution o Minute compilation and minute taking o Actions creation, distribution, tracking and reporting

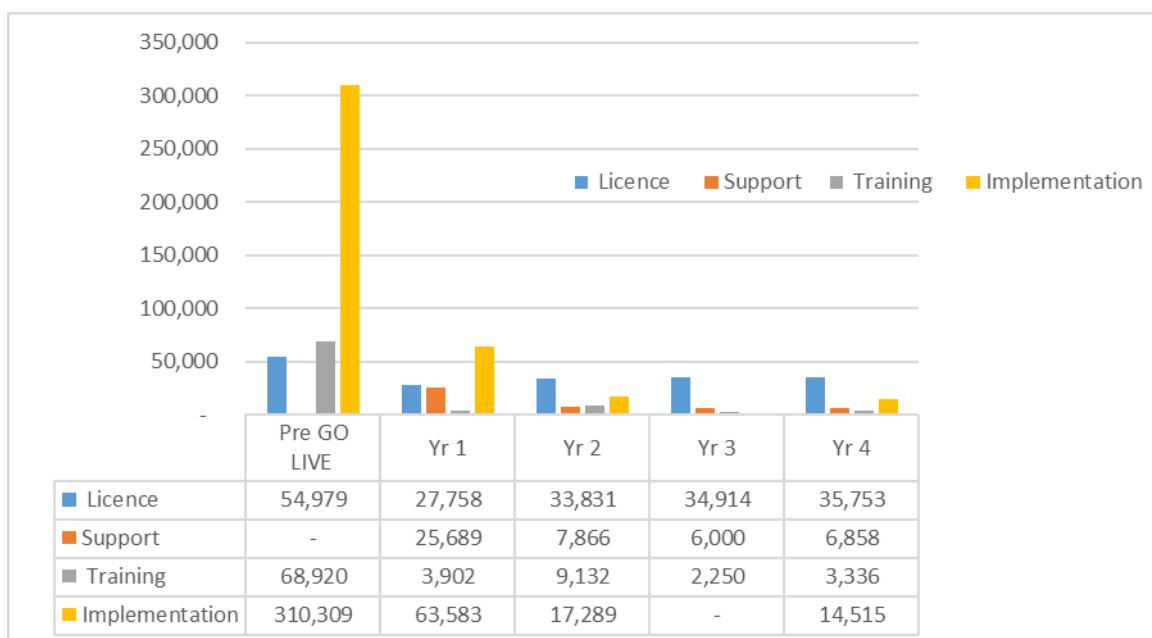
The total spend on Civica to date has been \$726,885. The annual spend since the contract execution date is highlighted in Figure X.

Figure X: Annual spend with Civica since 2016



Increased maturity using the Civica suite of products reduces the costs associated with support and training over time as expertise accumulates. Figure X highlights the reducing costs associated with ownership across the 5-year contract period based on licensing, support, training and implementation costs.

Figure X: Reducing costs of ownership



The following high-level pain points with the existing use of Civica are identified in Table X below.

Table X: Challenges associated with the use of Civica

Category	Pain Point
People	<ul style="list-style-type: none"> Staff have not received adequate training to be proficient at using the system. Over the contract period (4 years to date) an average of approximately \$22,000pa has been paid to Civica for training, including go-live training. Due to the low retention rate, many of the staff who have received training are no longer employed by NIRC. There is currently a dearth of internal expertise in system capability and use which leads to an inability to ask the right questions and receive timely support. Responsiveness from Civica as a Service provider has been poor. The complexity of the existing configuration of the system makes it difficult for staff to understand financial reports and allocate costs.
Business Process	<ul style="list-style-type: none"> The implementation of Civica was never completed. The existing configuration is overly complex for Council's business requirements. Examples include: <ul style="list-style-type: none"> chart of accounts and general ledger are unnecessarily convoluted underpayments of staff resulting from configuration issues. The business needs of Council were not considered during implementation of Civica. Examples include: <ul style="list-style-type: none"> integration between systems is lacking, resulting in siloes of data across Council reporting requirements were not defined financial reporting against the Commonwealth Service Delivery Agreement (SDA) is managed in spreadsheets. The workflows required to streamline business processes are incomplete or partially implemented, not working or were not scoped and developed prior to go-live. Examples include: <ul style="list-style-type: none"> the process for planning variations is not built into Civica resulting in a lack of visibility about the progress of a variation. Templates have not been developed properly and therefore are difficult to use. Examples include: <ul style="list-style-type: none"> current templates do not contain the correct reference data (codes) to populate planning and development applications.

Category	Pain Point
	<ul style="list-style-type: none"> the options associated with the conditions of a development approval are inaccurate or duplicated or populate in the wrong template.
Information	<ul style="list-style-type: none"> Financial data is not trusted due to being either incomplete or inaccurate based on poor configuration of the chart of accounts and inadequate budget planning and reporting capability. There is no holistic view of Council information due to a lack of system integration and independent use of spreadsheets (silos of information). Examples include: <ul style="list-style-type: none"> searching for information across Council is time intensive, an FOI response may require several days of searching across systems, network drives, email etc.

To optimise the efficiency of Council's use of its ERP system Civica and enhance the ability to analyse data to improve the decision-making process, the following recommendations are made:

6.4.2.3 RECOMMENDATIONS:

That action be taken to effect the following changes:

- Identify critical business processes and design workflows to streamline the collection, processing and storage of data. Suggested workflows include:
- Building Applications
 - Current workflow is not complete; workflow needs to reflect stage Inspections A-E and stages up to issuing Occupancy Certificate.
- Development Application only
 - No building approval required
 - Two different workflows required: One for DA classed as 'permitted' (complying) development is different to DA for permissible with consent DA
 - There are 2 different workflows currently in Civica. Both require corrections to function efficiently.
- Combined Development Application and Building Application
 - Applications that require both development and building approval
 - There are 2 different workflows required - one for DABA that is permitted, e.g. new dwelling that complies, and one for DABA that requires consent, e.g. dual occupancy
 - Currently there are two workflows in Civica but both are very similar, and both appear to be 'permissible with consent' workflows but with slightly different steps – both require corrections.
- Development Applications classed as 'prescribed use or development'
- Requires EIS so has steps involved before DA is accepted
- After acceptance, DA follows permissible with consent use or development but has 28 days exhibition period
- No workflow constructed (4a, date entry screen only operating).
- Development Applications classed as 'significant development'
- Requires Application to be declared 'significant development' as initial step and process
- Similar to 'prescribed use or development' after the DA is accepted; but the DA is not referred to Council after exhibition (4b; no data entry screen)
- Not yet entered into Civica as an alternative development assessment pathway.
- For all DA pathways
- Categories and classifications of use and development need to be adjusted and corrected to accurately reflect the application.
- Plan Variation Applications - has a data entry screen but no workflows constructed, no actions to enter and monitor and no template generation; no link to CM9
- DA Pre- Consultations: as described above.
- Develop templates to support business requirements and update reference tables to pre-populate data.

6.4.3 FOCUS AREA: OPTIMISING ENTERPRISE RESOURCE PLANNING (ERP)

Assessment of Systems current state and business need assessment - A current state report: assessing the current NIRC ICT systems within the context of people, business process and information; and identifying future business needs and how they are or are not supported by the current systems.

6.4.3.1 APPROACH

This section identifies the implications of the NIRC pain points which stem from the current systems environment. It includes a high-level assessment of the fitness for purpose of the systems used to capture, store and manage data across core business capabilities and has been informed by interviews with NIRC staff and industry experience.

6.4.3.2 ASSESSMENT OF CURRENT STATE SYSTEMS

NIRC currently uses a range of systems to manage council operations and deliver frontline services to the community.

Tables X - X highlight the findings that relate to NIRC's current state systems. Findings are presented across the core components of People, Process, Information and Technology. These findings highlight deficiencies in current processes against business needs.

Table X: Analysis of Current State Systems with respect to People Issues

People		
Pain Point	Findings	Implications
High turnover of staff	• Corporate knowledge is difficult to build, retain and leverage due to the low retention rate of staff.	• Loss of corporate and systems knowledge. • Inability to maximise corporate available functionality due to a lack of training and process knowledge.
	• There is a lack of professional development and training in core systems e.g. people who were initially trained have either left the organisation or not provided a training handover.	
	• NIRC is faced with a continual challenge of recruiting professional staff e.g. does not currently have an Accountant to manage day to day financial operations.	
	• There has been a culture of bullying amongst staff and of staff in the community leading to a loss of corporate knowledge.	
Lack of strategic ICT direction	• The delivery of ICT is reactive to issues and concerns and is dealt with from an operational not strategic perspective.	• ICT investments are aligned as an enabler of the business to achieve corporate objectives. • Disparate systems and data, result from a lack of a coordinated approach to ICT investments.
	• Resourcing constraints have resulted in a lack of strategic direction and coordination of the ICT environment.	
	• There is a low level of literacy and digital literacy across NIRC as a whole, resulting in highly manual processes and limited mobile technologies.	

Table X: Analysis of Current State Systems with respect to Process Issues

Process		
Pain Point	Findings	Implications

Process		
Lack of system integration	<ul style="list-style-type: none"> Council's core systems (Civica Authority and CM9) both have workflow automation functionalities or capabilities that would improve process efficiency. However limited process automation and integration between Council's systems have been implemented. This has created a large amount of inefficient, time consuming manual processes as workarounds which have a detrimental effect on the delivery of Council's services. End of day reconciliation processes require a manually intensive reconciliation process across multiple systems. There is no online payment facility for services such as development or building applications. 	<ul style="list-style-type: none"> Manually intensive processes across data siloes resulting in a lack of operational efficiency.
Poor configuration of Civica	<ul style="list-style-type: none"> A lack of business engagement by Civica has been identified as a leading factor in the poor implementation of the supporting processes. Business processes, e.g. planning and development processes, are inefficient due to the templates and workflows in Civica not being configured correctly, not working or not being enabled. Management of financial periods has been adhoc with budgets and YTD expenditure frequently changed, resulting in low confidence in the quality of data reported. Workarounds are used to overcome the existing issues, including keeping separate (sometimes duplicate) records in spreadsheets. 	<ul style="list-style-type: none"> Inability to maximise functionality of the core enterprise system. Unable to leverage financial investment in Civica. Inadequate corporate reporting.
	<ul style="list-style-type: none"> The initial set-up of Civica required work orders to be assigned to all activities. This creates an unnecessary administrative burden. 	

Table X: Analysis of Current State Systems with respect to Technology Issues

Information		
Pain Point	Findings	Implications
Reliance on spreadsheets to manage critical information	<ul style="list-style-type: none"> Data relating to the management of core Council assets such as roads, infrastructure, and natural resources including waste and water, pests and conservation activities, are all managed in spreadsheets. 	<ul style="list-style-type: none"> The lifecycle of assets is not being optimised due to an inability to track and predict future requirements, e.g. predictive maintenance of vehicles.
	<ul style="list-style-type: none"> There are significant concerns about the validity of asset values, depreciation charges, replacement programs etc. Revaluations have been done but are still to be reflected in the Asset Register. 	
	<ul style="list-style-type: none"> Spreadsheets containing critical data, e.g. asset management/maintenance, are stored across NIRC network drives. 	
Incomplete document and records management	<ul style="list-style-type: none"> NIRC does not have an approved retention and disposal schedule, therefore all documents and records are stored indefinitely. National Archives have advised that the National Retention and Disposal Authority applies instead of NSW's General Retention and Disposal Authority: local government records (GA39). However, the National Authority does not cater for local government records or NIRC's business entity records. Therefore, all records are retained indefinitely. Inactive physical records are catalogued using RecFind and stored in non-climate-controlled sheds. 	<ul style="list-style-type: none"> Risk of information loss due to poor storage conditions of physical records. Long term this will result in excessive storage costs and difficulty locating and retrieving the right information at the time required.
Poor reporting capability	<ul style="list-style-type: none"> Corporate reporting from the Civica system is cumbersome due to a misalignment with business requirements, the existing configuration, and a lack of training provided to staff about how to extract data. 	<ul style="list-style-type: none"> There is a risk that decision-making is based on inaccurate or incomplete financial data.

Information		
	<ul style="list-style-type: none"> The quality of data extracted from Civica is often not reliable due to classification issues or poor information structures, e.g. wrong codes applied due to incomplete reference tables (drop-down lists). 	
	<ul style="list-style-type: none"> There is a lack of accountability for information and data. As a result, there are limited policies, procedures or business rules to ensure proper quality, security, integrity, correctness, consistency, privacy, confidentiality and accessibility of data and information across its lifecycle. 	

Table X: Analysis of Current State Systems with respect to Technology Issues

Technology		
Pain Point	Findings	Implications
Incomplete implementation of Civica	<ul style="list-style-type: none"> Civica is the core enterprise platform used to deliver frontline services and financial administration. The Civica platform has not been implemented or configured to meet the specific business requirements of NIRC. The poor implementation has resulted in the investment in Civica, \$726,885 over 4 years, not being leveraged to improve operational efficiency. Examples include: <ul style="list-style-type: none"> poor structure of the general ledger and chart of accounts incomplete reference tables impacting reporting accuracy templates not populating correctly a lack of effective workflows. NIRC has found it difficult to get timely service support from Civica. 	Lack of return on investment in Civica (\$726,885 over 4 years).
System complexity	<ul style="list-style-type: none"> The existing implementation of Civica is overly complex for Council's requirements. This complexity stems from a lack of alignment to NIRC's business requirements and a poor implementation process. 	Lack of commitment to maximise functionality of the system regardless of investment due to existing complexity.
Incomplete document and records management	<ul style="list-style-type: none"> NIRC's corporate digital records are captured in CM9, a leading electronic document management system. CM9 is currently underutilised across Council, e.g. only used to store documents created in Authority. It is not managing the lifecycle of all information created and/or received by Council. Adoption of CM9 across Council is limited to the Information team, however there is potential to integrate CM9 and Authority more closely to streamline operations and increase the ability to search and retrieve information in a timely way. The only documents managed in CM9 are those originating from Authority e.g.: <ul style="list-style-type: none"> Building and Planning Rates Notices CRM attachments Procurement Purchase Orders. There is a planned extension of the use of CM9 to include: <ul style="list-style-type: none"> LGA functions and documents NIRC services, i.e. electricity, telecommunications, etc. Service Delivery Agreement (SDA) Functions. 	Inability to meet compliance requirements for documents and records management.
Lack of strategic focus on IT as an enabler of the business	<ul style="list-style-type: none"> ICT has not been prioritised across NIRC as an enabler of business. Due to unreliable connectivity, Council operates on a predominantly traditional, on-premise ICT environment reliant on owned infrastructure such as physical data servers. Virtualisation 	Decisions are reflective of an organisation struggling to keep ahead.

Technology		
	technologies are utilised to enable a level of optimisation and improve system performance.	
	<ul style="list-style-type: none"> • Software applications are largely standalone, resulting in fragmented data collections stored across the network. • Focus is reactive and practices adhoc, based on the need to keep the network running at all costs. • Mobility is currently restricted due to inconsistent and unreliable connectivity issues. • Despite having an interim policy outlining BYOD procedures for Council employees, there is limited BYOD and mobility capabilities. • There is a lack of formal ICT governance (clear lines of responsibility for security, risk and compliance, and setting key policies and practices). 	

The findings above stem from a set of core pain points identified within the current state of information systems, including the following:

- Lack of strategic ICT direction (focus on IT as an enabler of business)
- Incomplete implementation of Civica
- System complexity
- Lack of system integration
- Poor configuration of Civica
- Poor reporting capability
- Reliance on spreadsheets to manage critical information, e.g. assets
- Incomplete document and records management
- High turnover of staff.

Based on the interviews conducted as listed in Appendix X and a review of all documentation provided to the audit team, a determination about fitness for purpose of the current information systems has been assigned based on the following traffic light scale:




	The system is not fit for purpose exposing NIRC to risk of information loss or inadequate management of resources.
	The system may be fit for purpose or may be fit for purpose with some re-configuration to align to NIRC business requirements.
	The system is fit for purpose in the current format.

Figure X highlights NIRC's core business capabilities and the systems used to capture, store and manage data, and for service delivery. The fitness for purpose of the current information systems has been assigned based on the pain points relayed through stakeholder interviews.

Figure X: Current Systems Capability



6.4.4 FOCUS AREA: OPTIMISING ENTERPRISE RESOURCE PLANNING (ERP)

Definition of target state - A future state brief outlining key future business and financial requirements and the ideal future state of systems and processes that will enable these requirements to be achieved.

6.4.4.1 APPROACH

This section identifies opportunities to improve current system capability towards a desired future state of operations and highlights the system changes required to reach the desired future state across core capability areas.

6.4.4.2 DEFINITION OF DESIRED TARGET STATE

In the desired target state, the delivery of NIRC services will be enabled through reliable information systems that are integrated to provide a holistic view of information and data across Council. The need for manual intervention will be limited, if not removed. Business processes will be streamlined through efficient and auditable workflows.

NIRC will have a single view of all interactions with community members and rate payers providing a history of engagement, payments and past decisions. NIRC will also have additional capability to leverage data for evidence-based decisions, tracking and reporting against progress, and clear lines of accountability. Through transparency and accountability of the Council's financial and non-financial activities, there will be increased levels of trust and more positive engagement with the Norfolk Island community.

In the target state, NIRC will understand the full cost of delivering services, including the direct operating costs, and a realistic allocation of corporate overheads to enable effective costing of fees and services to the community.

Figure X highlights NIRC's core business capabilities and the systems used to capture, store and manage data, and for service delivery in the future state.



Figure X: Future State Systems



Disclaimer: future state fitness for purpose has been based on maximising the tools and applications already in use. Software has not been evaluated.

6.4.5 FOCUS AREA: OPTIMISING ENTERPRISE RESOURCE PLANNING (ERP)

Gap analysis - Blueprint outlining the systems, processes and capability changes required to transition from the current state to the desired future state in stages (short, medium and long-term).

6.4.5.1 APPROACH

This section is based on a gap analysis between the current state and the desired future state of information systems. It provides a blueprint detailing the step change required across the streams of capabilities, processes and systems over the short medium and long term.

6.4.5.2 GAP ANALYSIS

To transition to the future state, the following blueprint (Figure X) provides a staged progression of activities across systems, information and processes in 3 delivery horizons (short, medium and long-term).

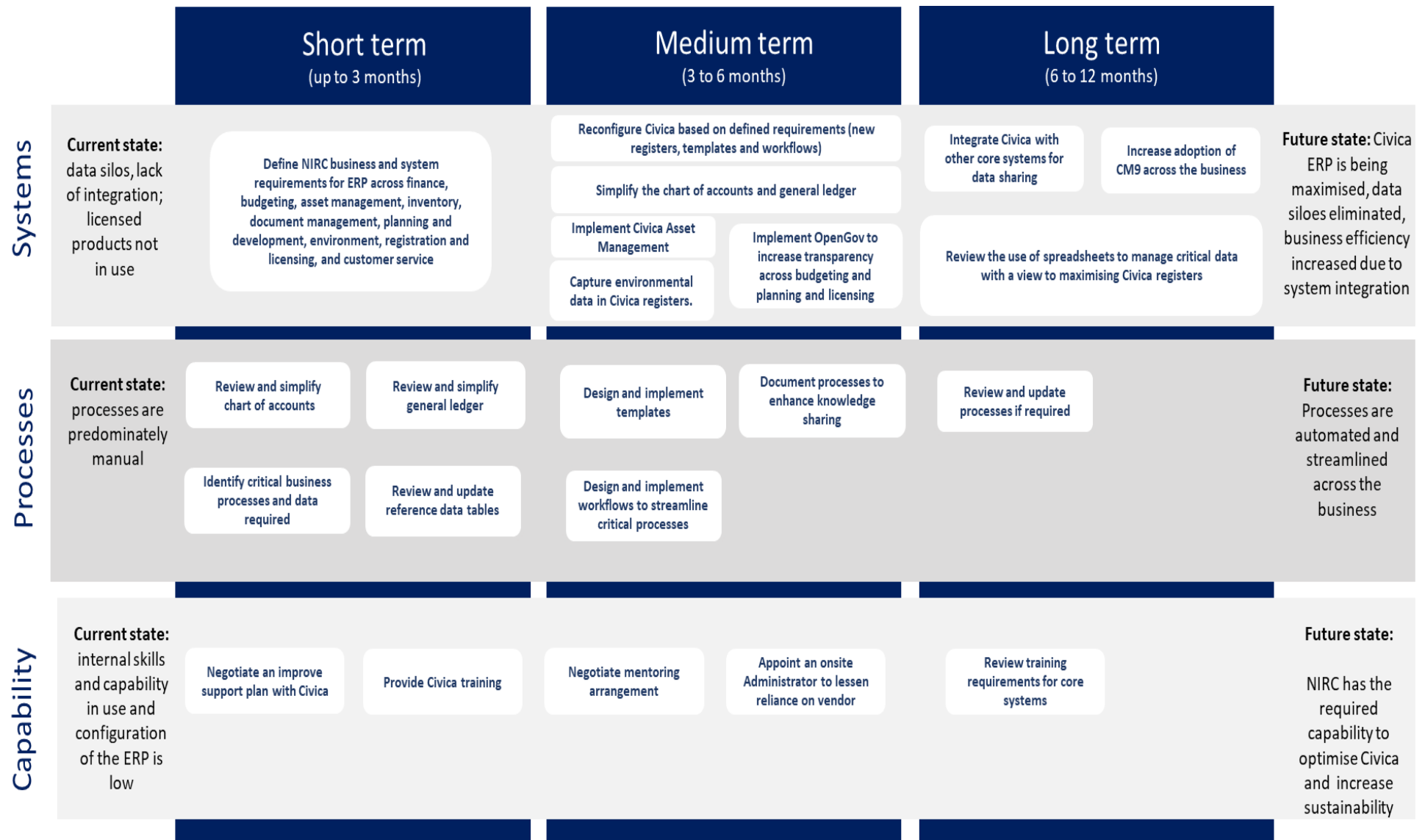
Major changes covered in the high-level blueprint are listed in Table X below. These changes are aimed at alleviating current pain points, which predominantly relate to the incomplete implementation and complexity of the Civica system. The proposed changes are based on maximising existing tools and, where additional capability is required, implementing alternate tools which are already in the ecosystem.

Table X: Gap Analysis of Current State vs Future State

Current state	Capability and system	Future state	Capability and system changes required
●	Asset management – Civica Asset Management and spreadsheets	●	Asset management – configure Civica Asset Management module
●	Environment – spreadsheets	●	Environment – investigate use of Civica Authority registers
●	Planning and development – Civica Authority and CM9	●	Planning and development – configure Civica workflows and templates and increase integration with CM9
●	Collection management – Softlink and Vernon	●	Collection management – no change
●	Corporate services – Microsoft Office Suite and spreadsheets	●	Corporate services – leverage Civica for the management of IT assets
●	Collaboration – Microsoft Office 365, Microsoft Teams and ISYS	●	Collaboration – migrate intranet to Microsoft SharePoint to maximise Microsoft Office Suite
●	Customer service – Civica CRM and CM9	●	Customer service – increase adoption of CM9
●	Works – Civica, CM9 and spreadsheets	●	Works – Leverage Civica and CM9
●	Human Resources – Element Time, Pulse and Civica Authority	●	Human Resources – no change
●	Property and rating – Civica Authority and CM9	●	Property and rating – increase integration and adoption of CM9 and Civica

Current state	Capability and system	Future state	Capability and system changes required
●	Information Management – CM9, network drive/folders, RecFind, iferret, Drupal and InfoCouncil	●	Information Management – improved integration and increased adoption of CM9
●	Services – Civica and spreadsheets	●	Services – migrate spreadsheets to Authority registers and maximise OpenGov for reporting
●	Financial management – Civica Authority and spreadsheets	●	Financial management – reconfigure Civica Chart of accounts and General ledger. Implement OpenGov for budgeting and planning
●	GBEs – RSA-POS and Telestream	●	GBEs – review based on economic analysis recommendations
●	Registration and licensing – OpenGov, Civica, IDWorks and spreadsheets	●	Registration and licensing – continue to implement OpenGov
●	Economic Development – Book easy, MS Access, CASA and spreadsheets	●	Economic development – review based on economic analysis recommendations
●	Information technology – Spiceworks	●	Information technology – no change to ticketing system
●	Inventory management – Civica Authority	●	Inventory – Leverage Civica registers

Figure X: Blueprint



6.4.6 FOCUS AREA: OPTIMISING ENTERPRISE RESOURCE PLANNING (ERP)

Development of practical / fit-for purpose recommendations - Report consolidating all above deliverables and providing recommendations for NIRC next steps to achieve improved service delivery, resilience and sustainability through information systems.

6.4.6.1 APPROACH

This section is based on analysis of all findings identified during the systems review and presents a series of recommendations to improve the accessibility of quality data and information to inform decision making, analyse trends and streamline NIRC's operational reporting capabilities.

6.4.6.2 RECOMMENDATIONS

By maximising the investment already made in Civica, NIRC will reduce risks associated with disparate information systems, and increase integration and sharing of data across the business using custom workflows. Additionally, the implementation of additional products that are already in the ecosystem will improve the ability to provide specialist services such as increasing transparency in the budgeting and planning processes, and increasing resilience and sustainability of the business.

The following recommendations will assist to mature the use of business processes and systems across the NIRC information systems landscape.

1. Reconfigure Civica Authority to meet the business requirements of NIRC with an initial focus on simplifying the chart of accounts, general ledger and reference tables. As the basis for all financial management reporting these two indexes are critical to accurately record all financial transactions during each accounting cycle.
2. Improve integration between the Civica finance module and other corporate systems to leverage the revised chart of accounts.
3. Negotiate an improved support plan with Civica to improve responsiveness.
4. Establish a mentoring relationship with a sister council using Civica, such as Port Hastings, to encourage knowledge sharing and professional development.
5. Provide staff with training in the use of Civica as the core enterprise platform.
6. Implement an alternate solution, such as OpenGov Enterprise Cloud, to improve transparency across the budgeting and planning process and assist with long term financial modelling. The solution will leverage the revised chart of accounts.
7. Identify critical business processes and design workflows to streamline the collection, processing and storage of data. Suggested workflows include:
 - Building Applications
 - Current workflow is not complete; workflow needs to reflect stage Inspections A-E and stages up to issuing Occupancy Certificate.
 - Development Application only
 - No building approval required
 - Two different workflows required: one for DA classed as 'permitted' (complying) development is different to DA for permissible with consent DA
 - There are 2 different workflows currently in Civica. Both require corrections to function efficiently.

- Combined Development Application and Building Application
 - Applications that require both development and building approval
 - There are 2 different workflows required: one for DABA that is classed as permitted (e.g. new dwelling that complies) and one for DABA that requires consent (e.g. dual occupancy)
 - Currently there are two workflows in Civica but both are very similar, and both appear to be 'permissible with consent' workflows but with slightly different steps – both require corrections.
 - Development Applications classed as *Prescribed* use or development
 - Requires EIS so has steps involved before DA is accepted
 - After acceptance DA follows permissible with consent use or development but has 28 days exhibition period
 - No workflow constructed (4a, date entry screen only operating).
 - Development Applications classed as 'significant development'
 - Requires an Application to be declared 'significant development' as initial step and process
 - Similar to 'prescribed use or development' after the DA is accepted; but the DA is not referred to Council after exhibition (4b; no data entry screen)
 - Not yet entered into Civica as an alternative development assessment pathway.
 - For all DA pathways
 - Categories and classifications of use and development need to be adjusted and corrected to accurately reflect the application
 - Plan Variation Applications - has a data entry screen but no workflows constructed, no actions to enter and monitor and no template generation; no link to CM9
 - DA Pre- Consultations: as described above.
8. Develop templates to support business requirements and update reference tables to pre-populate data.
 9. Implement the blueprint across 3 horizons of activity.
 10. Develop business cases to explore the economic viability of identified opportunities to expand the economic base of NIRC.

6.5 OPERATIONAL SERVICE PERFORMANCE



FOCUS

- 6.5.1 The management and resourcing structure of the Council's organisation will be assessed for adequacy, including aspects of CAPACITY (whether adequate numbers of personnel are applied to efficiently service operational demands) and CAPABILITY (whether adequate organisational development is applied to maintaining and improving skill levels within the organisation). This will include an assessment of the effectiveness of the Council's workforce planning and organisational development.
- 6.5.2 Council's arrangements for measuring and reporting on performance against strategic and operational objectives and targets will be examined, including reporting arrangements to provide accountability to Government under relevant legislation and Service Delivery Agreements. As well as examining recent reporting, engagement with relevant Statutory Agencies will assist in identifying any issues here.

6.5.1 FOCUS AREA: COUNCIL CAPACITY AND CAPABILITY

The management and resourcing structure of the Council's organisation will be assessed for adequacy, including aspects of CAPACITY (whether adequate numbers of personnel are applied to efficiently service operational demands) and CAPABILITY (whether adequate organisational development is applied to maintaining and improving skill levels within the organisation). This will include an assessment of the effectiveness of the Council's workforce planning and organisational development.

6.5.1.1 APPROACH

This section addresses those aspects of the Council's resourcing, relative to the planning, deployment and development of human capital across the organisation. Focus is especially on the development program, given the challenges presented by strategies to recruit and retain skilled people to a remote location.

6.5.1.2 CURRENT PRACTICE

The current Workforce Plan with currency 2016-2020 was updated in June 2019 to reflect progress in implementing its objectives to that time. The Document is a mixture of a planning document and a marketing document with much of the first half dedicated to promoting various aspects of the Council's operations, some with tenuous links to workforce planning. Whilst there are examples given of outcomes achieved in the previous year there is no detailed measurement against the action plan for the previous year.

Nevertheless, the basic framework of the Plan is constructive, albeit short on analytical detail, and includes the updating of the action plan for 2019/20.

The strategic elements to be addressed in the annual plan comprise:

- Communication
- Information / tools available
- Training and development plan
- Decision making/responses
- Organisational culture
- Skills and Knowledge
- Motivation
- Mutual Respect
- Efficiencies and Effectiveness
- Performance Management system to be introduced
- Ongoing accredited training opportunities for employees relevant to their position
- Ongoing stability in workforce with implementation of Enterprise Agreement in May 2018

The Plan acknowledges the ongoing organisational evolution and change aimed at aligning structure and resources with the scope of responsibilities devolved under the applied local government framework.

"The Council acknowledges the ongoing challenges to form and develop areas of local government responsibilities particularly in the areas of compliance with local government and the Norfolk Island legal framework. In relation to the Integrated Planning and Reporting (IPR) framework progress has been consistent. However, difficulties continue with a conflicting legal framework."

The Workforce Plan lists the following training plan for 2019/20.

- Equal Employment Opportunity and Anti-discrimination ongoing training for all staff.
- Bullying and Harassment training for all staff, by e-learning or face to face.
- Infocouncil training for new relevant staff as required.
- Audit of licences and tickets held by all staff to address any discrepancies such as expired licences and tickets. Training to be provided to staff on an ongoing basis and organised through Human Resources.
- Ongoing update of competencies for relevant staff as required for their position.
- Integrated Planning and Reporting (IPR) module and training utilising Civica still to be finalised and rolled out with focus on detailed Community Strategic Plan and Operational Plan.
- Continued Civica Training (Integrated Business Management Software) provided to relevant staff with responsibilities associated with Human Resource (HR) module and Debt Recovery module (Finance) still to be finalised and rolled out.
- Work Health and Safety Training as identified through risk assessment. Work Health and Safety (WHS) Committee has been established with relevant training to occur to identify risks and carry out a risk assessment.

Although not specifically nominated as replacing the Workforce Plan there are two other Plans representing “companion” strategies to the Workforce Plan. These are:

- a. The TAAPILI Organisational Development Program published in November 2019,

The TAAPILI Program outlines the proposed Performance Appraisal system in more detail than the Workforce Plan and links it to a development pathway. The process involves linking individual performance plans to the annual Operational Plan and Department Business Plans and conducting regular staff meetings to discuss innovation, job effectiveness and continual improvement. It also requires staff to complete ongoing accomplishment records. A minimum of 4 need to be completed throughout the year, demonstrating good work performance and adherence to organisational values.

The staff who are regarded as high potentials are nominated for advanced development and will be recognised as in line for succession management opportunities with training geared for such development. Overall then the NIRC approach to planning strategically for its organisational development is very professional and credible.

- b. The People and Culture Business Plan entitled: “Our People Strategy 2020-2023 BEST PEOPLE – BEST COMMUNITY”. This strategy is prepared as a Business Plan for the Department of People and Culture and focuses on delivering a cultural development and training program for the organisation

BODY OF ANALYSIS

The 2018/19 report on the Workforce plan states:

“The Workforce Management Plan is therefore an important component of the Resourcing Strategy and must take in to account the level of resources that will realistically be available now and into the future to achieve the goals, and also recognise the importance of retaining, developing and attracting employees to accomplish the strategic directions and objectives.”

Whilst the second part of the statement is addressed, albeit with some gaps, the matter of organisational capacity is not given adequate focus.

The report states:

“As still a relatively new organisation, in its third year Council has managed to review and map out staffing resources to meet the requirements of the Local Government Act 1993 (NSW)(NI) and at the same time to ensure that suitably skilled staff are available for provision of the State Services that Council is contracted to provide on behalf of the Commonwealth. Some of the State services are resourced by staff who are also working in Local Government functions and this complexity has been attended to and mapped out in Council’s financial system.”

However, the Plan does not contain any other reference to this “mapping” or any conclusions drawn about functional/operational gaps, conflicts or overlaps in resourcing nor how such issues should be resolved.

Information concerning the investment in training and development provided for in Council’s budget reveals the following:

Budget and Actual Expenditure for Training				
Budget Year	2020/21	2019/20	2018/19	
Budget	\$127,080	\$277,085	\$180,000	
Actual		\$207,083	\$92.934	
Actual as %age of Total Employee Costs	1.2%???	2.6%	1.02%	

Given the particular challenges facing the Council since 2016 in developing organisational capability and the fact that in the greater part the source of organisational recruits must be local residents, investment in training and development of existing staff should be a very high priority. Even stable organisations expect to invest at least 2%-3% of their employee costs budget annually in developing their workforce.

With an estimated establishment of around 106 FTEs this means that the 2020/21 allocation for training is less than \$1,254 per employee. Industry standards would suggest a figure closer to \$1,500 would be more appropriate in a stable organisation. Given NIRC’s current position and the challenges faced in recruiting and retaining skilled staff, a higher figure would be expected.

Although the Plan recognises the need for development of managers and supervisors in human relations skills, the record of training programs for the last year focuses heavily of technical and “compliance” training.

The Plan does not identify where skills gaps are evident nor canvass strategies to close those gaps. The Action Plan includes a target that a skills audit was to be completed by June 2019. It is not known whether this was achieved.

The demographic statistics show that 30% of the workforce is over 60 years of age, but there is no mention of strategies to deal with an ageing workforce, which would be particularly relevant in such a confined population as Norfolk Island. There is no reference to succession planning.

The report on last year’s workforce management does not highlight any particular issues with recruitment but mention of delays in appointing some key personnel would indicate that this is an issue and therefore it should have specific strategies developed to address it.

The report states merely:

“Extensive recruitment has occurred with the identification of some difficulties in attracting a reasonable pool of applicants for some vacant positions.” and

“The Governance team still had vacant positions and this has delayed the establishment of a sophisticated Risk Management Framework.”

The Plan does not provide turnover statistics, analyse vacancy rates or address any attraction and retention issues. However, data contained in a recent Workforce Planning, Remuneration Planning, Strategy and Procedures report dated August 2020 from the Manager People Culture and Safety to the General Manager shows:

End Year	# Terminations	% Turnover
2016	6	3.51
2017	21	10.88
2018	27	12.86
2019	46	23.86
2020	39	20.86
Total	139	

A media release by the former General Manager in August 2019 reveals:

“From July 2018 to June 2019, Council recruited for 46 vacant positions resulting in 42 appointments (comprising of 28 full time, five (5) part-time and nine (9) casuals). Council received a total of 194 applications from candidates, of which 141 were from residents on Norfolk Island. Of the 42 appointments, 36 were current Norfolk Island residents and six (6) were from mainland Australia.”

Consequently, with a continuing high turnover, developing deliberate attraction and retention strategies would seem to be a priority.

With the currency of the Plan expiring there may be opportunity to conduct a comprehensive review to reset the Workforce Plan baseline and develop more focused strategies over the next five years.

The integration or linking of the companion plans is uncertain.

The TAAPILI plan contains the following statement:

“TAAPILI is our organisational development program that links several people’s initiatives, under Human Resources, with an organisational development program that assists us transition to an employer of choice.”

The People and Culture Plan includes the following preface:

“This people strategy is a plan that sets out our priorities and activities in the human resource space and is aligned with our Enterprise Agreement which is the industrial framework and through TAAPILI which is the Learning and Development/Cultural framework to create a better workplace.”

Consequently, to the casual reader it is not clear as to how the various plans interact, delineate between programs and integrate in terms of effort, resourcing and management responsibility.

The TAAPILI Program appears to contain elements of Workforce Planning, Recruitment and Retention, Organisational Culture, Capability Development and Performance Management. The People Strategy contains similar elements, in some cases referencing connections with TAAPILI, as well as elements involving Leadership Development, Community Engagement and Workplace Safety.

The Plans are constructed as good practice models. The key issue for NIRC is whether it can muster the resources and management talent to effectively implement the strategies.

POLICIES

The Council's website contains only limited formal Policies related to the topic of workforce management, covering the following topics:

- Secondary Employment
- Workplace Health & Safety
- Bullying and Harassment
- Conditions of Employment
- Volunteers Policy

There is an Equal Employment Opportunity Management Plan which was adopted on 21st December 2016 and appears to be a well constructed document. It is possible that there are administrative policies that have not required adoption by Council that address other important topics such as recruitment, employee relations etc which are dealt with at management level.

Recently amended recruitment practice has seen a move to engage professional staff, difficult to attract and retain on-island via a Fly-in Fly-out model. An accountant and governance officer have been appointed from approximately 40 applications for each position, up from previously unsuccessful attempts.

For positions where the employment market is tight and attraction and retention experience poor utilising traditional recruitment and employment arrangements, flexible and contemporary recruitment practices are necessary to ensure required capability and capacity is achieved.

However, this should not replace investment in professional development of current to grow internal capacity across a range of skill areas. A balanced approach is required.

FINDINGS

- The existence of multiple and possibly duplicated or conflicting strategic plans needs to be addressed to provide clarity of purpose and responsibility across the various programs.
- An integrated and comprehensive Workforce Plan is required.

RECOMMENDATIONS

1. That the Council update its Workforce Plan to include analysis of current and future resourcing needs.
2. That the updated Workforce Plan be the vehicle for integrating the “companion” plans of NAAPILI and the People and Culture Business Plan.

6.5.2 FOCUS AREA: PERFORMANCE MEASUREMENT AND REPORTING

Council's arrangements for measuring and reporting on performance against strategic and operational objectives and targets will be examined, including reporting arrangements to provide accountability to Government under relevant legislation and Service Delivery Agreements. As well as examining recent reporting, engagement with relevant Statutory Agencies will assist in identifying any issues here.

6.5.2.1 APPROACH

Linked to Workforce Planning is the system of measuring and reporting individual and work team performance against strategic objectives and operational plans. This section review NIRC arrangements and actions to assess whether appropriate systems and practices are in place.

6.5.2.2 CURRENT PRACTICE

An effective performance management framework is essential to not only manage work diligence and quality but to identify capability and behavioural issues that can be improved by relevant training or counselling. It is the basis for preparing individual capability and development plans for employees. NIRC does not have a tradition of structured performance appraisal and improvement.

The Workforce Action Plan for 2019/20 states that:

"A Performance Assessment system has been finalised and will be rolled out from 1 July 2019. All staff to have work plans in place by end of 2019."

Both companion plans reference performance management but it is the TAAPILI Plan that contains a specific implementation schedule for the Performance Appraisal System, as follows.

New Appraisal System:

By 1 July 2020	New personal plans linked to 2020-2021 operational plan
December 2020	1st review of personal plans
June 2021	2nd review of personal plans and full appraisals completed.

Accomplishment Records

From 1 January 2020	Commencement of accomplishment records ongoing.
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At an organisational level the Operational Plan reporting provides an acceptable level of global performance reporting, however a wider use of unit business plans would enable more focused performance evaluation.

6.5.2.3 FINDINGS

- The implementation of the performance management system is critical to both improving performance and ongoing organisational development.

6.5.2.4 RECOMMENDATIONS

1. That a program encouraging individual departments/ organisational units to develop Business Plans to guide their performance and reporting be adopted.
2. That Council conduct a comprehensive review of its investment in organisational development, informed by input from the first round of performance appraisals and a focused training needs analysis.
3. That a report be prepared for Council evaluating the implementation of the Performance Appraisal system and identifying any areas for improvement, particularly in relation to its integration with the organisational development strategy.



7. PATHWAYS TO IMPROVEMENTS

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
6.1 GOVERNANCE FRAMEWORK			
Governance and Decision Making Frameworks	That the resourcing of the Audit/Risk Management function be reviewed after twelve months to assess its adequacy.		
	That the content of the Annual Report seek improved focused on reporting performance/ implementation against the CSP outcomes and strategies.		
	That Council consider formalising its Governance Framework in an adopted policy to clarify the roles and responsibilities encompassed in the Framework.		
	That efforts continue to align the Community Strategic Plan outcomes with operational delivery and to improve line-of-sight between the higher order strategies and operational/service delivery standards.		
Council Policies and Procedures	That a planned schedule be created for the ongoing review of Council Policies based on setting priority for topics, with a view to completing the full set by the end of 2021.		
	That a gap analysis be undertaking of policy areas requiring new policy instruments and a plan established for their development.		
	That the compilation of Procedure Manuals for key operational functions be progressed on a risk assessment basis to ensure areas of high staff turnover do not suffer from loss or dilution of corporate knowledge.		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
Relationship between the Council and its governing agencies	That the fortnightly meeting between NIRC and DITRDC on-island staff continue to address operational issues.		
	That NIRC and DITRDC consider restructuring the quaterly meeting to discuss strategic issues to include: NIRC Mayor and General Manager The Administrator Assistant Secretary, DITRDC		
	That these quarterly meetings be held face-to-face alternating between Canberra and NI.		
	That a Partners in Government Agreement be developed setting out the roles and responsibilites of the Commonwealth and NIRC in a form simplifying the complexity of the Norfolk Island governance model.		
	That NIRC seek membership of the Commonwealth and State agencies inter-agency forum to build mutual understand, working relationships and opportunites for collaboration betwwen NIRC and these agencies.		
STRATEGIC PLANNING AND REGULATORY FRAMEWORK			
Implementation of IPR Framework	<p>That the Norfolk Island 2030 – Sustaining our Future:</p> <p>Be a Plan collaboratively led by the Commonwealth through the Administrator’s Office, the Department of Infrastructure, Transport, Regional Development and Communications (DITRDC) office on the Island and Norfolk Island Regional Council — to build partnership both in terms of working arrangements and which is visibly symbolic for the island community</p> <p>Establishes clear goals and directions for “what we want Norfolk Island to be and look like” in ten (10) years’ time - based upon extensive community engagement in accordance with the Norfolk Island Community Engagement Framework - with an Implementation Program (explicitly recognised as needing to be adaptable over time) which includes:</p> <ul style="list-style-type: none"> ○ a comprehensive long-term Legislative Framework ○ targeted funding priorities and attribution 		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	<ul style="list-style-type: none"> o allocated roles and responsibilities <p>Integrates with the Regional Council's Community Strategic Plan. i.e. consistency with directions and strategies, long-term-financial and resource planning</p>		
	<p>That a Liaison Committee be established to provide inputs into:</p> <ul style="list-style-type: none"> o Norfolk Island 2030 – Sustaining our Future: o The Norfolk Island Community Strategic Plan; o Review of the NI Planning Act; and o The NI Plan Review; <p>That this Committee comprise senior representatives of the Administrator's Office, the NIRC, the Island based DITRDC team, the Council of Elders, the Chamber of Commerce; the Tourism Advisory Committee and People for Democracy to enhance dialogue, communication, build understandings, partnership and trust.</p>		
Strategic Land Use Planning	<p>That the NI Plan be comprehensively reviewed with timing that integrates with the amendments to the NI Planning Act – and funding and professional resources expeditiously organised to enable this – with staging as follows:</p> <p><u>Stage One:</u></p> <p>The Strategic Plan be comprehensively reviewed based on the following:</p> <ul style="list-style-type: none"> A foundation of Council led consultation including a Reference Group comprising the Chamber of Commerce; People for Democracy, the KAVHA, Tourism Advisory Committee, Council of Elders – with the aim of building more cohesion and social capital to underpin the Plan) Sustainability (4 pillars of economic, social, environmental and governance) A greater level of aspiration for future development and land-uses to achieve the short, medium and long-terms desired outcomes of DITRDC, the NIRC and the island community <p>Include appropriate references to:</p>		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	<p>Evaluations of the optional locations and criteria for the proposed composter, port and rock quarry</p> <p>Resolving acceptable standards and means of waste disposal and wastewater disposal and treatment</p> <p>Heritage and Biodiversity conservation – with Strategic Plan mapping providing the mapping nomenclature for consistent inclusion in the zoning map for Part B of the revised Plan</p> <p>Analysis of the island's infrastructure capacities and relate that to be the basis of Council's declared need for a Population Policy</p> <p>An Implementation Strategy including nominated responsibilities for actioning:</p> <p>Reflection of the previous amendments to the Planning Act 2002 (NI) and subsequent repeal of the Norfolk Island Planning and Environment Board Act 2002</p> <p>Explicit recognition of Norfolk Island Regional Council's role in implementing the Plan</p> <p>Implement the proposed changes to the Development Control Plan for Kingston and Arthur's Vale Heritage Area</p> <p>Introduce a new Development Control Plan for Community Title</p> <p>Review the Development Control Plans for: Water Resources and Outdoor Advertising Structures and Signs)</p> <p><u>Stage Two:</u></p> <p>To implement the Strategic Plan - A comprehensive Review of Part B of the Plan to significantly improve the rigour and pragmatic implementation of the "Planning Requirements" including Zoning, Overlays and the General Provisions</p> <p>Updating of various definitions and procedures</p> <p>Correction of drafting errors and general housekeeping matters</p>		
	<p>That a qualified planner be recruited as net additional to the current staff establishment and related staff budget, preferably a post-graduate with some (if limited) experience at the right level.</p> <p>That Budget allocations be enhanced to ensure that planning staff can sustain Continuous Professional Development and have one attendee at the annual NSW Planning Institute of Australia State conference</p>		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
Development Assessment	That the review of the Norfolk Island Planning Act 2002 mentioned previously be pursued to alleviate the inefficiencies caused to the Development Assessment function.		
	<p>That NIRC consider negotiations with Port Macquarie Hastings Council to extend the Agreement for resource support for:</p> <ul style="list-style-type: none"> assessment of complex DA's strategic planning work mentoring and training ensuring updated knowledge and awareness of NSW "mainland" issues and practices. 		
ENVIRONMENTAL MANAGEMENT			
Water and Waste Water Management	That high priority be given to amending - by Ordinance/Disallowable Instrument - the NSW Local Government Act as modified for Norfolk Island to insert the relevant provisions for On-Site Sewage Management including the initiative of a register of septic tanks / onsite sewage management and the requirement for annual inspections and ensuring proper maintenance.		
	<p>That high priority be allocated for DITRDC to work with NIRC to resolve wastewater disposal and treatment issues by:</p> <ul style="list-style-type: none"> the endorsement of the option recommended in the Balmoral report. funding the detailed design and capital construction of that option. amending the NSW Local Government Act – as adapted for Norfolk Island to: <ul style="list-style-type: none"> ○ require On-site Sewage Management facilities to be annually inspected by, and registered with, the Regional Council; and ○ enable compliance action to be taken by the Regional Council as needed. 		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	That a Management Review be expeditiously undertaken to review and establish the structure and staff capacity of the Environment Team to provide leadership and professional capabilities/capacity to work with DITRDC to drive the implementation for wastewater disposal /sewage reticulation infrastructure and means to achieve acceptable environmental standards and to provide enhanced level of community education;		
Waste Management	That high priority be allocated by DITRDC to work with the NIRC and Marine Parks Australia to resolve waste disposal issues to cease at earliest opportunity the disposal of waste over the cliff at Headstone – acknowledging that this will need to be based upon Commonwealth Government capital funding.		
	That a Management Review be expeditiously undertaken to review and establish the structure and staff capacity of the Environment Team to provide leadership and professional capabilities/capacity to work with DITRDC to drive the implementation for waste disposal infrastructure and means to achieve acceptable environmental standards and to provide enhanced level of community education.		
Biosecurity	That the Ports Management Strategy – including the approval processes, design and construction be given high priority for completion enabling: <ul style="list-style-type: none"> Certainty of supplies Enhanced more cost-effective means of waste removal Enhanced work safety Facilities to support NIRC to achieve bio-security compliance. 		
Biodiversity	That the Commonwealth and NIRC establish a task force to address the issue of planning, resourcing and implementation of a strategy to protect the unique biodiversity of Norfolk Island.		
Pest Management	That a Management Review be expeditiously undertaken to review and establish the structure and staff capacity of the Environment Team to provide leadership and professional capabilities/capacity to manage implementation of the Pest Management strategy including the eradication of the Argentine Ants as a priority;		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
PFAS	That the Council and the Commonwealth develop a joint strategy to address the issue of PFAS contamination on Norfolk Island.		
Regulation Registration and Licensing	That a ranger position be established funded in whole or part by the introduction of fees in the Planning and Environment section to enhance compliance for: <ul style="list-style-type: none"> Swimming Pool safety fencing – including, given the public safety issues and NIRC risk exposure - retrospective checks on existing pools Compliance of On-site Sewage Management facilities Dog registration and management Cats registration and management Apiaries registration and management. 		
	That training and collaborative working arrangements with the Building Officer and Customer Care staff be formally established.		
	That NIRC are enabled by DITRDC to: <ul style="list-style-type: none"> work with National Archives (NAA) to develop a retention schedule and coordinate the delivery of solutions for records and archiving develop a concept design for appropriate, purpose-built facilities (air-conditioned and with moisture control) to sustain the life of records, artworks, documents etc Finalise a digitisation plan. 		
	That DITRDC support resultant and appropriate funding proposals for budget allocations in 2021/2022 budgeting.		
	That a Review be undertaken of Statutory Appointments to seek to establish improved working and management reporting arrangements - including consideration of more delegation of authority by the Minister to the General Manager for non-judicial appointments – thereby having appointed staff in the		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	Customer Care team reporting directly to the Manager of Customer Care and not unitarily back to the Minister; moving away from the current mixed management control and reporting arrangements.		
	That a review be undertaken jointly by DITRDC and NIRC of the terms of the Service Delivery Agreement to ensure resource capacity, fairness of requirements as well as fulfilment of adequate services to the community.		
FINANCIAL SUSTAINABILITY			
Recent Financial Performance	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 rather than just investigation and reporting.		
	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 this review.		
	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.		
Long Term Financial Forecasts	That a strategic long-term (and funded) plan for the island be developed in partnership between NIRC and the Commonwealth, with the responsibilities of each party clearly outlined.		
	That a long-term financial plan be developed inclusive of all the capital projects and changes in operating practices required to meet NIRC's compliance and service obligations and to address legacy issues.		
	That the true financial position of NIRC inclusive of necessary capital projects and operational adjustments be considered when evaluating what infrastructure and service responsibilities are retained by NIRC and in establishing the financial assistance grant that is required from the Commonwealth.		
Revenue Raising Ability & Sustainability	That NIRC continue to levy rates on rateable assessments using a combination of a base charge and a rate in the dollar.		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	That NIRC consider the benefits and costs of requesting fresh valuations to be undertaken to ensure that land valuations appropriately reflect easements and other encumbrances (including useability) based on a combination of desktop analysis and on-ground assessment of land parcels.		
	That NIRC consider phasing in increases in the sewerage charge to more appropriate levels to ensure increased scheme cost recovery.		
	That NIRC continue to apply a waste (import) levy to help fund waste management activities.		
	That NIRC consider phasing in moderate increases in waste disposal fees to help fund increasing waste management obligations, noting that any significant increases will increase the risk of illegal burning, burial and dumping of waste.		
	That NIRC continue to apply a fuel levy to help fund road maintenance.		
	That NIRC ensures that it sets its user fees and charges on a cost reflective basis inclusive of overheads.		
	That the Commonwealth consider the transfer of responsibility for the non-traditional business enterprises of the airport, electricity and telecom out of NIRC given the significant financial sustainability risks placed on NIRC from their ongoing operation.		
	That NIRC retain responsibility for the liquor bond given its important net financial contribution to NIRC relative to other revenue sources.		
	That the Commonwealth continue to refine the financial assistance grants to account for the ongoing and changing disability factors impacting NIRC's infrastructure and service provision on the island.		
	That NIRC and the Commonwealth collaboratively develop a clearly articulated, costed and funded long-term plan developed to meet NIRC's public health and environmental obligations and agreed strategic objectives for the island.		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	That the Commonwealth retain the use of NIRC resources for the provision of SDA responsibilities where possible, given that any change in the arrangements has the potential to undermine the financial sustainability of NIRC.		
	That a GST not be adopted by NIRC as a local government revenue source, but that it be considered by the Commonwealth as a possible mechanism by which it is able to fund its ongoing and growing financial obligations on the island with due consideration given to the offsetting administration and transaction costs associated with managing GST arrangements and compliance on a small, isolated island.		
	That NIRC consider the establishment of a formal development contributions plan and associated charges to assist in funding facilitating infrastructure.		
Business Enterprises and Utilities	That responsibility for the liquor bond remain with NIRC given the significant financial contribution it provides, and the limited financial and resourcing risk attached to the business enterprise.		
	<p>That alternative arrangements be considered for the electricity, telecom and sewerage utilities, which may involve one or more of the following:</p> <ul style="list-style-type: none"> 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 with assets not on NIRC's books and with the Commonwealth funding any operational shortfall on an ongoing basis to ensure affordability – a Board arrangement may be desirable 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. Transfer of responsibilities for electricity and/or sewerage to a State partner or similar, with the Commonwealth funding any operational shortfall on an ongoing basis to ensure affordability. Divestment of the telecom function to Telstra, with the Commonwealth ensuring appropriate service provision at an affordable price under a universal service obligation arrangement. 		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	That the introduction of any alternative arrangements maximises the employment of local workers rather than utilising outsourcing, outside of skill requirements unavailable on-island.		
	That alternative arrangements be introduced for the airport that reduce the financial exposure of NIRC to the airport's reliance on revenue from tourist visitation and high fixed operating costs, with a preference for airport ownership to be transferred to the Commonwealth.		
	That responsibility for the waste function remain with NIRC, but with the necessary capital and operational funding assistance provided by the Commonwealth to ensure that it is able to meet its environmental and public health obligations as a matter of urgency.		
	That the easements required to operate the utilities servicing the island be formalised, with appropriate compensation payments arranged.		
Fire Services	That the Commonwealth and NIRC consider the most appropriate option for the ARFFS to ensure that NIRC and the local community are not subsidising the service, noting that NIRC's financial sustainability position would be most enhanced if it were not responsible for funding the service at all and any risks associated with fluctuating passenger fee revenues are removed altogether.		
State Disconnect	<p>That the Commonwealth and NIRC consider the available options to mitigate against the 'State disconnect' that presently exists, including:</p> <p>The provision of additional, specified annual operational and capital funding support to NIRC by the Commonwealth based on established benchmarks.</p> <p>The establishment and delivery of an agreed long-term, funded program of infrastructure and service delivery between the Commonwealth and NIRC to meet service obligations.</p> <p>Delivery of financial and non-financial support via a State partner, with the Commonwealth compensating the State partner – with support provided directly to NIRC in the interim.</p>		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
Scope for Economic Expansion	That the Commonwealth and NIRC – in conjunction with the appropriate representative group/s – develop an action plan to address known barriers to economic development and accepted opportunities for industry growth.		
	That the Commonwealth and NIRC – in conjunction with the appropriate representative group/s – develop business cases to explore the economic viability of identified opportunities to expand the economic base of Norfolk Island.		
SYSTEMS CAPABILITY			
Budgeting Systems	Reconfigure Civica Authority to meet the business requirements of NIRC with an initial focus on simplifying the chart of accounts, general ledger and reference tables. As the basis for all financial management reporting these two indexes are critical to accurately record all financial transactions during each accounting cycle.		
	Improve integration between the Civica Finance module and other corporate systems to leverage the revised chart of accounts.		
	Negotiate an improved support plan with Civica to improve responsiveness.		
	Establish a mentoring relationship with a sister council using Civica, such as Port Hastings, to encourage knowledge sharing and professional development.		
	Provide staff with training in the use of Civica as the core enterprise platform.		
	Implement an alternate solution, such as OpenGov Enterprise Cloud, to improve transparency across the budgeting and planning process and assist with long term financial modelling.		
Enterprise Resource Planning (ERP)	Identify critical business processes and design workflows to streamline the collection, processing and storage of data. Suggested workflows include:		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	<p>Building Applications</p> <p>Current workflow is not complete; workflow needs to reflect stage Inspections A-E and stages up to issuing Occupancy Certificate.</p> <p>Development Application only</p> <p>No building approval required</p> <p>Two different workflows required: One for DA classed as 'permitted' (complying) development is different to DA for permissible with consent DA</p> <p>There are 2 different workflows currently in Civica. Both require corrections to function efficiently.</p> <p>Combined Development Application and Building Application</p> <p>Applications that require both development and building approval</p> <p>There are 2 different workflows required - one for DABA that is permitted, e.g. new dwelling that complies, and one for DABA that requires consent, e.g. dual occupancy</p> <p>Currently there are two workflows in Civica but both are very similar, and both appear to be 'permissible with consent' workflows but with slightly different steps – both require corrections.</p> <p>Development Applications classed as 'prescribed use or development'</p> <p>Requires EIS so has steps involved before DA is accepted</p> <p>After acceptance, DA follows permissible with consent use or development but has 28 days exhibition period</p> <p>No workflow constructed (4a, date entry screen only operating).</p> <p>Development Applications classed as 'significant development'</p> <p>Requires Application to be declared 'significant development' as initial step and process</p> <p>Similar to 'prescribed use or development' after the DA is accepted; but the DA is not referred to Council after exhibition (4b; no data entry screen)</p>		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	<p>Not yet entered into Civica as an alternative development assessment pathway.</p> <p>For all DA pathways</p> <p>Categories and classifications of use and development need to be adjusted and corrected to accurately reflect the application.</p> <p>Plan Variation Applications - has a data entry screen but no workflows constructed, no actions to enter and monitor and no template generation; no link to CM9</p> <p>DA Pre- Consultations: as described above.</p> <p>Develop templates to support business requirements and update reference tables to pre-populate data.</p> <p>The following recommendations will assist to mature the use of business processes and systems across the NIRC information systems landscape. Reconfigure Civica Authority to meet the business requirements of NIRC with an initial focus on simplifying the chart of accounts, general ledger and reference tables. As the basis for all financial management reporting these two indexes are critical to accurately record all financial transactions during each accounting cycle.</p> <p>Improve integration between the Civica finance module and other corporate systems to leverage the revised chart of accounts.</p> <p>Negotiate an improved support plan with Civica to improve responsiveness.</p> <p>Establish a mentoring relationship with a sister council using Civica, such as Port Hastings, to encourage knowledge sharing and professional development.</p>		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	<p>Provide staff with training in the use of Civica as the core enterprise platform.</p> <p>Implement an alternate solution, such as OpenGov Enterprise Cloud, to improve transparency across the budgeting and planning process and assist with long term financial modelling. The solution will leverage the revised chart of accounts.</p> <p>Identify critical business processes and design workflows to streamline the collection, processing and storage of data. Suggested workflows include:</p> <p>Building Applications Current workflow is not complete; workflow needs to reflect stage Inspections A-E and stages up to issuing Occupancy Certificate.</p> <p>Development Application only No building approval required Two different workflows required: one for DA classed as 'permitted' (complying) development is different to DA for permissible with consent DA There are 2 different workflows currently in Civica. Both require corrections to function efficiently.</p> <p>Combined Development Application and Building Application Applications that require both development and building approval There are 2 different workflows required: one for DABA that is classed as permitted (e.g. new dwelling that complies) and one for DABA that requires consent (e.g. dual occupancy) Currently there are two workflows in Civica but both are very similar, and both appear to be 'permissible with consent' workflows but with slightly different steps – both require corrections.</p> <p>Development Applications classed as <i>Prescribed</i> use or development Requires EIS so has steps involved before DA is accepted After acceptance DA follows permissible with consent use or development but has 28 days exhibition period No workflow constructed (4a, date entry screen only operating).</p> <p>Development Applications classed as 'significant development'</p>		

SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
	<p>Requires an Application to be declared 'significant development' as initial step and process Similar to 'prescribed use or development' after the DA is accepted; but the DA is not referred to Council after exhibition (4b; no data entry screen) Not yet entered into Civica as an alternative development assessment pathway.</p> <p>For all DA pathways Categories and classifications of use and development need to be adjusted and corrected to accurately reflect the application Plan Variation Applications - has a data entry screen but no workflows constructed, no actions to enter and monitor and no template generation; no link to CM9 DA Pre- Consultations: as described above.</p> <p>Develop templates to support business requirements and update reference tables to pre-populate data.</p> <p>Implement the blueprint across 3 horizons of activity.</p> <p>Develop business cases to explore the economic viability of identified opportunities to expand the economic base of NIRC.</p>		
OPERATIONAL SERVICE AND PERFORMANCE			
Capacity and Capability	That the Council update its Workforce Plan to include analysis of current and future resourcing needs.		
	That the updated Workforce Plan be the vehicle for integrating the "companion" plans of NAAPILI and the People and Culture Business Plan.		
	That a program encouraging individual departments/ organisational units to develop Business Plans to guide their performance and reporting be adopted.		
	That Council conduct a comprehensive review of its investment in organisational development, informed by input from the first round of performance appraisals and a focused training needs analysis.		

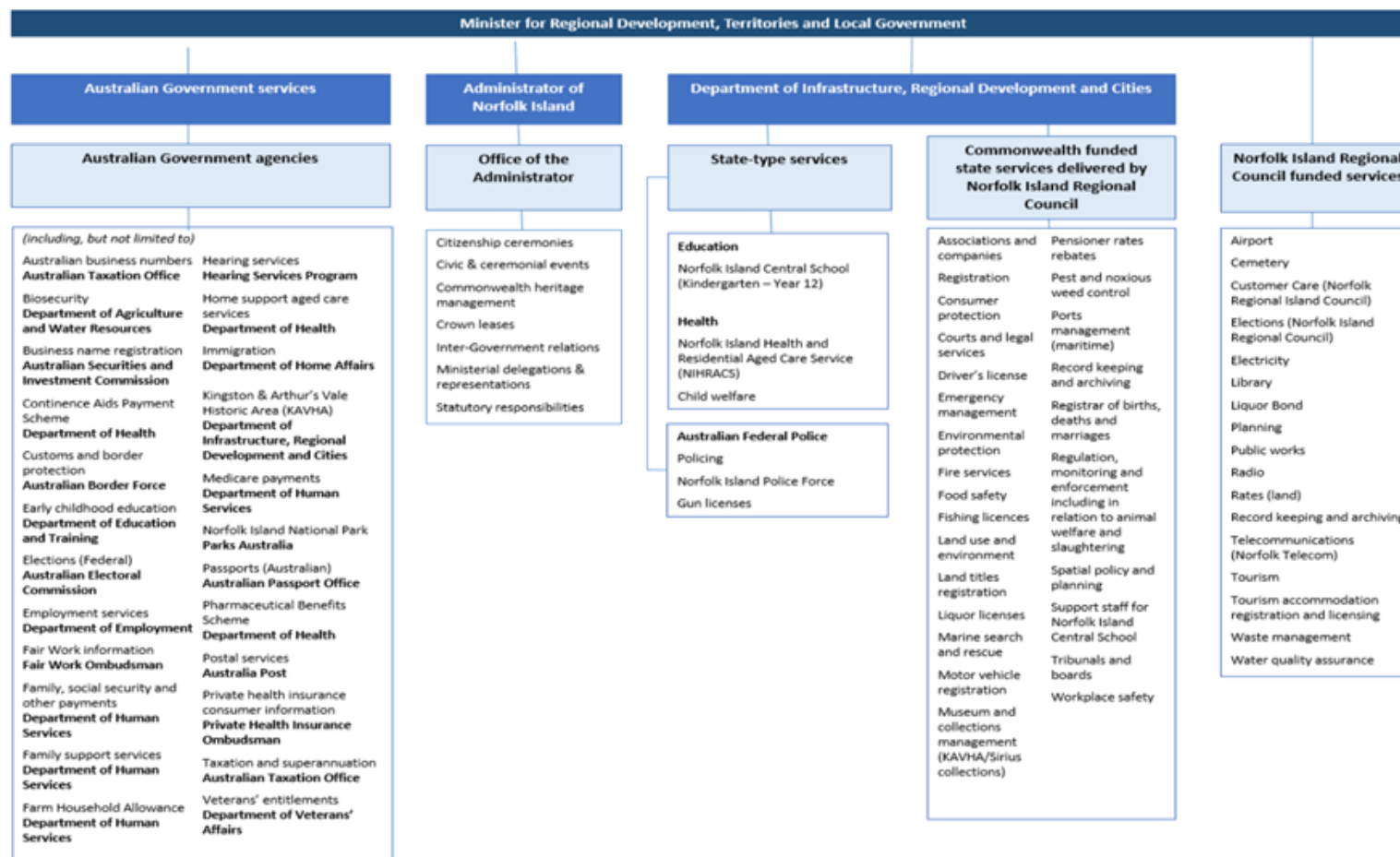
SECTION REFERENCE	RECOMMENDATIONS	PRIORITY	TIMING
Performance Measurement and Reporting	That a report be prepared for Council evaluating the implementation of the Performance Appraisal system and identifying any areas for improvement, particularly in relation to its integration with the organisational development strategy.		



8. CONCLUSION

TO BE COMPLETED

APPENDIX X: NORFOLK ISLAND GOVERNMENT SERVICES STRUCTURE (AS OF MAY 2018)



APPENDIX X: INTERVIEW SCHEDULE

Norfolk Island Regional Council
Independent Governance and Financial Audit
Interview Schedule

Monday 17 August 2020	
9.00am – 10.30am (NIRC-Bicentennial Complex)	s47F
11.00am – 11.30am	
11.30am – 12.00noon	
12.00noon – 12.30pm	
12.30pm – 1.00pm	
2.00pm – 3.30pm	
4.00pm – 5.30pm	
Tuesday 18 August 2020	
8.30am – 10.00am	
10.30am – 12.00noon	
1.30pm – 3.00pm	
3.00pm – 5.00pm	
Wednesday 19 August 2020	
8.30am – 10.00am	
10.30am – 11.30pm	
1.30pm – 2.30pm	
3.00pm – 4.00pm	
4.00pm – 5.00pm	
Thursday 20 August 2020	
9.00am – 10.00am	
10.00am – 11.00am	

11.30am – 12.30am	s47F
1.30pm – 2.30pm	
4.00pm – 5.00pm	
Friday 21 August 2020	
9.00am – 10.00am	
10.30am – 12noon	
1.00pm – 2.00pm	
1.30pm – 2.30pm	
3.00pm – 4.00pm	
4.30pm – 5.15pm	
Saturday 22 August 2020	
10.30am – 11.30am	
Wednesday 16 September 2020	
1.00pm – 2.15pm	

Note: Subsequent to these interviews follow up discussions and information exchange occurred with NIRC and DITRDC officers identified above plus s47F Director, Norfolk Island Service Delivery Section.

APPENDIX X: REGISTRATIONS AND LICENSING – ANALYSIS AND FINDINGS

NIRC Service / Responsibility	NIRC Comments about Responsibility, Administration and Compliance	Commentary, Analysis and Findings based upon feedback from interviews and research.
Dog Registration	Annual Registration administered by the Council Department: Registry and Customer Care	<ul style="list-style-type: none"> There is no enforcement of registration – and there is no capacity to deliver this There is (an unspecified) cost to Council to administer Only a limited proportion of dogs are registered; There is no Council dog pound – “Impoundment” predominantly done by local vets. When unregistered, vets often know who owner (s) is/are; There are implications if an unregistered dog attacks or if unregistered dog is put down and owner subsequently challenges reasons for this; A Ranger could be employed (potentially funded by fees) to respond to dog attacks / “threats” and impoundment as well as administer a number of pieces of legislation. Cats are not registered and feral cats are a pest and significant threat to fauna. Cats are being micro-chipped by local vets and there is a cat trapping program which is alleviating the impacts on fauna (however, this is countered to some extent given that trapping of cats has implications for control of rats on the island).
Registration of an Apiary	Dept: Health and Water Nothing registered;	<ul style="list-style-type: none"> There is no enforcement of registration and no capacity to deliver any enforcement; There are a number of Apiaries and there is legitimate concern about the quality of produce that is being sold for public consumption and what liability this puts on Council. The employment of a ranger to properly enforce is a justifiable means of control and minimising risk exposure.
Fences	Registry – applying Manual register; No enforcement of registration – no capacity to deliver this Manual book with fee, requires inspection.	<ul style="list-style-type: none"> There is no enforcement, but NIRC becomes aware when owners of livestock or adjoining landowners notify; There is a lack of financial income which may impact on the budget of the Building and Planning Office.
Registration of subdivisions	Registry	<ul style="list-style-type: none"> Planning approval goes to surveyor, to carry out an official survey. The Bathurst-based Surveyor-General sends form and letter to the landowner/customer who then presents these forms and title and pays fee. Survey plan signed off Registrar and manual book updated with SO plan. The new title and subdivisions are recorded in Authority for rating purposes and creation of new portions.
Slaughtering licence	Administered - Dept: Health and Water Registered in Excel spreadsheet;	<ul style="list-style-type: none"> Fees and costs are not recorded accurately. Income is recorded at the individual work order level; expenditure is grouped and there are no specific budget items. There is no cost recovery

NIRC Service / Responsibility	NIRC Comments about Responsibility, Administration and Compliance	Commentary, Analysis and Findings based upon feedback from interviews and research.
Sale of Food	Administered - Dept: Health and Water; Registered in Excel spreadsheet; There is cost to Council and no cost recovery;	<ul style="list-style-type: none"> Costs are not recorded accurately with some recording in budget of relevant department as is income – and the comparison of expenditure and income cannot be analysed because of way budgeting occurs.
Sale of Tobacco	Administered - Dept: Health and Water; Registered in Excel spreadsheet;	<ul style="list-style-type: none"> Costs are not recorded accurately. Income recorded at individual work order level, records of expenditure are grouped and there is no specific budget item. There is no cost recovery
Hairdressers' premises	Administered - Dept: Health and Water Registered in spreadsheet;	<ul style="list-style-type: none"> Costs are not recorded accurately. Income is recorded at individual work order level; records of expenditure are grouped and there is no specific budget item. There is no cost recovery
Electrical Contractors Licence	Administered - Dept: Electricity/Records/IT Registered in manual file and photo ID system;	<ul style="list-style-type: none"> Costs are not recorded accurately. Income recorded at individual work order level, records of expenditure are grouped and there is no specific budget item. There is no cost recovery
Public Health NSW (drinking water)	Administered - Dept: Health and Water Registered in Excel spreadsheet; Cost to Council - no charge	<ul style="list-style-type: none"> This is administered at no charge by Council seeking to ensure drinking water complies with public health standards. This is cost negative, but, administered under the SDA.
Public Health NSW (Swimming pools and spas)	Administered - Dept: Health and Water Registered in Excel spreadsheet; Cost to Council - no charge. Cost negative, but, administered under SDA.	<ul style="list-style-type: none"> There is no charge for this service and it is provided as a cost negative service, but, administered under the SDA. Building inspector checks new swimming pools for water quality compliance to ensure that conditions of development consents are met, but there are no retrospective inspections of existing pools. The NSW Government plays no role in terms of regulating fencing. Relevant legal requirements are under the NI Planning Act 2002 and there are requirements as to safety fencing. There are an unspecified number of pools on the island which have no safety fencing which would be illegal in NSW and a significant risk to any local Council.
Water Assurance Connections (NI legislation not LGA)	Administered - Dept: Health and Water Registered in Excel spreadsheet; Cost to Council	<ul style="list-style-type: none"> A cost to Council to repair and maintain ageing infrastructure which is labour intensive. Charges are somewhat reflective of costs and repairs and maintenance generate approximately \$500,000 in income per annum but the service is (an unspecified) net cost to Council; As analysed elsewhere in this report, progress towards the real solution can be achieved by: <ul style="list-style-type: none"> Investment in capital works.i.e. the business case for sewerage reticulation as concluded in the Balmoral report at \$17.6 million; and A register of septic tank / onsite sewage management (as would normally be included in the LG Act). As NIRC does not have the legislation in place this cannot be administered, but this would be of benefit as most households and businesses have septic. Those who do not are connect to water assurance, this too should be abolished and the functions of water/sewer in the LGA applied.

Registers specified in the Service Delivery Agreement 2020-21

NIRC Service / Responsibility	NIRC Comments about Responsibility, Administration and Compliance	Commentary, Analysis and Findings based upon feedback from interviews and research.
Auctioneers licence	Dept: Registrar	<ul style="list-style-type: none"> No applications for a licence have been submitted since transition. The Manager Customer Care at NIRC reduced the fees to encourage use of this, but no auctions have been reported since the initiation of NIRC in 2016.
Dangerous Drugs	Office of the Administrator; No NIRC involvement	<ul style="list-style-type: none"> Pharmaceuticals go through a permit process with the Office of the Administrator. Reporting requirements are unclear;
Mediator Registration	Dept: Registrar; Administrated and registers are kept.	<ul style="list-style-type: none"> Operating satisfactorily
Mercantile Law Registration	Registrar; Nothing since transition so no need to Administer at this time.	<ul style="list-style-type: none"> Nothing relevant has occurred since transition so no issues at this time
Poisons and Dangerous Substances	This is a permit process through the Office of the Administrator; No NIRC involvement	<ul style="list-style-type: none"> A permit process through the Office of the Administrator – however. reporting requirements are not clear.
Firearms	Registrar/Registry/Police; NIRC only issue licence. Information in the same database as Drivers Licence	<ul style="list-style-type: none"> This is administered by the Police and NIRC only issues licences. Information is retained in the same database as Drivers Licences



NIRC Service / Responsibility	NIRC Comments about Responsibility, Administration and Compliance	Commentary, Analysis and Findings based upon feedback from interviews and research.
Probates	Administered by Registrar - Registers kept; Process initiated on application	<ul style="list-style-type: none"> Administered and registers kept Delegation by the Minister to the local management should be considered.
Deceased Estate	Administered by the Curator Process initiated on passing away of person whose estate is to be managed; Each estate is managed independently	<ul style="list-style-type: none"> Manager Customer Care (Leanne Webb) is the statutory appointment to manage deceased estates; Each estate is managed independently The curator is supported by a lawyer.
Lunacy	Administered by Master in Lunacy Process initiated by incident; Would be managed case by case no need since transition	<ul style="list-style-type: none"> No issues as no needs apparent since formation of NIRC in 2016;
Support for the Administrative Review Tribunal (ART);	Administered by Clerk and Deputy Clerk of the Court; Process initiated by application to the ART; Registers kept as is court proceeding documents, manual process.	<ul style="list-style-type: none"> Delegation of authority by the Minister to local management should be considered.
Support for Mental Health	Resource: Registry/volunteers; Registry provide support staff as required, but this is not a statutory appointment; Often staff will volunteer out of hours. The statutory appointed persons are related to medical (mainly) and legal. NIHRACs should provide support secretarial staff.	<ul style="list-style-type: none"> Registry provide support staff as required, but this is not a statutory appointment; It is NIRC's view that it should not be involved. Often staff will volunteer out of hours. The statutory appointed persons are related to medical (mainly) and legal. NIHRACs should provide support secretarial staff.
Statutory Appointments	Resource: Records and DITRDC	<ul style="list-style-type: none"> Administered between NIRC Records Dept and DITRDC legislation team; Most appointments are annual with ad hoc appointments due to staff turnover. There are reported time delays when the Minister is required to sign. Appointments at a position level not a person, would allow transition of persons through positions without additional paperwork requirements. NIRC's submission is that more delegated authority is needed for the General Manager to sign so that he has control over the employees. Preferable to increase duration of appointment from 1 to 3 years to reduce administration costs; s47F is the statutory appointment to manage deceased estates; As Statutory appointments currently have to be Ministerial appointments, no-one at NIRC can direct the appointed staff and this causes confusion for staff and "unhelpful attitude" and resistance by staff to carry out Council management directives. This is an issue for the s47F has been for four (4) years);

NIRC Service / Responsibility	NIRC Comments about Responsibility, Administration and Compliance	Commentary, Analysis and Findings based upon feedback from interviews and research.
		<ul style="list-style-type: none"> • Council staff can issue penalty units but cannot issue fines unless endorsed by a Court - an example is illegal dumping of rubbish for which a fine cannot be directly issued. • Consideration should be given to appointments being delegated by the Minister to local management based upon specific criteria; •
Clerk of the Coroners Court	Resource: Clerk; Administered and Register kept.	<ul style="list-style-type: none"> • There are no apparent issues.
Legal Aid Fund	Resources: Office of the Administrator and NIRC	<ul style="list-style-type: none"> • NIRC only pay the accounts and report on the balance of transactions. The application process and administration of this lies with the Office of the Administrator. • NIRC comment is that better communication and a paper trail for audit are needed – that there is a disconnect between departments and that a possible solution is to delegate to the General Manager
Authority for the removal of prisoners	Resource: Registers and process are with the Police; Registry assists with paperwork as required	<ul style="list-style-type: none"> • Delegation of authority by the Minister to local management should be considered.
Debt Recovery	Resource: Administered - Responsibility and process depend on what type of debt is involved;	<ul style="list-style-type: none"> • Delegation of authority by the Minister to local management should be considered.
Clerk and Deputy Clerk (CPS)	Resource: Clerk and Deputy; Manually kept Register; The Chief Magistrate actively involved in determining processes.	<ul style="list-style-type: none"> • Administered and registers are kept by a manual process. The Chief Magistrate is actively involved in determining processes. • This are judicial appointments but some delegation of authority by the Minister to local management should be considered when Council employees are involved.
Motor Vehicle	Resource: Registry/Customer Care; Administered. Electronic system. Customer Care manages day to day processing.	<ul style="list-style-type: none"> • Administered and electronic system is operating; Customer Care manages day to day processing. Registrar (Customer Care staff) involved as required. • NIRC commented that the Registrar is involved as required greater enforcement by the Police of unregistered vehicles is needed and that there are insurance implications. • Legislation is currently under review.
Drivers Licence	Resource: Registry – electronic system to be upgraded in “coming months”;	<ul style="list-style-type: none"> • The electronic system is being upgraded in the coming months to allow NIRC to meet requirements of the SDA and, to allow better tracing and collection of court fines related to traffic infringement notices (TINs). • \$35000 this will be paid for this under the SDA as legislative changes will require this.
Registrar Supreme Court	Resource: Administered by Registrar and Deputy Registrar;	<ul style="list-style-type: none"> • Supreme Court sittings are irregular. • There are issues with jurisdiction and where cases can be heard. NIRC asserts that there is a disconnect between the DITRDC and the Judges and better communication and consultation is

NIRC Service / Responsibility	NIRC Comments about Responsibility, Administration and Compliance	Commentary, Analysis and Findings based upon feedback from interviews and research.
		<p>needed. At present, the Commonwealth Department is proceeding with new legislative changes without consultation with Judges who consider the changes to be inappropriate.</p> <ul style="list-style-type: none"> • • There are too many pieces of legislation which point to Supreme Court when this could be better administered (less costly) under other pieces of legislation i.e. NI does not have a Residential Tenancy Act meaning few rights for tenants and, a need to go to Supreme Court for a case to be heard. It would be better idea is to regulate as with State legislation. • There is no applicable Residential Tenancy legislation and tenants on the island lack rights. Is administered via contracts managed by local Estate Agents, (There are some Privacy Act implications relating to this also). • These are judicial appointments but some delegation of authority by the Minister to local management should be considered when Council staff are involved.
Companies and Auditors Authority	Resource: Registrar; This is transitioning to the Commonwealth Corporations Act in the next 9 months.	<ul style="list-style-type: none"> • NIRC report a limited number of Auditors are registered and that it hard to enforce compliance i.e. currently in court. Registrar can initiate in lower courts, after that submission required to Commonwealth Director of Public Prosecutions. • ** Delegation of authority by the Minister to local management should be considered.
Registrar and Deputy Registrar of Companies	Resource: Registry; Registers kept in Excel. This is transitioning to the Commonwealth Corporations Act within the "next 9 months";	<ul style="list-style-type: none"> • Legislation hard to administer as some processes require approval by the Minister and prosecution by Commonwealth Director of Public Prosecutions. • This is transitioning to the Commonwealth Corporations Act in the next 9 months. See Registrar of Companies in tables below This is transitioning to the Corporations Act (hopefully) by the end of the year.
Registrar Brands and Marks	Resource: Registry; Manual register. Nothing registered since transition	<ul style="list-style-type: none"> • NIRC advise that there would be no enforcement of registration – no capacity to deliver this.
Registrar and Deputy Registrar of Lands	Resource: Registry; 3 land titles systems. Registers managed in accordance with each titling type i.e. old systems, guaranteed etc... Both electronic and manual registers. Hard copy plans and diagrams in addition to electronic also.	<ul style="list-style-type: none"> • 3 land titles systems. Registers managed in accordance with each titling type i.e. old systems, guaranteed etc... Both electronic and manual registers. Hard copy plans and diagrams in addition to electronic also. Surveyors use the Registry office/documents regularly. •
Registrar of associations	Resource: Administered - Registry; Registers kept in Excel;	<ul style="list-style-type: none"> • Compliance regularly initiated (Published in Government Gazettes).
Registrar of births, Deaths and Marriages	Resource: Administered by Registry; Administered - old registers kept manually, newer records are in Excel. These systems are being reviewed in line with the legislation changes being made in the coming months	<ul style="list-style-type: none"> • Application of both NI and Commonwealth legislation. These systems are being reviewed in line with the legislation changes being made in the coming months for implementation 1 Jan.2021.

NIRC Service / Responsibility	NIRC Comments about Responsibility, Administration and Compliance	Commentary, Analysis and Findings based upon feedback from interviews and research.
	for implementation 1 Jan.2021 but it is anticipated that this responsibility will stay with NIRC;	
Liquor Licensing	Resource: Administered by Registry; Registers in Excel;	<ul style="list-style-type: none"> • Good systems and processes in place. • Compliance generally initiated by Police.
Workers Compensation	Resource: Administered by Registry;	<ul style="list-style-type: none"> • Currently provided by NIRC, but, transitioning 1 Jan 2021 to a new provider who will report directly to the Commonwealth.
Record Keeping and Archiving	Resource: Administered by Registry;	<ul style="list-style-type: none"> • NIRC currently does not destroy any records – there are between 5 and 8 storage areas – none with appropriate air-conditioning or moisture control. This means more rapid deterioration of records than should be prevented. There is the potential for valuable records – including some artworks – to deteriorate and be lost. • There are no retention schedules in place. NIRC is working with National Archives (NAA) to develop a retention schedule but there is a lack of resources from both ends. Need better facilities to maintain the life of records and a digitisation plan. It is the view of NIRC that the DITRDC NI team are overly involved and have removed appropriate funding proposals from the budget each year. • Purpose built facilities could be provided for about \$30,000 (or less). • NIRC and NAA should be able to coordinate to deliver solutions; • It is NIRC's view that DITRDC should support, not interfere and enable NIRC and NAA to resolve this. • It is understood that KAVHA General Manager is supportive of upgrading records storage and archiving for certain historical documents.
Port Management	Resource: Registry; Managed by NIRC, no statutory appointed officers.	<ul style="list-style-type: none"> • The ports are managed by NIRC, but there are no statutory appointed officers. There are significant bio-security and compliance issues to be addressed by April 2021 and these are discussed elsewhere in this report.

Note: highlighted in yellow are items where Leanne Webb, Manager Customer Care is the appointed statutory officer – and it is her comment that this makes it easier to redesign systems and processes and administer functions, improve customer service



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