

NORFOLK ISLAND REGIONAL COUNCIL

PUBLIC SUBMISSIONS

on the

Operational Plan Budget

Robin Adams
MAYOR

Lotta Jackson
GENERAL MANAGER.

**Submission to the Norfolk Island Regional Council on the Norfolk Island Community Strategic Plan
2016 - 2026
Our Plan for the Future
and the FINANCIAL BUDGET 2016 -2017
and the PROPOSED RATING MODEL.**

In responding to requests for submissions on the Community Strategic Plan and Financial Reports - Budgets by Groups and the Proposed Rating Model the following submissions are made.

Attention is drawn to page 4: Message from the Mayor and the General Manager, paragraph 6:
"The underlying principles of everything in the plan are based on the Principles of Social Justice:
Equity - Rights - Access - Participation;
and

more importantly to the statement made in paragraph 7 of the message;

"Lastly, Leadership and Governance must be transparent, responsible and based on solid decision making and accountability. It must ensure financial sustainability and sound asset management - all of which will be required for the success of the Norfolk Island Regional Council and the implementation of this plan."

The Community Plan 2016 - 2026 itself is flawed from the beginning as has no substance or understandable explanation on how it will achieve any projected of thirteen objectives. Key factors behind any strategic plan must be the key outcomes and all the key outcomes must have demonstrated achievable and actionable foundations.

The "one liners" as used in the **"How we will get there"** are totally inadequate and this Community expects and deserves better.

In addition to this the Plan does not address the community's desire for a more inclusive process in the determination of Norfolk Island's governance model as shown in the 15 May 2015 referendum outcome.

To further demonstrate irregularities of the plan;

4.1 paragraph 2 - Whilst the Norfolk Island Regional Council has a custodial role in initiating, preparing and maintaining the plan on behalf of its community, it is not solely responsible for its implementation as other partners, such as the Australian Government and community groups will also be engaged and responsible in delivering the long term objectives of the plan.

For the community to fully determine all aspects and effects of the plan for the next ten years where are the published strategic plans from the Australian Government (representing the responsibilities of State agencies), community groups (who are they)?

If the Council's Vision on page 7 and the link at the bottom of the page is the answer then the Council needs to seriously reconsider and supply a far more informative explanation as there are many in the community without access to the internet.

The Norfolk Island Regional Council and their current management team should explain to the community what input and data they used when drafting of the plan since being elected.

Due to the changes that are being implemented this community deserves and expects a far more in-depth informative explanation from all participating agencies and groups before being able to consider and comprehend the effects on the Norfolk Island community.

Norfolk Island Culture and Heritage.

Previous Federal Government Ministers have assured the Norfolk Island people the their culture and heritage would be protected.

The reference at 5. **Norfolk Island Today** paragraph 3 and Objective 3 Cultural expression is maintained and built heritage protected, **is paying lip service only** and members of the Regional Council needs to be, and indeed expected to be far more responsible and responsive on this very sensitive matter.

FINACIAL REPORTS : BUDGET BY GROUPS.

Once again a report lacking in any explanation or detail is being laid before the community and the Norfolk Island Regional Council and it is expected that they accept it and endorse it.

If the figures as presented are correct and the Council for the year ended at 30 June 2017 will have a deficit of \$4,276,000 and with the community yet to see what strategies other agencies and groups are to apply; then the Norfolk Island Regional Council has an immediate responsibility to study the performance of the management team and any proposals tabled for consideration.

PROPOSED RATING MODEL.

This proposed rating model also is lacking in explanation and detail.

Is the rating model taking into consideration the Norfolk island Plan for subdivisions etc?

What services will be supplied by the Norfolk Island Regional Council to all the rate payers?

The model indicates **-Levy per owner** - that indicates that properties with multiple owners will each be responsible for the rating.- double dipping?

Farmland - what constitutes a farmland - one portion -what size? because the proposed model indicates that there are 863 farms on the island being used by 403 farmers. Where are the details?

The Norfolk Island Regional Council has a responsibility to the community of Norfolk Island to explain fully all its actions, it cannot hide behind Federal or NSW Laws, as quoted in the message **Leadership and Governance must be transparent, responsible and based on solid decision making and accountability.**

Finally your attention is drawn to 2.3 Values as stated that were developed in a work-shop with the Councillors.

Integrity	- this is assumed by the voters.
Communication	- this is a two-way requirement.
Accountability	- price of the salary.
Respect	- must be earned.
Excellence	- what the community pays for.


Resident
Norfolk Island.

[REDACTED]
[REDACTED],
Norfolk Island
2899
18 August 2016

General Manager
Norfolk Island Regional Council

Submission re- the Norfolk Island Regional Council Financial Report/Budget 2016/17

With regard to the above, I believe that the anticipated revenues are overly optimistic given the current state of the Norfolk economy.

For example, the liquor bond is expected to gross \$4.44 million this financial year, when last year's gross was only \$3.90 million.

On the expenditure side, no staff and no budget have been allowed for the functions of Forestry and Noxious weeds, and only \$12,000 for "Reserves and conservation". How will this meagre allocation of funds achieve Objective 2 (Preserve a healthy environment) of the Norfolk Island Strategic Plan, in particular items 2.3, 2.4 and 2.6?

Finally this budget with its estimated \$4.276 million deficit is an insult to the Norfolk Island community, when Commonwealth Ministers and senior public servants promised that their reforms would result in "economic sustainability" for the island.

Yours sincerely,

[REDACTED]

cc. Mayor Robin Adams

1. Executive Summary

- 1.1 Despite tourism being the most significant industry and employer in Norfolk Island, the budget required to promote tourism to Norfolk Island has been reduced from the already rock-bottom 2015-6 budget by over \$200,000 to just \$1.1 mil, of which just \$901,000 is budgeted for operations. (0.1 mil)
- 1.2 The number of visitors of 26,602 to Norfolk Island for the year ending 30 June 2016 was slightly lower than the previous year, with a sharp fall of 11% in June 2016. With the inadequate 2015-6 tourism budget, it has proven impossible to grow the visitor numbers. (1.1)
- 1.3 With a further proposed reduction of over \$200,000, there will be insufficient funds to support the actions required to maintain the current economic conditions and certainly inadequate to stimulate the economy.
- 1.4 The proposed tourism budget is inadequate to deliver the required destination campaigns, provide seed funding for new events during the low periods, provide funding for Air New Zealand sales campaigns, provide funding for cooperative tactical advertising, support representative organizations (e.g. Unique Travel Collection) on the mainland, etc.
- 1.5 The required tourism budget needs to be at least \$2.6 mil per annum to stimulate the tourism sector and economy in a meaningful way.
- 1.6 There are no published explanations, assumptions or context to the proposed financial budget. It is too high level to provide a more meaningful, detailed assessment.
- 1.7 For instance, the tourism budget shows zero in the Income column. Without further detail, it is impossible to determine if this is an omission or there is an underlying assumption that no income will be generated through the Bookeasy system with the sale of accommodation or tours, and no sale of retail items through the Visitor Information Centre (VIC).
- 1.8 It is unclear if the Tourism Strategic Plan is the framework for the proposed tourism budget. Previously the detailed tourism budget was shared with representatives of industry such as the ATA and Chamber of Commerce. This enabled industry to provide advice and assistance with shaping the tourism budget. This is no longer the case, yet industry have been invited to provide a submission without having any detail of the plans to address tourism promotion.
- 1.9 The proposed budget for Economic Development of just \$62,000 appears to be woefully inadequate, if economic diversification and growth is to be part of the council's objectives as stated in Objective 6.1 of the draft Norfolk Island Community Strategic Plan. There are no details how this budget item will be used.
- 1.10 The [redacted] supports clearer delineation of responsibilities for tourism marketing between the Norfolk Island Regional Council and the Federal Government (acting in the capacity of a state Government), so that the council's funding needs are more accurately assessed.

This would lead to a more informed budget. The Regional Council needs to formally request that the Federal Government honor its commitment to fund tourism promotion, which is a state-type function and therefore a Federal responsibility.

- 1.11 The role of Destination NSW, and any planned Federal funding to Destination NSW, is unknown. This will have an impact of the Norfolk Island Regional Council tourism budget.
- 1.12 It is unclear how the revenue to support a \$1.1 million tourism budget will be raised, or how the total budgeted of \$4.276 mil deficit will be covered.
- 1.13 The cash flow statement indicates \$17.189 mil for user charges and fees. It would be helpful to review some specifics.
- 1.14 Federal Government grant funding, rather than revenue raised through council property rates on a specific industry, is pivotal in assisting with enhancing the standard and mix of tourism product, and for destination and tactical marketing.
- 1.15 The [REDACTED] is opposed to special variations to council rates to support local tourism initiatives because such variations are a virtual tax on tourism. The ATA opposes any charges that disproportionately and negatively impacts the vital accommodation and tourism industry.
- 1.16 The current government structure of a council with a small revenue base is not aligned with the needs of the community. A budget which meets the needs of the Norfolk Island community will never be balanced without significant ongoing funding from the Federal Government, which is not assured.

2. Proposed Budget for Tourism

Excerpt from the proposed Regional Council Budget

3. Background

- 3.1 On 20 July 2016, the Regional Council released a spreadsheet representing a proposed financial budget for 2016-7, and invited submissions from interested persons or bodies.
- 3.2 There are no published explanations, assumptions or context to the proposed financial budget, which is more than \$200,000 less than the previous year's budget.

4. Introduction

- 4.1 On behalf of the [REDACTED] the [REDACTED] [REDACTED] welcomes the opportunity to provide a submission on the proposed Norfolk Island Regional Council Financial Budget.
- 4.2 This submission deals specifically with the proposed council financial budget (titled attachment 10) which was published on 20 July for exhibition and comment.
- 4.3 There is no published Regional Council Implementation plan or framework for 2016-7, or Federal Commitment to Funding.
- 4.4 The proposed budget indicates a 2016-7 deficit of \$4.276 million, with the airport management deficit of \$1.589 mil, and liquor bond excess of \$1.326 mil.
- 4.5 With its small rate base, the Regional Council is considered to be insolvent. The Regional Council has requested that the Federal Government discharge the \$11.4 mil loan for the previous airport runway upgrade loan with effect from 1 September 2016.
- 4.6 The [REDACTED] welcomes the opportunity for more formal collaboration between the Regional Council and industry in developing government policy and strategy, as government decisions directly impact the industry.

5. About the [REDACTED]

- 5.1 The [REDACTED] is the peak industry body for the Norfolk Island accommodation and tourism industry.
- 5.2 [REDACTED] include large hotels, self-contained apartments, and single-unit licensed accommodation properties, as well as other tourism operators.
- 5.3 The [REDACTED] membership base represents approximately 44 businesses.
- 5.4 The [REDACTED] has the support of the Accommodation Association of Australia through a Memorandum of Understanding.

6. The Tourism Industry – the primary Industry on Norfolk Island

6.1 Tourism is the dominant industry on Norfolk Island, employing approximately half the adult population, as well as indirectly supporting many others. It is imperative that the budget adequately addresses the needs of the tourism industry. A proposed tourism budget of just \$1.1 million is woefully inadequate. It needs to be at least double this to provide a meaningful economic stimulus.

6.2 The tourism sector currently faces a number of really important challenges. Just from a marketing perspective, the following are some of the identified challenges:

- Overall awareness of Norfolk Island destination and offerings.
- Trade perception positioning the destination for older markets.
- Major Travel Agent distribution limited to five main partners.
- Larger retailers are motivated by high volume, price driven destinations.
- Consistency on island across accommodation properties, shops, services, activities, restaurants.
- Competitive destinations and cruise product.
- Ability to get 'off sale' product into market.
- Limited budgets, particularly for destination advertising.
- Uncertainty around funding for future destination advertising.
- Uncertainty around future airline services, and barriers to entry for new operators.
- Negative media in last 12 months.
- Political Uncertainty.
- Changes to how customers consume media and make travel decisions - Social / Online.
- Connections for distribution channels to commissionable Island niche product.
- Australian consumer confidence.

7. Role of Local Government in Tourism

7.1 The Regional Council should enable a vibrant private sector to flourish and grow, thereby raising the living standards of the community. The Regional Council needs to recognize the unique role that the tourism sector plays in the economy.

7.2 In terms of NSW Local Government legislation, the General Manager of the Regional Council has stated that tourism is not considered a core function of a council.

7.3 Prior to 1 July 2016, the importance of tourism to Norfolk Island was clearly understood and addressed. Tourism promotion was government funded through a separate statutory authority, a government tourist bureau, with a Government Tourism Minister having accountability. The budget of this bureau was protected and dedicated to tourism, so funds could not be

transferred into a general fund for other government needs. This instilled a measure of confidence in the industry and investors.

7.4 The funds allocated to tourism in the proposed budget to tourism should be protected in some way.

7.5 The Regional Council needs to make tourism promotion a core responsibility.

7.6 Tourism Promotion is a state-type of function, and as such, should be funded by the Federal Government. This was recommended by the Norfolk Island Advisory Council to the Federal Government.

7.7 The Regional Council needs to make a serious and urgent effort to obtain commitment as soon as possible from the Federal Government for future multi-year tourism promotion funding at a level which will stimulate the economy.

7.8 The role of Destination NSW, and any planned Federal funding to Destination NSW, is unknown. This will have an impact of the Norfolk Island Regional Council tourism budget.

8. Sewerage Fund

8.1 The Sewerage Fund is budgeted to have an excess of \$123,000.

8.2 Revenue raised for sewerage should form part of the ordinary council rates.

8.3 The sewerage charges levied on the Accommodation Sector is based on the number of registered units.

8.4 The Accommodation has an occupancy rate of just 33%. It is inherently unfair to base a tax solely on the number of registered accommodation units, of which more than 66% will be vacant.

8.5 The accommodation industry is prepared to contribute to sewerage funding on an equal basis to other economic sectors through council rates, but any move to compel accommodation businesses to pay even more to the regional council is rejected.

9. Responsibility for Tourism Marketing

- 9.1 The accommodation industry supports clearer delineation of responsibilities for tourism marketing and visitor experience between the Norfolk Island Regional Council and the Federal Government (acting in the capacity of a State Government), so that the council's funding needs are more accurately assessed. This would lead to a more informed financial budget. The Regional Council needs to formally request that the **Federal Government honor its commitment to fund tourism promotion**, which is a state-type function and therefore a Federal responsibility.
- 9.2 Funding for the regional council to play this role should only be derived from the Federal Government or existing revenue sources, such as council rates. With Norfolk Island's tiny rate base, it is virtually impossible to fund this from local revenue sources. It is incumbent upon the Regional Council to make it a priority to request the Federal Government honors its obligations to **fund tourism promotion at adequate levels, at around \$2.6 million per annum.**
- 9.3 The **tourism budget shows zero in the Income column.** Without further detail, it is impossible to determine if this is an omission or there is an underlying assumption that **no income will be generated through the Bookeasy system with the sale of accommodation or tours, and no sale of retail items through the Visitor Information Centre (VIC).**
- 9.4 The ATA Association is opposed to additional council rates, levies, fees, or taxes being imposed by the regional council on accommodation businesses for the purpose of tourism marketing. This is because there is every chance that only a very small portion of funds would end up going directly to tourism marketing, and because funding for **tourism marketing is primarily a state function.** According to the governance model imposed in 2015 by the Federal Government on the Norfolk Island territory, the Federal Government assumes responsibility for all state functions, including tourism funding.

10. Government Funding of Tourism

- 10.1 There are a number of government grant programs which directly benefit the tourism industry. These grant programs may help to contribute to the budget.
- 10.2 These include the Federal Tourism Demand Driver Infrastructure Program (TDDI) grants and the Export Market Development Grant (EMDG).
- 10.3 Besides just budgeting for capital items such council offices, lighter replacement and electricity meters, the Regional Council should be applying for grants and funding for projects that would stimulate and diversify the economy, such as a Conference and Multi-Purpose Facility, 4G Network and Fiber Optic connectivity.
- 10.4 Given the tougher business environment in Norfolk Island, such funding is pivotal in assisting with lifting the standard of the tourism product and industry.
- 10.5 In general, government grant funding for tourism provides tangible returns for both government and the industry alike.

11. Conclusion

The Association looks forward to further engagement with the regional council in relation to the issues which have been raised in this submission.

Date: 15 August 2016

Name: [REDACTED]

Date: 26th July 2016

Submission on Draft Norfolk Island Regional Council Budget

I make the following submission in the full knowledge that Norfolk Island is undergoing a complex transition to new governance arrangements; and that most if not all of the NIRC staff are still finding their feet.

In making this submission I advise that I am not an accountant and I acknowledge my own limited knowledge of the internal workings of the new arrangements.

My general impression of the budget is that there is insufficient information for the Community to provide meaningful feedback on most income and expenditure line items. And, whilst it will be enlightening to get more information it is already abundantly clear that this budget, in an income versus expenditure context, is a humbling recognition that the NIRC can never be financially sustainable.

It is my view that the unsustainable financial position confirmed through this budget has not been the making of any one person (including the new General Manager (GM) or the new Councillors under whose name this budget was published for public comment) but is more the result of a poorly considered transition to new governance arrangements.

I submit that should this budget ever be agreed by Council and the GM then the financial train wreck that certainly will follow will be of the Council's and the GM's making in the eyes of the community.

I further submit, that in light of the unbridgeable gap between income and expenditure that **the Councillors, supported by the GM, reject this budget outright and request an immediate meeting with the new Federal Minister with a view to arriving at a subsidiary funding arrangement where financial sustainability for the NIRC can be achieved over time.**

Comments page 1 and 2 - Budget by Group

Office of GM and NIRC: When hiring management staff was there ever any consideration given to whether the community could afford to fund the remuneration of staff? Can an explanation be provided why most of the employee costs for NIRC management staff appear to be recorded as 'operational costs'?

Services GM: More information would need to be supplied to allow for the community to provide meaningful input on this line item.

Commercial: More information needs to be supplied to allow for the community to provide meaningful input on this line item.

Electricity: Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed?

Telecom: Confirmation that a comprehensive review into NI Telecom's capacity to continue as a going concern has been completed in light of the potentially catastrophic effect to NI Telecoms income caused by the extension of NBN to Norfolk Island. Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed?

Retail Operations: More information needs to be supplied to allow for the community to provide meaningful input on this line item.

Supply of Rock: Given that current infrastructure projects will exhaust all remaining high quality rock supplies (this year) where in the budget are there monies allocated for creating a future rock quarry for Norfolk Island? Without an urgent solution for accessing a new reliable supply of rock the NI economy, the NIRC's budget and its public infrastructure are at serious risk. This includes an obligation to resurface the airport runway in a few years' time for which we do not currently have a sufficient rock supply.

Tanalith: Given that traditionally the Tanalith plant has not made a profit the profit numbers recorded in the budget look doubtful. This point is simply cautionary. Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed?

Liquor Bond: Assurance to the community is required that this significant revenue source will not evaporate when the capacity of the NIRC to remain as 'sole importer' of alcohol is inevitably challenged? Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed?

Fire Control: Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed?

Contracted Services: More information would need to be supplied to allow for the community to provide meaningful input on this line item.

WHS: More information would need to be supplied to allow for the community to provide meaningful input on this line item.

Lighterage: Given that traditionally Lighterage has not made a profit these numbers look doubtful. Confirmation is required that the employment arrangements and conditions for all staff have been finalized and factored into the figures provided? The community needs to be provided with an amended schedule of rates for Lighterage services? Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed.

Airport Management: As this is the only place the Airport is mentioned in the budget confirmation is required that the figures provided include an allocation for all costs associated with the Airport including Emergency management; Aviation Rescue and Firefighting; and Operations and maintenance? Confirmation is required that the monies identified for depreciation have been quarantined and will be

available when they are needed. Confirmation is also required that a funding source for the circa \$15 million has been identified for the next runway overlay.

Development Control: More information would need to be supplied to allow for the community to provide meaningful input on this line item.

Manager Local Services: What does this person do? More information would need to be supplied to allow for the community to provide meaningful input on this line item

Waste & Environment and Waste Management Operations: The fact that there are two lines items with the 'waste' descriptor creates confusion. A breakdown on both line items needs to be provided. Given the current state of the waste management infrastructure; and the obvious need to improve the management of the Islands waste stream (at a significant cost premium to the 2016/2017 budgeted expenditure) forward estimates of the cost of continuing to provide this service to the community needs to be provided. Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed.

Heritage Management: More information would need to be supplied to allow for the community to provide meaningful input on this line item.

KAHVA: What NIRC assets are being depreciated in KAVHA?

Community Buildings: Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed. In any event \$5,000 for depreciation on these buildings appears to be grossly inadequate.

Commercial Property: Who now owns the DCA circle buildings and property; and who owns ANZCAN, etc.? If it is the NIRC would it not be appropriate that they be recorded as commercial property and a cost for maintaining those properties be included in the accounts?

Roads sealed: Where is the roads unit getting \$120,000 income? Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed. Noting the depreciation rates other councils use for roads it would appear that the \$55,000 for depreciation on our roads is demonstrably inadequate.

Fire Service Management: Why no budget? Does the NIRC or NI Community not require Fire Service Management service?

Comments page 3 - Income Statement for the year ended 30 June 2017

Expenses from continuing operations: The figure recorded under the descriptor 'Materials and contracts' is recorded throughout the budget in various ways - as operating costs \$13,351,000; as 'Materials and contracts \$11,932,000'; and as 'Materials and Contracts \$9,582,000'. Whilst the author of the budget may

understand the underlying reason for quoting different figures and giving different descriptors it is not immediately obvious to members of the community who have been invited to make a submission. More clarity on these numbers needs to be provided.

Depreciation and amortization \$5,826,000: Confirmation is required that the monies identified for depreciation have been quarantined and will be available when they are needed.

Borrowing cost payments: What is this figure and where is it reflected in the 'Budget by Group' information?

Other expenses: What is this and where is it reflected in the 'Budget by Group' information?

Total Expenses from continuing operations: 26,081 Net Operating Result from continuing operations (4,276) Net operating result for the year (4,276): On the page titled Statement of cash flows for the year ended 30 June 2017 there is a gross figure of \$5,065,000 for Purchase of property, plant and equipment - renewal and new. This figure is not reflected in the budget. Confirmation is required that the 2016/2017 budget bottom line should have been recorded as $-\$4,276,000$ plus $-\$5,065,000 = -\$9,341,000$.

Comments page 4 Statement of comprehensive income for the year ended 30 June 2017

No comment

Comments page 5 Statement of financial position for the year ended 30 June 2017

Current Assets: What are the investments of \$3,280,000?

Infrastructure, property, plant and equipment Investment property: A breakdown of this figure needs to be provided. What is the asset value of the Roads for depreciation purposes?

Comments on page 6 Statement of changes in equity for the year ended 30 June 2017

No comments

Comments on page 7 Statement of cash flows for the year ended 30 June 2017

Net cash provided (or used in) operating activities: There is a figure quoted of \$3,900,000 yet we know that the deficit is \$4,276,000. As discussed the difference is mainly reflected in the figures provided under the category Materials and Contracts. I am sure the accounting discrepancy is easily explained however the question remains - does the money budgeted to be spent for 'Materials and Contracts' need to be spent or does it not? If it does the consequent loss in the cash position needs to be recorded.

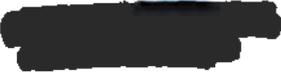
Cash and cash equivalents at the end of the reporting period: You will note that nowhere in the cash flow statement have monies identified for depreciation been quarantined for that purpose.

Comments on page 8 Capital Budget for the year ended 30 June 2017

No comment.

General comments

1. Given that the Commonwealth Government will have surely accounted for depreciation on the Islands assets last financial year an explanation is required to identify where the depreciation fund from FY 2015/2016 is physically located and where it is recorded in this budget paper?
2. It is my view that the current low wages and rates of pay to (some) Council staff is unsustainable. An estimation of staff wages for the FY 2017/2018 after funding of their full entitlements according to the Fair Work Act and Superannuation Guarantee Act needs to be provided.
3. The Commonwealth has a legal obligation to provide the NRC with just compensation for any assets compulsorily acquired by the Commonwealth. Where in the statement on the financial position is the compensation paid to the NRC for the Hospital and School and other assets compulsorily acquired by the Commonwealth?
4. Where in this budget is the income from outstanding GST receipts recorded? If they are not, why not – If they are, is this not going to create another obvious revenue gap for next year?
5. I note NSW Councils are required to follow the relevant clauses 201,202,203 for “Budgeting by Councils” under the Local Government General Regulations 2005. Will these provisions also apply to Budgets created for Norfolk Island?
6. Can the community be provided with assurances that the NIRC will not be encumbered with any Cost overruns from the works at Cascade pier?
7. Can the community be assured that Council Business Enterprises are not required to pay taxes at the same rate as a private sector business? If they are indeed required to pay those taxes have they been factored in to the budget?
8. Can confirmation be provided that the Cwlth will be charged rates for services provided – or whether it is it up to the Norfolk Island Community to fund their waste disposal etc.?


Norfolk Island


OPERATIONAL PLAN BUDGET 2016/17 SUBMISSION.

I would like to make a submission on the Operational Plan Budget 2016/17 that has been placed on Public Display for comment by the Norfolk Island Regional Council.

Firstly the Attachment 10 to the Financial Report (budget by group) provides very little detail as to the /income expenditure of the monies. Items of interest and which could be explained more fully are (just to name a few):

Community Buildings expenditure of \$331,000

Customer Care expenditure of \$395,000

Employment Services – SDA expenditure of \$736,000

What are these expenditures for and how can a person comment fully on the paper when all detail is not provided?

The initial projection of a net operating deficit of \$4.276m is an immediate issue of concern until realizing that \$5.8m of this actual deficit is made up of Depreciation, which in normal circumstances is not related to a cash position. If all Australian States were to attempt to pass a budget with Depreciation included, all States would be operating deficit budgets each year. Of immediate concern are the Major revenue sources when compared to previous year's figures contained in the Administrations Annual Budget Reports 2015/16, and in particular in the area of Liquor Bond Revenue an increase of \$800,000 over the previous year. Electricity revenue appears to be reduced by \$800,000, together with Norfolk Telecom by \$900,000 and the Airport revenue by \$132,000. There may well be an explanation for these but without a comparison contained within the Operational Plan Budget 2016/17, a person can only surmise on the information available.

The Major area of expenditure that appears to be of concern is that of Salaries and Wages of \$6.9m, esp. when considering that based on the previous Government budget the annual Salaries and Wages were some \$14.6m. This year a lot of areas have been removed due to the Commonwealth resuming their responsibilities and Service Delivery Contracts in place for Education and Health, which based on these services no longer being delivered by Norfolk Island, appears to be approx a saving of \$8.7m, with this removed from the previous year's salaries and wages it appears that approx \$1m more is being expended on salaries and wages for the new Norfolk Island Council operation than it would have in previous years, is this due to increased number of Managers on Australian standard salaries?

I note the comment by the Manager, Group Manager Services, Mr. Bruce Taylor that this "Operational Plan Budget 2016/17 is a first step towards the goal of financial sustainability"..... and "every attempt will be made to make savings and apply for grants to reduce the deficit". If attaining financial sustainability requires grant funding and further savings to budget areas then the whole basis of the reforms being undertaken by the Commonwealth to place Norfolk Island into a sustainable position is flawed.

Other comments by the Group Manager Services appear unrealistic and addressed below:

It is proposed that the "Council will need to encourage more operations to fly to Norfolk Island" in an attempt to addressing the Airport deficit. As is common knowledge the Commonwealth has a SDA with Air New Zealand and in the past the Commonwealth required that the Norfolk Island Government not encourage additional air services to Norfolk Island in competition with ANZ. This may have changed by would seem an unlikely way of reducing the deficit. The Airport should be the responsibility of the Federal Government and run by Air Services Australia as is the practice in Australia.

Also, it is common knowledge that the electricity undertaking does not cover its own costs and this is in the main attributed to the provision of installations of PV's around the Island without proper equipment to recover the excess energy produced by these PV's (battery storage) instead of dumping excess's, plus the inability (so far) to introduce a fee for reticulation to premises with PV's installed. A lot of work was completed by the Administration and the previous NI Government through the Electricity Working Group (EWG) to produce a method of fees for electricity and until these are implemented the electricity undertaking will continue to produce a loss. As the EWG stated in one of their focus group papers the Federal Government subsidises King Island with an electricity rebate, the Federal Government also subsidises electricity costs on Christmas and Cocos Islands. I also note that on the website for the previous Advisory Council they had the Lord Howe Island Act displayed which obviously was an attempt to have input from the LHI Act into the way that Norfolk Island has been reorganized. The NSW Government assist Lord Howe Island with an electricity grant equivalent to the fuel cost required to run their generators, approx. \$1m per year. These avenues need to be addressed with the Federal Government by the NI Regional Council as soon as possible to see if Norfolk Island can access a similar arrangement.

The waste management centre will not be able to stop dumping into the sea until the proper processes for waste streams are implemented in the WMC, these being the implementation of an incinerator as an immediate issue, plus the implementation of the full export of recyclables. Cardboard/paper compaction and export (which would reduce the waste stream by over 40%) plus improved export methods for the other various streams.

The Group Manager Services also makes comment on the Financial Assistance Grants based on the Horizontal Fiscal Equalisation formula made by the Commonwealth Grants Commission. I believe that the Grants Commission in the quoted paragraph was in relation to GST Revenue Sharing Relativities, of which Norfolk Island is not part of at this time.

This is the main reason as to why the new proposed financial relationship with the Federal Government to make the new Norfolk Island Council sustainable will NOT work, as the Federal Government has cherry picked out only part of the financial framework of which all States and Territories work in to fund their financial responsibilities with Federal assistance. The Federal Budget Papers inform all on the effects of horizontal fiscal equalization and the distribution of the GST between States. This is what is required on Norfolk Island to make the financial model work. The FULL model. The Federal Government has shared the State responsibilities with the NI Regional Council but no funds as of right are forthcoming from the Federal Government for the NI Regional Council to fund its responsibilities (it appears). The Federal Government should be taken to task on this issue.

The Federal Budget Paper informs all that it is common for individual states within a federation to have different capacities to raise revenue or deliver services. The practice of equalizing revenue capacities and/or expenditure capacities between the states in a federation is common. The Papers also mention that distributing the GST based on the principle of horizontal fiscal equalisation does not necessarily result in the same standard of government services being delivered by all states. It simply aims to equalize each states capacity to provide the same standard of services.

Norfolk Island should be included in the Australian GST and be part of the fiscal equalization, this is the only way into the future that the local NI Regional Council will be able to fully fund depreciation and deliver services to an Australian standard. Based on the fiscal equalisation for the States for 2016/17, if Norfolk Island gained the same return as (say) the Northern Territory (\$10,735 per capita, then Norfolk Island would enjoy a return of some \$19.3m based on 1800 persons. This would enable the NI Regional Council to fully develop 10 year operation and strategic plans fully factoring in depreciation.

I trust that these comments have been useful in finalizing the Operational Plan Budget for the Regional Council for 2016/17.

