

Norfolk Island Regional Council

Request to assess alternative arrangements for the Telecommunications Business Enterprise

27 April 2021

COMMERCIAL-IN-CONFIDENCE

1 Background

The Norfolk Island Regional Council (NIRC) Independent Governance and Financial Audit, For Commonwealth Department of Infrastructure, Transport, Regional Development and Communications (the Audit Report) dated 15 November 2020 took a holistic auditing approach. It looked at the environment in which NIRC operates, the way it interacts with its community and the Commonwealth Government, and the essential role the Commonwealth plays in the Island's present and future sustainability.

The Audit Report included a SWOT analysis, identifying strengths, weaknesses, opportunities, and threats, as well as providing Recommendations (using a Very High, High, Medium, and Low priority classification) across the following four categories:

- Governance Frameworks
- Strategic Planning and Regulatory Framework
- Financial Sustainability
- Systems Capability

The Audit Report identified several high priority recommendations about the Telecommunications Business Enterprise (TBE).

Telecommunications Business Enterprise

NIRC provides carrier-grade telecommunications services (including Telecom, Internet, and Mobile) to the Norfolk Island community via Norfolk Telecom, under the *Norfolk Island Telecommunications Act 1992*.

The Island has historically only had access to a 2G mobile network, with poor internet reliability given the inadequacies of infrastructure to meet consumer needs and modern-day service standards. A 3G/4G network was introduced in late 2020 to enhance service provision by including fast broadband mobile data. The recent capital investment in the 3G/4G network was only made possible by the provision of \$3.45million in Commonwealth grant funding under the *Building Better Regions Fund - Infrastructure Projects Stream Round 2*, with NIRC's contribution likely to be in the order of \$1.85million.

The Telecom utility has recorded mixed operating performance in recent years, with a loss in 2018/19 and positive contributions in the subsequent two years.

2 Purpose

This request is to receive Council endorsement to engage assistance in NIRC assessing alternative arrangements associated with the TBE.

3 Audit Report analysis and recommendations for the TBE

The Report's SWOT analysis identified the following in the context of the TBE:

Weaknesses (internal)

- Lack of project management and technical capability and capacity to undertake traditional and non-traditional local government functions.

Threats (external)

- Lack of access to a reliable telecommunications network.
- A complex legislative framework, including a mix of legacy Norfolk Island legislation and the NSW Local Government Act modified for Norfolk Island.

The following Recommendations relate to the Financial Sustainability of the TBE:

Section Reference	Recommendation	Priority
Recent Financial Performance	39. That NIRC and the Commonwealth consider the appropriateness of the infrastructure and service responsibilities of NIRC and make necessary adjustments to enhance its financial sustainability moving forward, with reference given to the outcomes of this Audit.	High
Long Term Financial Forecasts	42. 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.	High
Revenue Raising Ability and Sustainability	50. That the Commonwealth consider the transfer of responsibility for the infrastructure-based, non-traditional business enterprises out of NIRC given the significant financial sustainability risks placed on NIRC from their ongoing operation.	High
Business Enterprise and Utilities	58. That NIRC and the Commonwealth consider alternative arrangements for the electricity, telecom, and sewerage utilities, which may involve one or more of the following: <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 where the assets are not owned or funded in any way by NIRC. Governance of the utilities arm could be via a Board arrangement with representatives from both NIRC and the Commonwealth in addition to potential representation by industry experts (subject to a cost-benefit assessment given the limited scale and scope of operations on the Island). Commonwealth funding would be required to cover capital funding requirements and operational shortfalls on an ongoing basis to ensure affordability. • Transfer of responsibilities for electricity and/or sewerage to a State partner or similar, with the Commonwealth responsible for funding any operational shortfall on an ongoing basis to ensure service affordability and service charges comparable to other Australian jurisdictions. Divestment of the telecom function to Telstra, with the Commonwealth ensuring appropriate service provision at an affordable price under a universal service obligation arrangement.	High

Business Enterprise and Utilities	59. That the introduction of any alternative arrangements maximises the employment of local workers where possible rather than utilising external outsourcing.	High
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4 Request for Council endorsement

The General Manager is seeking Council endorsement to engage consulting firm GWI Pty Ltd to complete the below scope of work across three phases to enable NIRC assessing alternative arrangements for the TBE.

Scope of work

Phase 1 – Current State discovery	
Area/ Activity	Details
TBE current state	<p>Develop an overview of the TBE to understand the following:</p> <ul style="list-style-type: none"> Physical telecommunications infrastructure, and its state e.g., the capability, lifecycle/ supportability, performance, capacity, and utilisation of assets. Current and forward maintenance program of work. Customer revenue, products, pricing, and volumetrics. Comparison or benchmark pricing for similar services in the Australian domestic market. Resources by business unit or function. ICT systems for all functions e.g., infrastructure database/maps, activation, assurance, billing, and operational management. Third-party contracts. <i>Building Better Regions</i> obligations or commitments. Demand register of government agencies, businesses and consumers using alternative Telecommunications services on Norfolk Island.
Legislative environment	<p>The Norfolk Telecommunications Act will be transitioned to the Federal Government Telecommunications Act.</p> <ul style="list-style-type: none"> Outline the timings, steps, and implications for the TBE, NIRC, and Norfolk Island businesses and community.
NIRC consultation	<p>Consult with Council to understand if there are telecommunication infrastructure and services that are of value to Council; for example, providing telecommunications services for their own use or providing Wi-Fi services for visitors.</p>
Review Point	<p>Post completion of the above three activities, review the following propositions:</p> <ul style="list-style-type: none"> What is my TBE asset and what is required to operate it? What are the implications to the TBE caused by the transition to the Federal Government Telecommunications Act? What does NIRC value in the TBE – i.e., if possible, what would it mean to retain or have access to it? Can alternative arrangements be considered?
Cost: \$85,000 ex GST	

Phase 2 – Future state analysis and recommendation	
Area/ Activity	Details
Future state requirements	<ul style="list-style-type: none"> Undertake community and business consultation to identify and gather their requirements for telecommunications services in the future.

Options analysis and recommendation	<ul style="list-style-type: none"> • Complete an alternative arrangement options analysis leveraging work from Phase 1 and the community and business consultation. • Recommend a preferred alternative arrangement or arrangements. • Seek Council endorsement.
Cost: TBD	

Phase 3 – Implementation and transition

Area/ Activity	Details
Implementation and realisation	<p>Progress the implementation of the preferred alternative arrangement. Depending on the nature of the alternative arrangements, this may include:</p> <ul style="list-style-type: none"> • Business Case and Benefits Realisation documentation • Project establishment and initiation services • Governance and Assurance services • Project delivery services
Cost: TBD	