Department of Infrastructure and Regional Development

GBE Governance Framework

August 2015

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Executive Summary

Introduction

In 2014 Deloitte was engaged to examine 19 of the Administration of Norfolk Islands' (ANI's) Government Business Enterprises (GBEs)[1]. That review made a number of recommendations around the optimal operating structure of the individual GBEs, ranging from a continuation of direct government control to outsourcing arrangements through a management contract, to the implementation of licensing arrangements.

As a framework for assessing the GBEs, the review identified a number of what were termed 'core requirements' covering the governance, reporting and general operations of both the ANI and the GBEs within it. These core requirements are included as Appendix A.

The current scope of work is three fold:

- Preparation of an overarching governance framework;
- Preparation of a cost allocation model to allocate the cost of 'shared service' functions to individual GBEs; and
- Preparation of a comprehensive asset condition report.

Combined, the current scope of work goes a long way toward addressing the core requirements.

The focus of this document is to provide a framework that addresses some of the elements covered under the governance requirements.[2] It is not intended to prescribe the detailed application of the governance framework to individual GBEs, but rather identify at a business as well as ANI wide level what is required looking forward in relation to core governance principles.

Why is good governance important?

It is recognised that Norfolk Island faces unprecedented budgetary challenges and that a lack of resources has resulted in a number of 'work-arounds' with respect to the operation of GBEs.

But this does not mean that good governance should not be implemented. At its core, economics is about the allocation of scarce resources. Specifically, it is about the decisions made by government, organisations, businesses and individuals around how best to allocate the resources available to them.

In order to make those decisions, economic agents need clarity around what it is that they are trying to achieve – their operating mandate. From a government perspective, seemingly conflicting operating mandates can complicate these decisions (not just on Norfolk Island but anywhere). If entities are driven mainly by profit, for example, then the optimal allocation of resources may differ from if they are interested in broader social objectives such as consumer wellbeing or overall economic growth.

In short, the intent of the current governance framework (the Framework) is to provide the ANI with the tools it requires to make important decisions regarding the allocation of scarce resources.

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[1] As noted in our 2014 report, none of what are termed GBEs actually operate as 'true' GBEs. To avoid confusion the term GBE is used throughout this report, though this should be interpreted more as 'government business activities' rather than 'true' GBEs.

[2] Excluding the Intergovernmental Agreement between the Commonwealth, Norfolk Island and State/Territory Governments.

Good governance is about getting the right things done in the best possible way, and delivering this standard of performance on a sustainable basis. It is about the processes involved in making and implementing decisions, and the manner in which resources are utilised in managing that implementation.

The implementation of a comprehensive and internally consistent Framework, along the lines of the House of Governance described in this report, will mean that the Norfolk Island Government and community can be confident that the Island is being run efficiently and is delivering on its promised vision and objectives.

Focus on governance that is fit for purpose

Norfolk Island is a unique economy, and governance frameworks based on standard economic or management theory cannot be readily applied to the Island. Any governance framework designed for Norfolk Island needs to be custom made for the Island's unique circumstances. But the broader principles of good governance should still apply, and by tailoring these principles to the Island's unique circumstances it is expected that the Administration of Norfolk Island (ANI) and its GBEs can begin to improve upon their current situation in a timely and cost effective manner.

Integrity, transparency and accountability remain at the centre of sound governance and it is important for the ANI and its GBEs to make appropriate investments in systems and processes that support effective management. However, these investments need to be practical and fit for purpose. Tailoring governance structures and processes to suit the type, maturity, size and business activities of an entity is a particularly important consideration when applying the framework.

Executives have a key role in shaping governance arrangements to best meet legislative and service requirements, including community service obligations (CSOs). That said, scale is an important consideration — governance arrangements that may be appropriate in a large organisation could be unnecessary and unwieldy in a smaller one.

The precise nature of governance structures and arrangements will be a matter for individual managers (with input from the ANI executive) to determine. However, the structures and arrangements selected should encompass all elements of governance introduced in this report.

'The House of Governance'

The Framework presented in this report is explained through the lens of 'The House of Governance' (the House) which has been developed as a stylistic representation of core governance principles and how they interact (see Figure 1.1). The House is not intended to be prescriptive of Norfolk Island's exact requirements, but rather an illustrative representation of the key building blocks needed by any organisation, be it public or private, large or small, in order to achieve good governance. The House applies equally to the Norfolk Island Government (NIG), ANI, as well as individual business units within the ANI.

It is recommended that governance arrangements begin to be rolled out to both the ANI and individual businesses, using this Framework as a guide, and incorporating the unique aspects of every individual business.

The House is intended as an index or map of Governance best practice and this Framework outlines the elements of its implementation in more detail.

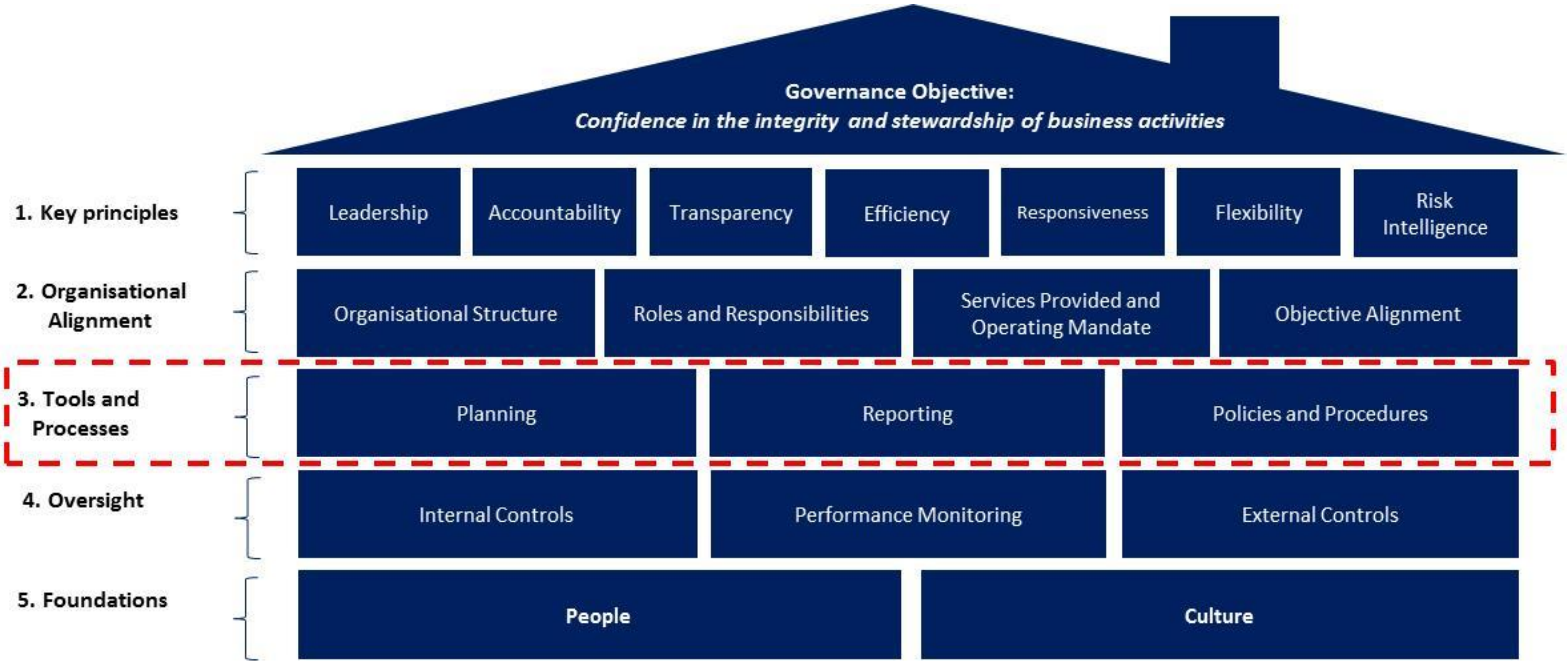
The core of the House is contained in the middle level, namely Tools and Processes.

The principles discussed in the top two levels of the House are **facilitating factors** – clarification and understanding of these principles is a pre-requisite to the tools and processes that form the crux of the governance framework.

The bottom two levels refer to **enabling factors** – while they are not directly part of the development and implementation of the Tools and processes considered in Chapter 3, ultimately the success of those Tools and Processes will depend on the presence of these enabling factors.

Notably, the individual parts of the House are not mutually exclusive, and share many common elements. While not all parts of the House will necessarily translate into formal documentation or procedures for every level of the ANI, each and every element of the House should inform the implementation of a governance strategy for all levels of the ANI, be it the ANI as a whole or individual GBEs within the ANI.

Figure 1.1: The House of Governance’



Structure of this report

The House consists of five ‘levels’, each of which is described in its own dedicated chapter. From top to bottom, these are

- *Chapter 1* - Key principles;
- *Chapter 2* - Organisational alignment;
- *Chapter 3* - Tools and processes;
- *Chapter 4* - Oversight; and
- *Chapter 5* - People and culture.

Within each chapter are subsections corresponding to the relevant ‘bricks’ within each layer of the House; so, for example, Chapter 3 contains 3 subsections, corresponding to the planning, reporting and policies and procedures ‘bricks’ on Level 3 of the House. At the beginning of each subsection is a text box containing a list of key questions which, once answered, would provide clarity over the relevant aspects of corporate governance. Answering these questions, which are further summarised in the dashboard provided as Appendix C, would go a long way towards achieving key aspects of good governance and setting the ANI on a more sustainable path going forward.

The discussion in the report is intended to be as high level as possible, detailing key aspects of governance that the NIG and ANI should begin to apply. The report has been informed by extensive consultations on Island.

For Chapters 2 through 5, a short list of key questions is provided at the beginning of each subsection (i.e. corresponding to each individual ‘brick’ of the House). These questions should be answerable both at an individual GBE level as well as a holistic ANI wide level, in order to implement and operationalise the principles described. The questions are again summarised on the governance ‘dashboard’ provided at Appendix C.

1 Key principles of the framework

Leadership	Accountability	Transparency	Efficiency	Responsiveness	Flexibility	Risk Intelligence

The principles described below are those that any organisation needs in order to operate effectively and efficiently. They do not set out concrete actions or tasks but rather overarching guidelines that apply to all elements of effective corporate and social governance. These principles should be kept in mind across all levels (from the Legislative Assembly down to service level staff) when considering the implementation of the governance framework.

The absence of these overarching principles can compromise the effectiveness of the governance arrangements. For example,

- A GBE's detailed financial reports are only as good as the overarching accountability and transparency of the ANI as a whole;
- A business or operational plan needs to have a degree of flexibility or adaptability built in to enable it to respond to changing market environment.
- A firm's success depends critically on a thorough understanding of any risks, both real and potential, that might impact on that success.
- Effective middle management relies on a clear, overall guiding direction and strategy form upper levels of management.

1.1 Leadership

Strong leadership at all levels is essential in order to achieve good outcomes and ensure that staff are working consistently and effectively. Leadership should establish a clear vision and inspire each person's contribution to the organisation's overall goals. The effectiveness of the governance framework is dependent on the extent to which an organisation's leaders foster a culture of success and accountability.

Effective leaders are responsible for setting the 'tone at the top' and promoting a culture that is amenable to good governance. Leaders have an important stewardship role in exercising their powers and using public resources, and it is important for leaders to govern in a way that sustains strong capacity to serve government and the community over time.

Leadership support is also essential to ensuring the integration of acceptable behavioural standards and values in an organisation. Leaders need to make an active and visible commitment to the core principles of public sector governance and promote them actively and consistently—both internally and externally.

1.2 Accountability

Accountability is the process by which organisations, and the individuals within them, are held responsible for their overall results, decisions and actions, and how they are subject to internal and external scrutiny. Naturally, accountability is supported by all parties having a clear understanding of the roles and responsibilities within the organisation – i.e. who is accountable to who.

Perhaps just as important as the implementation of *actual* accountability is the implementation of a *culture* of accountability. That is, a culture where employees know they are ultimately answerable to their superiors, such that in conducting their day to day tasks they are mindful of the overall impact their actions may have on the broader organisation.

Maintaining accountability through clear reporting on performance and operations is a critical factor in building and retaining trust both within government and the broader community. Timely and transparent public reporting of expenditure, activities and outcomes allows members of government and members of the public to scrutinise and make informed judgements about the performance and contributions of public sector entities.

In short, by holding government accountable, the community itself is benefitted through greater transparency at all levels, and ultimately an environment more conducive to private sector business activity and investment.

1.3 Transparency

Transparency is about being open with stakeholders at all levels and constructively sharing information. Appropriate levels of transparency and openness are important to give stakeholders confidence in public decision-making processes and actions. Transparency also ensures that public officials perform their duties in a fair and unbiased way.

Key to achieving transparency, organisations should be outward looking and interactive. They should make the best use of expertise of stakeholders to inform policy development and implementation, and to improve governance and operational processes.

As part of this it is important to engage openly and proactively with citizens to build understanding of the activities and performance of the ANI. Constructive stakeholder relationships, together with information sharing, also help organisations set appropriate priorities and make informed decisions. Indeed, in a small community like Norfolk Island, many members of the public are keen to contribute their expertise and resources to assist in the design and delivery of services. Being open and harnessing these collective capabilities can help build transparency as well as a sense of ownership and resilience in the community.

1.4 Efficiency

Put simply, efficiency is about ensuring the best use of resources to further the aims of an organisation. In definitional terms, efficiency means completing tasks in as timely a manner as possible – i.e. achieving the required output for as little as possible input.

It is as much about maximising outputs as it is about being tactical in choosing the inputs to achieve them. An important part of this is being able to monitor and understand performance over time across the organisation as a whole as well as at the level of individual units. Monitoring, driven by clear and consistent reporting, can give critical information needed to swiftly identify and act on areas for improvement.

Norfolk Island is facing an unprecedented budgetary crisis which makes it more important than ever to ensure its scarce resources are being used efficiently and effectively. Indeed, the very purpose of developing a governance framework is so that these resources are employed toward their most productive use and in a manner consistent with the overall aims of the ANI (and NIG).

Importantly, consideration of efficiency should not be restricted to executives. Each and every person, at all levels of the ANI, has the capacity to improve efficiency, and this capacity should be enabled by appropriate governance arrangements. Staff must be empowered to react to emerging needs and balance shifting priorities to sustain the effectiveness of their work.

1.5 Responsiveness

Responsiveness is the ability of an entity to react quickly and intelligently to new developments and incorporate them into planning and operations. These developments may be driven by changing community needs and public expectations, as well as innovation and entities' improved understanding of the issues they are seeking to address.

Over time, the organisations that succeed are those that are able to identify and react to changing market environments, while the firms that fail are those that remain wedded to ways of the past, unable to adapt to new approaches or technologies. In Norfolk Island it is particularly critical to be adaptive to changing circumstances, and the recent Commonwealth announcements provide some certainty over the future governance arrangements for the Island as a whole.

An important aspect of responsiveness is maintaining an awareness of changing stakeholder expectations so that the design and delivery of programs and services evolves when necessary to continue to meet those expectations. In some instances, stakeholders external to the ANI should be engaged to actively participate in the design, delivery and oversight of programs and services with a strong focus on quality service delivery. In this regard, there is a direct correlation between transparency and responsiveness.

1.6 Flexibility

Unsurprisingly, flexibility is closely related to responsiveness, albeit with a slightly different focus. While responsiveness focuses on the ability of an organisation as a whole to respond to changing market and external conditions, flexibility refers to the ability of individual systems, processes and procedures to adapt to changing internal requirements.

These may include evolving government and entity-specific policies, priorities and activities. For example, it may include the capacity for accounting software to respond to changing accounting requirements, or the ability for a business or operational plan to adapt to a 'change of tone' from the top or a change in staffing arrangements.

Flexibility also affects the risk environment of individual businesses and the ANI as a whole. For example, rigid operational plans can increase the risk faced by organisations as a result of new developments, and limit an organisation's ability to swiftly and intelligently react so as to mitigate negative impacts.

1.7 Risk intelligence

Risk intelligence is a way of thinking about risk and uncertainty, and learning about risk from past experience. It is about acknowledging uncertainty as an inherent part of business and building the culture, processes and structures that can capitalise on potential upsides while managing potential downsides.

The ANI faces a number of risks, some more pressing than others. Some of the major risks faced by the ANI at present include:

- **Market risk** – the risk that changes in market demand or characteristics will affect Norfolk Island's key service offerings (e.g. fluctuating tourism demand).
- **Asset risk** – the risk that the ANI's assets will cease to operate or become too costly to operate effectively.
- **Compliance risk** – the risk that by not complying with relevant standards (e.g. healthcare standards, waste management standards, financial reporting standards) the Island will miss out on key opportunities and potentially open itself to liability.
- **Financial risk** – the risk that the current economic depression becomes so severe that the ANI is unable to continue as a going concern (in many respects this is already the case).

Regardless of the type or quantum of risks, organisations that successfully engage with and strategically manage risks are better able to respond to implementation challenges, and achieve more efficient and effective service delivery. Importantly, risk can present a mixture of uncertainty and opportunity. Indeed, risk intelligence does not imply risk aversion; prudent risk taking can facilitate innovation and drive improvements in service delivery.

It is up to ANI executives to define an appropriate risk culture across the Administration. In doing so, they should bear in mind that risk management approaches can significantly impact innovation, planning and priority setting, program implementation and overall results. Risk intelligence must account for the fact that risk requirements can vary significantly across entities and greatly depend on an entity's service type and operating mandate.

For instance, core services involving public health or safety (e.g. the Airport) will necessarily require stricter guidelines and processes to manage their risk exposure. Other businesses, such as the Liquor Bond, may be more able to take on commercial risk, but also face different types of risk (for instance through the inherent CSOs regarding responsible service of alcohol).

Thinking holistically about risk and uncertainty can help businesses make better decisions and create lasting value for the Norfolk Island community.

2 Organisational alignment

Organisational Structure	Roles and Responsibilities	Services Provided and Operational Mandate	Objective Alignment

Guided by the key principles discussed above, an organisation's leadership needs to set the vision for the organisation – it needs to chart the course looking forward and, in so doing:

- Clarify the organisation's structure, including the main levels of decision-making, such that at all levels there is a clear and transparent hierarchy of leadership and accountability;
- With reference to the overall organisational structure, clarify the individual roles and responsibilities associated with each layer of decision making and each staff member at each level of accountability;
- Consider the operating mandate of the organisation, including the identification and assessment of any CSOs that may arise in providing the organisation's products or services; and
- Ensure the objectives set by the organisation in considering its operating mandate and CSOs are aligned both vertically and horizontally. The annual plan of one GBE, for example, should not be inconsistent with other GBEs, and all GBEs' annual plans should be geared towards achieving the ANI's overall vision.

2.1 Organisational structure

- Who does the business report to, including both immediate and up-stream reports? Who is in overall control of the unit? Is it the business manager or the ANI/NIG? What effect does this have on the operation of the business?
- Who is empowered to make decisions in relation to the unit, and what is the nature of those decisions (strategic, operational, etc.)? Are there multiple decisions makers or is decision making centralised? If the latter, could there be a delineation of certain responsibilities to mid-level staff?
- Who must be consulted prior to making a decision? Are there external stakeholders? What degree of influence (either formal or informal) does the ANI/NIG have in making decisions?

An organisational structure is all about defining the chain of command and the key levels of decision making within an organisation. While in many organisations, Norfolk Island included, the organisational structure can be relatively flat or informal, it is nevertheless important to understand the reporting hierarchy and who is in charge.

A well-defined organisational structure can provide accountability, certainty and confidence in decision-making both within the organisation as well as to the community. It also improves operational efficiency and reduces duplicated effort by giving clarity around powers and boundaries between areas of responsibility. Most commonly, an organisational structure is communicated through an organisational chart – an example organisational chart for Norfolk Island is provided in Appendix D. Note however that while this is the structure provided for under current legislation, in practice the day to day operations may be somewhat abstracted from this framework.

Broadly, Norfolk Island has three distinct layers in the decision making hierarchy that should be reflected in the organisational structure:

- **The Government -** setting the tone and core strategic vision of the Island
- **The CEO/ANI –** overseeing the efficient and effective implementation of the Government's strategic vision through policies, corporate planning, setting of targets and priorities; and
- **GBE Managers** – responsible for the day-to-day operations of GBEs, including associated business plans, and meeting performance and reporting criteria.

The high level vision and objectives, as well as the Island's culture and values, should be set at the top and flow through the organisational hierarchy. The Government is responsible for setting the tone and core strategic vision of the Island, consistent with its democratic mandate from the community. The first steps towards this vision have already been taken through the *Norfolk Island Strategic Vision: 'Framework for the Future'* document released for consultation in February 2015. The vision addresses, at a high level, the Island's core requirements and the principles that will be employed to meet them.

One level down, the office of the CEO oversees the efficient and effective implementation of the Government's strategic vision at an operational level. This includes developing a corporate plan across the government businesses, supported by policies, priorities, performance targets and reporting criteria. The office of the CEO is also responsible for defining internal controls and performance monitoring parameters. The planning and targets set by the CEO should be informed by analysis, data gathering, and consultation but need not be prescriptive of specific actions to be taken by business units.

It is recognised that Norfolk Island's small size and its extreme isolation mean that, in practice, there will always be close contact between all levels of the ANI and NIG. If appropriately managed, this can be positive for the Island. For example, individual staff should not feel that they are unable to approach the CEO for advice, if the CEO has expertise in a particular area. However, there still needs to be a clearly recognised separation between the NIG, which has an overall strategy-setting role, and the ANI which is focused on the operational level.

There should be a clear line of demarcation between executives and workers. But in many cases the responsibilities and tasks of different layers within the ANI have seemingly become entwined. The ANI is, in effect a small to medium enterprise which employs approximately 200 people. Yet there is often limited delineation of duties.

Many of the tasks performed by the ANI executive could and should be delegated to individual service line managers. But a lack of clarity around what those service lines are, who the managers are, and what each of the managers is responsible for, has resulted in an extremely centralised layer of decision making. The effect of this is that the ANI executive has found itself essentially 'putting out bushfires' rather than dealing with more high level tasks such as implementing the Island's strategic vision an overseeing the overall running of the Island.

Of course, an entity's organisational structure is intricately linked to clarity around the roles and responsibilities associated with each level of that structure – these are discussed below.

2.2 Roles and responsibilities

- What are the respective responsibilities of the various layers of decision-making both within individual businesses and within the broader ANI/NIG? How have these roles and responsibilities changed over time? Are they consistent with the broader operating mandate?
- For each staff member (or position), what is their statement of duties and expectations? How much overlap is there between the roles and responsibilities at various levels?
- Have roles and responsibilities been clearly communicated to all stakeholders in NIG and ANI? How much input have these stakeholders had in the development of the roles and responsibilities?

With reference to the overall organisational structure, the individual roles and responsibilities of each layer of decision making, together with that of each staff member (or position type), need to be clearly defined and delineated. The various actors that comprise the ANI and NIG have specific responsibilities that, if addressed with due care and diligence, will ensure they exercise effective control over the management and operation of the island.

Well-defined roles and responsibilities are a powerful tool that can be both a shield and sword for decision makers. As a shield, they support defensible, transparent and justifiable decision-making within a clearly defined framework. At the same time they can be used as a vehicle for positive action by providing documented structures and processes that empower individuals to make decisions within their administrative function, unencumbered by bureaucratisation and cross-portfolio tensions.

In the context of Norfolk Island, roles and responsibilities can be thought of in two streams:

- First, at a holistic ANI/NIG level, clarity needs to be provided around what is the overall purpose of each layer of government – e.g. the NIG is responsible for setting the overall vision for the Island, the ANI is responsible for implementing that vision and organising its business units effectively in order to work towards it, and each individual business is responsible for playing its part in achieving the holistic ANI goals.
- Second, at the granular GBE level, clarity needs to be provided around what each staff member's role is (generally grouped according to level – e.g. within Deloitte, analysts have a different role to client managers, who in turn have a different role to account directors). This ensures that all staff members know exactly what is required of them, which makes them (a) more incentivised and empowered to progress within the ANI and/or business unit; and (b) more able to act in the overall interests of the business and ANI.

For reference, an example list of roles and responsibilities is provided in Appendix B.

2.3 Services provided and operating mandate

- What is each entity's 'mission statement'? What does the ANI want to get out of each individual business unit?
- What are the core services and outputs that the entity provides? Is the entity an essential service, a community service, a commercial service, or a combination?
- Is the entity a profit making enterprise, a cost recovery centre, or a pure cost centre? Are there any instances of overlap? What are the CSOs associated with the entity (if relevant)?

With a clear organisational chain-of-command in place, the next step is for each operation level entity to understand precisely the key services and outputs it is expected to produce. An entity's mandate helps to define the kinds of tools, processes and oversight necessary to sustain it, and informs its risk posture. This enables the entity's performance to be monitored, and the people within it held to be held accountable for the entity's outputs.

A lack of a clearly communicated and agreed upon mandate can create confusion and inefficiency both within an entity and the administration as a whole. Without a clearly defined mandate, staff do not know what they are working towards, and an entity's direction is open to the interpretation or perspectives of the current management. This can result in a lack of continuity in service delivery as changes to staff and management can drastically alter the course an entity takes. It also reduces staff confidence in their work, and undermines community confidence in high quality and consistent provision of services.

There are three primary components involved in establishing an entity's mandate.

- **Scope of services covered -** As a first step, each entity should have a defined scope of services that it covers. This includes the entity's 'mission statement' and core outputs it is expected to provide, and importantly, how the individual scope of the entity in question aligns with the broader mandate of the ANI.
- **Operating mandate -** an entity must have a clearly articulated operating mandate. That is - is the entity an essential service, a community service or a commercial service? Essential services include basic public needs such as water or electricity which necessitate greater requirements of oversight and a more conservative risk attitude. Community services are performed primarily for the benefit of the community and its institutions, rather than for revenue. Commercial services involve an exchange of products and services to market, with a primary view of generating income. In many cases, an entity will exhibit aspects of both commercial and community oriented mandates – this is not necessarily a bad thing, but needs to be carefully managed through adequate planning and reporting.
- **Financial motive** – linked to its operating mandate, each entity must understand its financial operating structure. It is not necessary for each entity to be profitable, and indeed there may be legitimate reasons to operate a GBE at a loss in recognition of its important service to the broader public. Some entities may be profit centres (these will typically be commercial services), others may be cost recovery centres, and some may be pure cost centres (usually those providing community services). What is important is having clarity and transparency around an entity's

financial structure. This allows individual businesses and the Administration to set appropriate plans and monitor and review performance against agreed financial objectives.

The different 'layers' of an entity's operating mandate are inherently complex and involve interplay of differing interests, priorities and tensions across various parties. For example, there is a natural tension between commercial objectives and community service obligations. The ANI, for instance, is responsible for the prudent oversight of various business units and management of the Island's scarce resources. However, it must also balance accountability under the Commonwealth funding agreement with its ultimate responsibility to the NIG and the community more generally. Good governance and accountability are fundamental to managing such tensions, with competing mandates needing to be clearly identified and defined so that all levels of the ANI and NIG can work together in managing any areas of inherent conflict.

2.4 Objectives alignment

- Are employees at all levels aware of the broader strategic vision? How do the roles and objectives of divisions and their staff contribute to the overall vision?
- Are there any activities being undertaken that do not support the objectives or the strategic vision? Are there any instances of misalignment of objectives and, if so, what is the more important objective?
- What are the current opportunities for collaboration and goal-setting between the Government, the CEO and GBE managers? To what extent do the actions or objectives of one GBE affect the actions or objectives of other GBEs?

An organisational structure will be effective only insofar as it enables alignment between organisational strategy and individual goals. The objectives of all levels of an organisation should be consistent and geared towards achieving the organisation's overall vision and strategic priorities.

Alignment begins with the clear articulation of a vision and high-level objectives, and then cascades these objectives through the various levels of an organisation down to service delivery functions. This includes building connectivity and congruence between strategic planning, corporate planning, business level planning, and individual staff plans. Many of the ANI's business enterprises have a number of interdependencies both with each other and with the ANI as a whole – almost all the businesses utilise ANI provided shared services[3] and many of the businesses provide services, both formally and informally, for other businesses.

This is not to say that interdependencies are a bad thing. Indeed, on an Island like Norfolk, it would be nonsensical for each individual business to maintain its own cherry-picker, for example. It would be far better to simply have the one cherry-picker provide services for all businesses as and when required.

The point is simply that the interdependencies across the businesses make the alignment of objectives, both horizontally and vertically, all the more important.

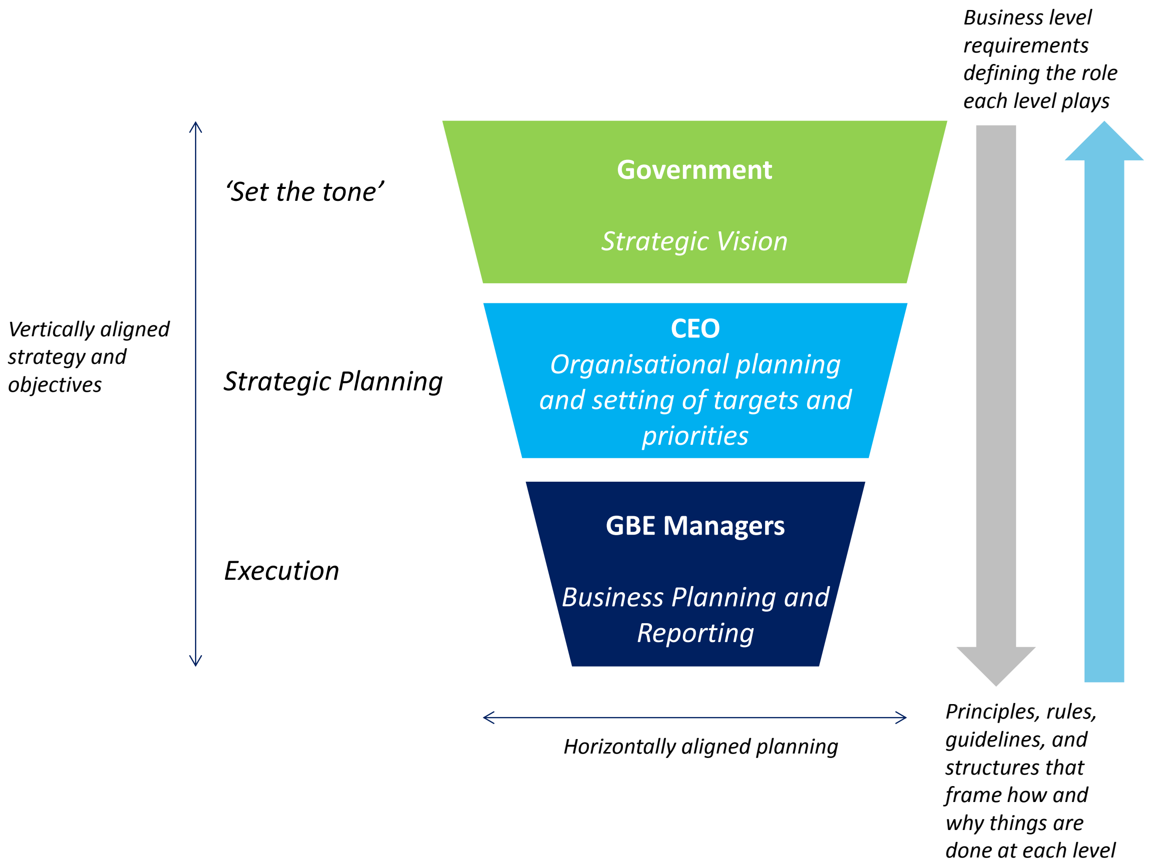
[3] The allocation of shared service costs to individual business units was completed concurrently with this report.

All members of the ANI and NIG need to understand the context and interdependencies which exist within and across Norfolk Island's business activities. Not only does this lead to improved performance, but also increases job satisfaction by highlighting how each individual's effort contributes to the success of Norfolk Island as a whole.

Alignment is also closely linked to efficiency. A tighter integration of goals across an organisation enables quicker execution of strategy, allows staff to focus on high priority tasks, and exposes redundant business activities for correction.

Figure 2.1 illustrates how a strategic alignment of functions across the three levels of decision making in Norfolk Island might work. The strategic vision set by the NIG should inform the corporate plans and operational targets set by the ANI. In turn, the ANI's planning defines business plans and reporting arrangements for GBE managers. These managers need to ensure not only that they are acting in a manner consistent with ANI wide objectives, but also that their own actions are not affecting another business's ability to support the ANI's objectives.

Figure 2.1: Strategic alignment of functions



3 Tools and processes

Planning	Reporting	Policies and Procedures

Tools and processes are the central layer of the House of Governance and are concerned with achieving an organisation's established objectives through effective planning, reporting, policies and procedures. This layer is about implementing such requirements to ensure businesses are operating efficiently and in accordance with what is expected of them.

Three key elements are required:

- ***Planning*** – given a high level corporate plan (and clarity around the organisation or business unit's operating mandate) provided by senior executives, a good manager will then implement a series of plans detailing how that vision will be achieved. At a minimum this should include an annual business plan which details key targets for the business in a particular year, all of which should be aimed at ultimately achieving the corporate vision.
- ***Reporting*** – reporting in this context means both external reporting (e.g. annual reports) and internal reporting (e.g. management reports). Any business, large or small, needs an understanding of the full costs of operating the business, including which items are profitable and which are not. Even for organisations whose remit is not solely about making profit, adequate reporting is essential to ensuring the remit is achieved both effectively and efficiently.
- ***Policies and procedures*** – these are instruments that provide practical guidance to staff, ensuring efficacy in day-to-day operations. In some instances policies and procedures may be informal (for example, written on a whiteboard in the staff common area) while in others they should be formally documented with appropriate transparency (including to those external to the organisation).

Sitting atop the plans, reports, policies and procedures that are implemented should be the key principles and organisational alignment discussed in the preceding chapters.

Tools and processes are a simple recipe for good business. They allow businesses to coordinate and document their activities, assess risks and opportunities, and respond to challenges and opportunities in a holistic and cost effective way. They also improve efficiency by giving clarity around what everyone should be doing, and ensure that achieving the business's goals or targets is not put at risk by a lack of documentation, or informal planning known only by certain personnel.

3.1 Planning

- What is the long term overarching strategy for each business? What do we want to get out of each business? What is the operating mandate for our businesses?
- How are we going to actually achieve each business' goals? What short term targets will be set in furtherance of our longer term strategic vision? What resources will we need to make that happen?
- What risks might we face in achieving our goals and how will they be managed? How are we going to manage or assets and when are they going to need maintenance or replacing?

Plans provide a documented framework for organisations to think about their activities, available resources and how they will reach their goals. The extent to which organisations need to develop plans will largely depend on their scale, complexity and risk environment. Ultimately, the decision of whether or not to produce a certain type of plan is a business decision that involves weighing the benefits of the plan against the costs involved in producing and implementing that plan. This is a decision for the Administration of Norfolk Island to make.

That said, Appendix E provides a matrix showing our initial assessment of the planning and reporting requirements of each business as well as the broader ANI. However, the list is by no means prescriptive, and requirements may change from time to time. It is up to GBE managers in consultation with the CEO to identify an appropriate suite of planning documentation for each business.

As discussed in Chapter 2, the ANI will operate effectively only insofar as activities at all levels are geared to achieving collective goals. For this reason it is important that all plans, from the level of the legislature down to GBEs, are aligned. The strategic vision of Norfolk Island should set out high-level objectives, and these should be cascaded down the organisational hierarchy through to the business plans of individual GBEs. Each level of decision-making is responsible for developing and implementing plans consistent with the plans set out in the level above; e.g. individual businesses are responsible for implementing plans consistent with those of the ANI, who is responsible for implementing plans consistent with those of the NIG.

Broadly, five distinct types of planning should be considered to various degrees on Norfolk Island:

- The long term plan (strategic vision);
- Short term plans (annual plans or 2-5 year plans);
- Annual budgets.
- Risk management plans; and
- Asset Management Plans.

3.1.1 Long term plans

The long term plan, otherwise known as the strategic plan or corporate vision, should be set by the Government or Administration of Norfolk Island in direct recognition of the community's needs. It should describe broad objectives, aspirations and principles over the long-term. Notably, the strategic vision is not an operations-level instrument; it does not prescribe specific actions nor how they are to be achieved. Rather, its purpose is to define core objectives and principles that will be employed to meet them.

It is noted that the Norfolk Island Government is in the process of compiling a strategic plan, with an initial draft released for consultation in February 2015.[4] This is undoubtedly a step in the right direction, and should be accompanied by similar documents covering the ANI as well as a number of larger GBEs.

In general long term plans are likely to be centred around the NIG and ANI. That said, some of the individual GBEs are complex enough, significant enough, or have enough uncertainties looming in the near to medium term that some form of long term strategic thinking would be warranted.

Examples include the Post Office, where the broader strategic relationship with the Philatelic Bureau and Australia Post could be considered; and the Waste Management Facility, where the inherent community service obligations with regard to appropriate waste disposal, as well as alternate ways of disposing waste could be formally considered as part of a longer term, strategic planning document.

3.1.2 Short term plan

The short term plan, or business plan, is a more practical document, covering a shorter time period than the strategic plan, and it entails specific actions that will be taken in furthering the longer term strategic objectives. For example, if a long-term strategic objective was for a particular business to be profitable by 2020, a business plan might describe specific measures that will be taken in meeting that goal – say, increasing sales by 5% over and above CPI over the next 3 years.

There is no set length for a business plan. Indeed, depending on the level of complexity of the business, a decision may be taken to effectively roll the strategic vision and business plan into the one document. As noted above, this is ultimately an operational decision that must weigh the benefits and costs of producing separate layers of planning documentation.

For example, the Liquor Bond is one business where there is probably no benefit in having separate business and strategic planning documents. In this instance it is likely that a single document would suffice in both detailing the overarching goal for the business and describing specific KPIs that will be employed toward meeting that goal

Regardless of whether it is long-term or short-term, the general features of a business plan may include (depending on the needs of the GBE):

- **Business overview** – describing the business's mandate and its key outputs / services.
- **Business structure** – how the business is structured, including an overview of staffing, organisational and reporting arrangements.
- **Market analysis** – identifying the customers of the business, the general operating environment, key influences affecting the market, whether the market is growing or declining, and what it is expected to look like in future. Where market conditions are changing, the business plan should outline how the GBE will respond.
- **Key objectives and targets** – these should be succinct, quantifiable and measurable. For example, 'to achieve sales of $X in the second quarter'. For larger GBEs these should be separated for each of the GBE's main activities.
- **Action plan/KPIs** – the action plan has a list of key performance indicators that must be completed to achieve each objective, and includes a timeline for completing them.

[4] Norfolk Island Strategic Vision, Awwas 'Framework for the Future', 12 February 2015

- **Financial planning** – contains a general summary of the GBE's financial information including its main sources of revenue and funding. This is elaborated in the business budget, discussed below
- **SWOT Analysis** – this highlights the strengths and weaknesses of the business, and outlines the opportunities and threats that exist in its commercial environment. The SWOT analysis informs the tactical running of the business and its overall responsiveness to changing commercial environments.

Ultimately, the decision of whether or not to prepare a business plan for a specific business comes down to an assessment of the costs and benefits of formally documenting the above contents.

3.1.3 Annual budgets

Put simply, a budget is a statement of revenues and expenses over some defined period, usually a year. Its purpose is to provide a transparent model of how a business is performing financially and to establish cost constraints for projects or operations. The budget of each GBE will ultimately flow from higher level planning documents, which will allocate the ANI's resources based on its broader strategic priorities. However, it is up to the individual GBE to determine how best to utilise the monies allocated to it in meeting the business's or ANI's broader level business and strategic plans.

Importantly, GBE budgets should capture both actual and forecast revenues and expenditures. This should include the full cost to the ANI of operating the GBE, including the costs of any shared services (HR, IT, Finance, etc.) used by the business.

A budget can involve a number of elements, including the operating budget, the capital budget and the cash flow budget. An operating budget estimates the total cost of resources required to deliver services and keeps track of items such as salaries, utilities, and maintenance. A capital budget outlines required investments in new plant and machinery. A cash flow budget gives a prediction of future cash receipts and expenditure over a particular time period. Not every GBE will require each element but, at a minimum, each GBE should have an operating budget.

For the simplest of businesses, an annual budget may be all the planning that is required – for these businesses the operations are simple enough that preparing a long term strategic vision or even a shorter term business plan would involve more effort than benefit. Businesses that fall into this category are likely to include simple businesses such as Lighterage or Cascade Sale of Rock.

In December 2014, the NIG released a Community Budget Update for 2014-15 which provided a snapshot of major income and expenditure items, including capital works. Such budget updates provide an important opportunity to inform the community about Norfolk Island's financial performance and for the performance of GBEs to be evaluated. Close integration between NIG budget updates, GBE budgets and planning cycles can provide valuable opportunities for GBEs to report on their performance against plans, and for any required corrective action to be identified.

3.1.4 Risk management plan

A risk management plan is used by an organisation to identify risks, estimate impacts and likelihood, and define strategies for responding to them. It involves assessing and prioritising risks, and coordinating an organisation's resources to minimize, monitor and control the risks or realise potential opportunities.

Whether a GBE requires a risk management plan depends on its overall scale, complexity and criticality to the operation of Norfolk Island and the health and safety of its residents.

Risks may arise from both internal and external factors. For example, internal risks may include the failure of critical assets. External factors may include, for instance, the broader economic environment (particularly the tourism sector) which has the potential to drastically affect the profitability of GBEs.

Among other things, a risk management plan could identify:

- Potential threats and opportunities;
- The vulnerability of business activities and assets to threats;
- The risk (including expected likelihood and impact) of the threats;
- Mitigation strategies to reduce the risk;
- Prioritisation of risk reduction measures based on an informed strategy; and
- Strategies to increase the upside of opportunities.

3.1.5 Asset management plan

Some of the GBEs on Norfolk Island are responsible for significant assets and infrastructure which are of paramount importance to the safety, wellbeing and livelihoods of the Island's residents. For example, Electricity is responsible for critical power generation and distribution infrastructure, and Lighterage is the only way of getting many goods onto the Island.

Given the criticality of some business' assets to the Island's community and economy, an asset management plan is necessary for a number of GBEs.

Broadly, asset management has two main objectives.

- First, it provides clarity around the costs and benefits associated with key assets. This provides management with evidence-based justification for maintenance, repair and replacement programs.
- Second, it enables optimisation of the asset portfolio through improved understanding of asset use, cost and condition. In other words, it considers how best to utilise key assets to enhance both their effectiveness and their useful life.

Among other things, an asset management plan typically consists of:

- Description of assets
- Explanation of the functions/tasks of the asset
- Understanding of the asset's current and historical performance against key benchmarks (i.e. whether it performs better than, around the same as, or worse than standard industry benchmarks)
- An assessment of asset condition and the corresponding risks associated with that condition
- Planned actions (including maintenance, repair, improvements, retirement and replacement)
- Replacement costs and depreciated value of assets
- Estimated useful life remaining

Not all elements will be required for each GBE. It is up to GBE managers in consultation with the CEO to conduct a risk-based assessment of asset criticality and to determine the appropriate management mechanisms.

3.2 Reporting

- Who are we answerable to? Are we answerable only internally or also externally?
- What is the range of parties interested in our performance? Are there external stakeholders? Do our results affect the results of any other institution or business?
- What degree of detail is required in our reporting, having regard to the nature of our business? Should we be reporting solely on financial or also non-financial metrics? Will our reports be relied on by any external parties in making business decisions?

The provision of accurate and reliable financial accounts is a cornerstone of a properly functioning economy. It provides business managers with the data and the information they need to ensure they are operating efficiently, on target and consistently with overarching plans or goals. Reporting also provides external stakeholders the information they need to make informed investment decisions.

Ultimately, the provision of accurate accounting and financial information is a key requirement in ensuring allocative efficiency throughout the economy – i.e. in ensuring resources are put to their highest value use.

Even for non-reporting entities (i.e. entities that are not required by law or outside industry associations, such as the Australian Stock Exchange, to produce annual financial accounts), accurate reporting is essential for ensuring the business is operating efficiently.

A lack of accounting data was noted as a key obstacle to reform in Deloitte's report of November 2014. A stream of work concurrent to this report involves the development of a cost allocation model to ascribe the cost of 'shared services' (back office functions such as IT and HR) as well as depreciation to individual business units. This goes some way toward understanding the 'true' financial position of each business. As we noted last year:

> *'The lack of data limits the capacity of the Administration to understand where its money is coming from; it limits the capacity of business managers to appropriately and expeditiously respond to changing sales trends; it limits the capacity (and willingness) of potential investors to invest their money in Norfolk Island; and it limits the capacity of external parties (including journalists, lobbyists, consultants, and the general public) to gain a true understanding of the financial position of the Norfolk Island Administration and its business activities.'*

There are various ways for GBEs to report, both formal and informal. On the formal end of the scale, audited annual reports provide a comprehensive account of a business's or organisation's activities over the year, considering both financial and non-financial measures. They are intended to provide the community and other businesses with information about operational and financial performance.

Financial statements are a cut-down version of the annual report, detailing an entity's financial position and performance over the past year. Financial results are generally reported both at a consolidated level, as well as an inter-entity level which displays the financial performance of subsidiaries.

For the ANI as a whole it is noteworthy that existing accounting information is unlikely to adhere to relevant accounting standards (i.e. standards set by the Australian Accounting Standards Board, AASB). As noted above, this represents a real obstacle to future reforms.

Good recordkeeping is also essential to accountability. All significant decisions or actions need to be documented to a standard that would withstand independent scrutiny. Proper recordkeeping allows others to understand the reasons why a decision was made or an action taken and can guide future decision-makers.

3.3 Policies and procedures

- What policies and procedures do we already have in place governing our business's operations? Is there a need for business specific policies or can we 'piggyback' off ANI wide policies?
- Are there any areas of uncertainty regarding the best approach to tackling certain issues or tasks? Are there any repeatable or day to day tasks that are undocumented? Or where documentation could save time and/or money?
- Are there areas where we are overly dependent on a certain asset or staff member? If a key staff member were to leave unexpectedly, would remaining staff be able to 'pick up the pieces' and carry on?

Organisations can introduce a range of tools and systems to enhance their compliance and decision-making processes. These include written guidelines and protocols, checklists, and help and advice from corporate areas. The development of organisation-wide written protocols for dealing with issues such as financial management, procurement and programme management are recommended.

Even simple procedures can have marked effects that will be felt virtually immediately after they are implemented. For example, the ANI's IT Department has recently implemented a procedure whereby staff are requested to submit their IT requests via the ANI's intranet in the first instance, rather than directly phoning a member of the IT team. This ensures all issues are stored in the one place and allows the IT team to effectively prioritise tasks according to urgency.

Documenting protocols and procedures is important even when organisations have long-standing, highly experienced staff. Their knowledge can be taken for granted and, as a result, knowledge transfer and recording of procedures can be neglected. Detailed documentation of procedures is equally important where there is high staff turnover.

Documentation of policies and procedures spans from day-to-day operational matters such as the correct procedure for maintaining electrical equipment, to non-business specific and infrequently used policies such as the procedure to follow if an employee has a specific grievance with another employee or a supervisor. It also includes organisational matters such as a code of conduct or confidentiality and independence requirements.

The latter are more likely to be developed at the ANI wide level and applied to each business unit equally, while the former are likely to be developed at an individual business level.

An organisation's code of conduct defines the standards of behaviour required by staff and covers issues related to governance such as recognising conflicts of interest, maintaining confidentiality, complying with the law and agency directions, and reporting unlawful or unethical behaviour through proper channels.

Ultimately, the documentation of policies and procedures is about ensuring that as little time as possible is spent on administrative tasks and more time is spent on achieving business' overarching goals (both short-term and long-term as set out in the corresponding business plans and/or strategic vision documents.) It is also about ensuring all employees are on the same page when it comes to general organisational requirements such as codes of conduct or ethical behaviour. Importantly though, policies and procedures must not be considered in isolation – they must all ultimately converge towards the broader vision set out by management, be it GBE specific management, the ANI or the NIG.

It is noted that the ANI already has in place a number of policies and procedures pertaining to key operational matters of the Administration – a full list is provided at Appendix F.

4 Oversight

Internal Controls	Performance Monitoring	External Controls

This includes the 'nuts and bolts' in place to ensure everything is operating efficiently and that individual staff members are operating in the best interests of the organisation or business activity. It encompasses three broad aspects: internal control, performance monitoring and external control.

- **Internal controls** are processes for ensuring that an organisation's inner elements are compliant and operating efficiently, and that all staff are aiming toward the same end-point. It is also about removing the capacity for staff members to engage in activities that may conflict with the interests of the broader organisation (e.g. separation of duties).
- **Performance monitoring** ensures business units and staff are operating effectively and in accordance with established objectives and performance criteria. It isn't simply about making sure businesses are doing a good job; it is also about providing staff with information about how the organisation is performing and encouraging innovation and performance improvement. This gives everyone in the organisation ownership over their outcomes and contributes to overall job satisfaction.
- **External controls** are measures that are imposed from outside an organisation in relation to its performance. It is part of how an organisation accounts to its external stakeholders, government and the broader community. For example, an organisation may have responsibilities to account under legislation, funding agreements, and memorandums with other organisations.

4.1 Internal controls

- Are there any instances where the same staff member is responsible for multiple duties with actual (or potential) conflicting aims?
- Are there instances where staff could, if they were so inclined, act in a fraudulent or criminal manner, or pursue personal goals rather than business goals?
- Is there an established oversight/supervisory procedure over key business or corporate activities (such as payroll functions or receivables)?

Internal controls are systematic reviews, checks and balances, and procedures put in place to ensure effective and efficient operations, and compliance with relevant laws and regulations.

Having internal controls allows the ANI to set the operational tone of the Administration. The CEO has a responsibility to support and review GBE operations by reviewing internal controls and identifying key business risks. Once risks are identified, GBE managers, in collaboration with the ANI executive, need to identify, develop and manage policies, procedures or any other relevant tool to mitigate those risks.

The management approach and expectations set by the CEO and executives determine the control environment. An effective control environment helps ensure that established policies and procedures are followed. The control environment needs to include independent oversight, for instance through an executive board or as part of a risk and audit committee. It should be underpinned by a clearly defined organisational structure with assignment of authority and responsibility, and supported by integrity and ethical values.

Internal controls are ultimately in place to enable the achievement of a business's planning, reporting, or policies and procedures. Given this, the specific internal controls that are implemented will depend on the business in question, and will depend on the type of activity the control is aimed at preventing (or controlling) in the first place.

Examples of common internal control activities include

- Separation of duties
- Proper authorisation of transactions and activities
- Adequate documents and records
- Physical control over assets and records
- Independent checks on performance
- Appropriate demarcation between control and action

4.2 Performance monitoring

- How often are staff members provided with feedback on their performance? Is the feedback through formal channels or informal? Who provides the feedback (if any?)
- Are staff incentivised and motivated to improve their performance? Is there a clear line of advancement for individual staff members?
- Are staff members in it for the long term or short term? What is the split between casual/permanent staff members?

At a business level, performance monitoring simply involves assessing the organisation's performance against the KPIs or other performance criteria agreed upon in the planning phase – i.e. as part of the business's annual or strategic planning. From a staffing perspective it is about ensuring that staff without a direct financial interest in the performance of the business nevertheless act in the best interests of the business. In other words, it is about ensuring that staff act to the best of their ability, thus ensuring resources are put to the best available use.

Just as importantly, performance monitoring provides a transparent means by which to weed out non-performers and ensure only the best performing staff are promoted through the ranks. Essentially, it is about maximising the value of staff; about instilling a culture of continuous improvement in staff and encouraging a bit of 'healthy competition' among staff. If staff cannot see a future for themselves in an organisation, if they cannot clearly see the fruits of their labour, they are not going to be motivated to perform at their best, be they ground level technical staff or senior administrative staff.

Among other things, a performance management system should include:

- A clear description of job roles and skill requirements (similar to the roles and responsibilities discussed in section 2.2) – staff should be able to reference these when vying for advancement.
- A clear mechanism for ongoing advancement within the organisation – be it through a formal, electronic system on the ANI's intranet, or simply through regular (say, quarterly or bi-annually) performance discussions between employees and supervisors.
- A clear list of procedures to be followed in ensuring that all staff are provided equal opportunities for advancement and, equally, clear procedures to be followed in the event of unsatisfactory performance.

It is recognised that given Norfolk Island's current financial circumstances advancement of employees has had to take a back seat for the time being. This is not uncommon across the government sector in general; just witness the multitude of Commonwealth Departments under recruitment and/or pay freezes. It is therefore the function of the performance monitoring system to ensure that staff are still incentivised to perform their job to the best of their abilities, even in the absence of the financial capacity to explicitly reward outstanding performance.

4.3 External controls

- What external stakeholders are interested in the performance of our business?
- Are we subject to any contractual or legal obligations imposed on us that affect our business's operations? What is the scope of these obligations? Are they financial goals, performance goals, or something else?
- Are we able to influence these controls in any way (e.g. through contracts or negotiations)?

External controls include various measures that affect an organisation's operation, which are not enacted by the organisation but rather imposed externally. To the extent that these are not directly controllable by the organisation or business unit such controls should form an integral part of a business's planning – in other words, plans should be developed with a view to ensuring all external controls are adhered to.

The Liquor Bond, for example, is subject to the Liquor Act of 2005 and Liquor Regulations of 2006, while Norfolk Telecom is subject to the Telecommunications Act of 1991. Absent an act of Parliament, these regulations form controls to which the businesses should adhere in developing their own planning documents.

That said, businesses should also consider the extent to which a change in some of these controls would affect their operations. For example, the current Liquor Act prohibits the importation of liquor by individuals unless they pay to the Government the difference between the imported price and the retail price of the product – in other words private importers have to pay the Government the mark-up that the Liquor Bond would apply.

This is a regulation which significantly stifles private sector activity and which Deloitte's previous report recommended be abolished. Thus the Liquor Bond, while remaining cognisant of existing regulations, should also consider the extent to which a change in these regulations will affect its operations

Overall, some degree of external control is virtually inevitable in any business operation, be it private sector or public sector. Even in the absence of explicit laws or regulations, external controls often exist simply through the operations of a competitive marketplace. Ultimately the purpose of any form of external control, be it formal or informal, is to ensure the operations of business are not inconsistent with the objectives of society as a whole.

This is why, for example, monopoly providers of services such as utilities are generally subject to independent regulation, to ensure they do not exploit their monopoly power. Businesses in a competitive market, on the other hand, do not generally discrete regulators, because the marketplace instils a degree of competitive discipline – if firms charge too much or act in a way that detriments the community, people will stop buying their product.

The point of the above discussion is twofold: first, businesses that enjoy a monopoly position or provide an essential community service should be subject to some form of competitive oversight. Second, for businesses where a degree of contestability is feasible, be it through privatisation or a management outsourcing type arrangement, this should be encouraged, as the very act of contestability will ensure sufficient external controls are provided on the business so that its operations work towards the betterment of the community as a whole.

5 People and culture

People	Culture

Having the right mix of people and skills supported by a strong cultural fabric is integral to any successful organisation, and supports the success of all other elements of the House of Governance.

- **People -** An organisation, no matter how well designed, will only be as good as the people in it. The skills and capabilities of staff should be aligned to serve the interests of an organisation, and staff must have a willingness to learn and step-up to the challenges of their work. This is especially important in a small Island community where people often wear many hats to keep things operating smoothly.

- **Culture -** Norfolk Island's culture is similar to other small communities around Australia. The general workplace culture is driven by resilience, a 'can-do' approach and an ability to find solutions while managing in an environment of various levels of adversity and resource limitations. This flows through into the way the Administration and managers conduct their business. There is a true spirit of friendship, sharing, and a can-do attitude amongst the Island's residents. While a degree of informality and resource-sharing is perfectly natural for business on the Island, there is no reason that this shouldn't be supported by transparency and accountability processes.

Just like the top layer of the house (key principles) considers the principles which guide the development of business plans, procedures and reporting, the bottom layer (people and culture) provides the elements that are required for these plans and policies to actually be implemented.

5.1 People - capability and capacity

- What capabilities are critical to the performance of each business unit? What are the capabilities and skills of the existing workforce?

- What learning and development opportunities are essential to maintaining currency of individual skills? What skills currently cannot be developed 'in-house' within the ANI?

- What mainland organisations might we be able to partner with to offer a studies exchange or 'swap' program for our employees? To what extent might vertical integration and/or technological change impact on our skill needs?

Broadly, capability and capacity refer to the abilities, skills, behaviours and relationships that enable individuals and divisions at any level to carry out their functions and achieve their development over time.[5] It is about understanding what capability and capacity is required, what the existing workforce

[5] United Nations Development Programme, *Capacity Assessment Development Guidelines,* 1997.

offers, and how talent acquisition and staff development opportunities can be leveraged to ensure the right people are available to sustain the organisation.

Capability and capacity support an organisation's ability to meet current requirements as well as being flexible to adapt to new challenges. It is as much about efficiently and effectively delivering outcomes today, as it is about planning for the requirements of the future.

In the first instance an organisation should, by reference to its mandate, identify the kinds of people and skills it requires to meet its objectives and satisfy all of its core requirements, both currently and in future. This includes identifying staffing requirements across both managerial and operational levels, and building an understanding of the qualifications, experience and competencies that those staff should have. It also includes an assessment of whether these needs are best met by staff employed on an ongoing or casual basis.

In a small, isolated community such as Norfolk Island, vertical integration between all levels of staffing is inevitable, and indeed in many instances should be encouraged. It is often the case that GBE Managers are able to provide immensely valuable perspectives on operational tasks, gathered from extensive 'front-line' experience. That said, a clear understanding of each employee's roles and responsibilities, as discussed in section 2.2, is required going forward to ensure the roles of managers compared to front line employees do not become muddled.

As a next step, organisations need to understand the skills and capabilities of the existing workforce, and how these align with the identified requirements. The skill base of the Norfolk Island population is skewed towards high school or vocational qualifications – very few people on Island have tertiary qualifications. This may limit the capacity for managerial roles to be filled 'in-house'.

In cases where skills gaps have been identified, the preferred option is naturally to improve the skills of the existing workforce through appropriate learning and development. This may include up-skilling of staff through on-the-job as well as formal training with in-house and external providers.

Ways of enhancing the Island's existing skill base while also gaining from the skill base off Island – such as exchange programs with comparable organisations on the mainland – should be explored as a means to enhance the general skill capacity of Island residents. Existing ANI staff might undertake a one to two year 'swap' with a comparable staffer from the mainland. During the swap period the Norfolk Island staffer would be enhancing his or her own skills while the mainlander would be imparting his or her knowledge on the locals, and at the end of the period the Norfolk Island staffer will have gained valuable 'front line' knowledge that is otherwise not available on Island, and will be able to further impart this on his or her colleagues.

Study assistance programs can also be an effective way of enhancing employees' skill sets, but they come with considerable benefit/cost trade-offs. An employee that receives study assistance but does not subsequently return to the Island, for example, does not ultimately benefit the ANI and instead becomes a net burden. Similarly, an employee that uses the assistance as some form of 'paid holiday' is unlikely to satisfy the cost/benefit trade-off.

Finally, the impact of technological change needs to be considered insofar of the effect it has on the Island's skill needs. On the one hand, greater internet connectivity will allow innovative training solutions such as e-learning, and greatly enhance the capacity of Islanders to fine tune their skills. On the other hand though, if not embraced, greater connectivity could widen the technological divide – the Island could find itself with such antiquated process and infrastructure that it is unable to find the requisite skills anywhere, be it on Island or the mainland, to maintain that infrastructure.[6]

The upshot is that while technological change is an almost unambiguously good thing for the Island, if not embraced now and to the fullest extent, Norfolk Island may very well find itself unable to survive in an increasingly computerised and automated world.

Of course, it is acknowledged that training or upskilling of existing Norfolk Island staffers may not always be an available option. This may be the case where a highly specialised skill is required and it simply not worth investing in that skillset on Island. In this case, it may be appropriate to go to market to meet the identified need.

Irrespective of whether or not certain skills are outsourced, developed locally or developed with the assistance of external providers, a comprehensive workforce management plan at both the ANI and business level will be key to building a strong and resilient workforce on Norfolk Island. In other words, the strategic and business plans at all levels need to consider both current and future skill needs and need to identify ways in which those needs will be met.

5.2 Culture – ethics and tradition

- How is leadership articulating and communicating Norfolk Island's vision, values, norms and beliefs?
- What impact (positive and negative) is the current culture having on business performance and overall day to day operations of the Island?
- What strategies are needed to maintain (or transform) the culture on Norfolk Island?

An organisation's culture, its ethos and its sense of purpose can have a marked effect on the extent to which its employees are engaged with a common goal. The culture defines what workers are there for, and goes deeper than financial or performance metrics considered in a business plan. It defines the overriding sense of identity that workers feel when they come to work.

In the absence of an overriding sense of being or sense of purpose, staffers will often be poorly motivated and issues relating to truancy or mal-performance can arise. In many instances instilling a sense of pride or being is difficult, particularly for casual workers who are merely doing a job to make ends meet. This is where internal controls and performance monitoring are often required in managing those workers' performance.

Like other small communities, Norfolk Island is built upon behaviours and interactions which are intrinsic to its social and economic outcomes within its limited boundaries. Norfolk Islanders have become quite adept at managing assets that would ordinarily be scrapped on the mainland, for example, and many ANI employees have a strong sense of pride in what they do and why they are doing it. However, at the same

[6] This is not completely beyond the realm of possibility. The Norfolk Island Hospital for example has struggled to find a generalised GP/obstetrician, because technological change and other factors have meant the pool of such doctors is rapidly diminishing.

time, the uptake of policies, processes and procedures which are commonplace on the mainland and are integral to the efficient operation of modern business activities has been somewhat lacking. If instances arise in which cultural values are not conducive to business operations, then this needs to be understood, and ways around it identified.

Culture should be seen as endogenous to good governance - it can evolve and respond to community needs in much the same way that it helps to shape those needs. Good leadership is able to foster positive cultural aspects while providing impetus for continuous innovation and growth in citizens' understanding of cultural norms and how they can support contemporary needs. Good governance implies an openness to learn and willingness to consider external perspectives. Leadership that models this behaviour is central to developing an open and learning culture. The fostering of innovation and how it is managed in relation to Norfolk Island's culture should be a core consideration for the Island's leadership.

Appendix A – Core requirements

Deloitte's report of 2014 identified the following core requirements in regard to reporting, governance and day to day operations. The current report is a first step in achieving the governance requirements.

Reporting Requirements

- Development of an appropriate cost model to ensure cost recovery and transparency of fees and costs
- Adherence to relevant reporting standards (AASB, IFRS)
- Transparent, audited financial accounts
- Implementation of appropriate key performance indicators
- Due diligence of assets including understanding of age and condition of infrastructure

Governance requirements

- Integrity of processes (transparency around key processes, e.g. admin, operational, dispute resolution, etc.)
- Eliminating or clearly documenting any potential conflict of interest
- Clarity around 'purpose' of the business activity including any community service obligations
- Intergovernmental agreement (Commonwealth, NIG, State/Territory) covering key responsibilities and funding
- Clear regulatory guidelines
- Separation of ownership and control

Operational requirements

- Certainty and transparency around operating environment
- Elimination of sovereign risk
- Establishment of competitive objectives
- Ensuring competitive neutrality where appropriate
- Availability of requisite skills base

Appendix B – Roles & responsibilities

The table below provides some indicative roles and responsibilities that might be assigned to the various branches of the Norfolk Island public sector.

Function	Core responsibilities and expectations
Legislative Assembly	• Represent the interests of citizens to provide community leadership and guidance, and to facilitate communication between the community and the Government (and the Administration) • Participate in the deliberations and civic activities of the Government • Keep the Government's objectives and policies under review to ensure that they are appropriate and effective • Keep the Government's resource allocation, expenditure and activities, and the efficiency and effectiveness of its service delivery, under review • No direct authority over an employee of the Administration or a GBE with respect to the way in which the employee performs his or her duties, unless empowered by law
Norfolk Island Government	• Setting the community vision and over-arching objectives • Promotion of employment, prosperity and planned economic growth through good governance
Office of the CEO	• To ensure that the policies and lawful decisions of the Government are implemented in a timely and efficient manner • Undertake responsibility for the day-to-day operations and affairs of the Administration • Provide advice and reports to the Government on the exercise and performance of its powers and functions • Coordinate proposals for consideration by the Government for developing objectives, policies and programs for the Island • Provide information to assist the Administration assess performance against its strategic management plans • Ensure that timely and accurate information about Administration policies and programs is regularly provided to the Island community, and to ensure that appropriate and prompt responses are given to specific requests for information made to the Administration • Ensure that the Administration's assets and resources are properly managed and maintained • Ensure that records are properly maintained to give effect to the prescribed management practices and principles • Exercise, perform or discharge other powers, functions or duties conferred on the CEO by or under legislation, and to perform other functions lawfully directed by the Government • Perform an appropriate degree of consultation with the Government when determining, or changing to a significant degree, the organisational structure of the Administration or associated entities, or the processes, terms or conditions applying to senior executive officers
GBE Managers	• Responsibility for the day-to-day operations of GBEs and meeting performance and reporting criteria

Source: based on governance models from around Australia. For example see Tea Tree Gully in South Australia's framework at: https://www.teatreegully.sa.gov.au/webdata/resources/files/Governance%20Framework.pdf

Appendix C - Illustrative governance 'dashboard'

The dashboard below is provided as an example of the types of questions that should be answered for each business unit:

Organisational alignment

GBE purpose

Services provided and operating mandate

- GBE mission statement
- Core services and outputs provided by the GBE
- Is the GBE an essential service, a community service, or a commercial service?
- Is the GBE a profit making enterprise, a cost recovery centre, or a pure cost centre.

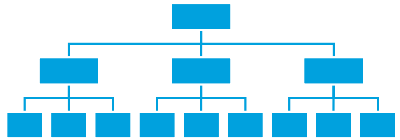
Organisational structure, roles and responsibilities:

Organisational Structure:

- Staff members and chain of command
- Who is empowered to make decisions?

Roles and Responsibilities

- Statements of duties and expectations for each staff member



Tools and processes

Planning

Overview

- What are the long and short term goals for the business?
- How are the goals of the GBE to be achieved?
- What are the targets in place and resources requirements for achieving the goals?
- What are the risks and opportunities the GBE faces over short and long horizons.
- What planning tools are appropriate for the GBE having regard to it's complexity, scale and risk environment?

Fit-for-purpose planning tools

- Long term plan
- Short term plan
- Business plan
- Budget
- Asset Management Plan
- Risk Management Plan

Reporting

Overview

- Who is the GBE answerable to, both internally and externally?
- What is the appropriate level and frequency of reporting, including the applicability of financial and non-financial indicators?

Fit-for-purpose reporting tools

- Financial statements
- Annual reports
- Scheduled meetings

Policies and procedures

Overview

- What policies and procedures are in place to govern the business' operation?
- Is there uncertainty or a need for documentation around how some tasks should be done?
- Are GBE specific policies required or are NIA wide policies sufficient?

Example policies and procedures

- Code of Conduct
- Maintenance of equipment
- Dispute resolution / reporting of grievances

Key governance principles

Leadership | Accountability | Transparency | Responsiveness

Risk Intelligence | Efficiency | Flexibility

Oversight

Internal controls

- Are there areas where staff may have a conflict of interest, and what policies are needed to mitigate this risk?
- Are there instances where staff could act in a manner not consistent with the aims of the organisation, including fraudulently or criminally, and what policies apply?
- What are the established supervisory procedures over key business and corporate activities (e.g. payroll, finance, procurement)

Performance monitoring

- How is business performance against targets and KPIs being tracked, and through what channels are successes and areas for improvement being identified?
- Are staff members incentivised and motivated to sustain and improve their performance? Is there a clear career plan for staff? In what ways do staff receive feedback and career counselling?

External Controls

- What external stakeholders are interested in the performance of the business?
- What are the GBEs external obligations , including under service level agreements, funding agreements, MOUs, contracts, and laws and regulations?
- How is compliance with external obligations being monitored?

People and culture

Capability and Capacity

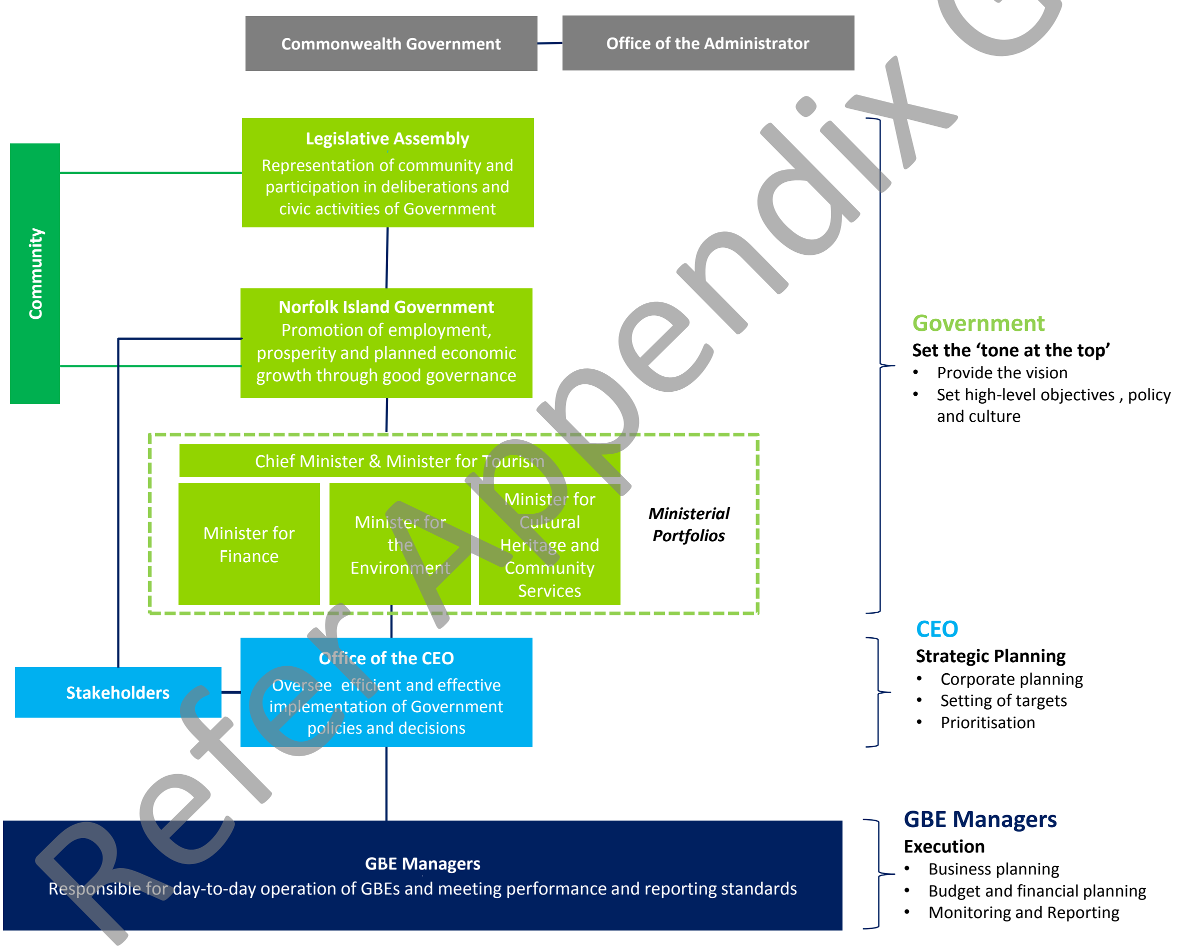
- What capabilities are critical to the performance of the GBE, and how do these align to the existing workforce?
- What learning and development opportunities are essential to maintaining and developing skills?
- What strategies does the GBE have for acquiring required skills and capabilities?

Culture – ethics and tradition

- How is leadership articulating and communicating Norfolk Island's vision, values, norms and beliefs?
- What impact (positive and negative) is the current culture having on GBE performance?
- What strategies are needed to maintain (or transform) the culture?

Appendix D - organisational chart

The following chart presents what we understand to be the organisational hierarchy of the Norfolk Island public sector at present, and what their broader roles in regard to governance should be.



Appendix E – Documentation needs

It is recognised that not all businesses will require the 'full suite' of planning discussed in this report. Ultimately this will be a cost benefit trade-off to be undertaken by the Administration of Norfolk Island. The below table provides our initial (rough) figuring as to which plans should be considered for which business.

	Planning					Reporting	
	Long-term (Strategic) Plan	Short-term (Annual) Plan	Risk Management Plan	Asset Management Plan	Budget	Financial statements	Annual Report
NIA	✓	✓	✓	✓	✓	✓	✓
Airport	✓	✓	✓	✓	✓	✓	✓
Broadcasting	✗	✓	✗	✗	✓	✓	✓
Cascade Rock	✗	✗	✗	✗	✓	✓	✗
Electricity	✓	✓	✓	✓	✓	✓	✓
Energy	✗	✓	✓	✓	✓	✓	✓
Fire	✗	✓	✓	✓	✓	✓	✓
Forestry	✗	✓	✓	✗	✓	✓	✓
Gaming	✗	✓	✓	✗	✓	✓	✓
KAVHA	✓	✓	✓	✓	✓	✓	✓
Lighterage	✗	✗	✓	✓	✓	✓	✓
Liquor Bond	✗	✓	✓	✗	✓	✓	✓
Museums	✗	✓	✓	✗	✓	✓	✓
Philatelic	✗	✗	✗	✗	✓	✓	✗
Post	✓	✓	✓	✗	✓	✓	✓
Tanalith	✗	✓	✗	✗	✓	✓	✗
Telecom	✓	✓	✓	✓	✓	✓	✓
Tourism	✓	✓	✓	✗	✓	✓	✓
WAS	✓	✓	✓	✓	✓	✓	✓
Waste	✓	✓	✓	✓	✓	✓	✓

Appendix F – Existing policies and procedures

The following internal control and policy documents were available on the Administration of Norfolk Island website and intranet, as at 25 February 2015. Years indicate the recency or otherwise of the document.

General Administration

Document	Year
Chief Executive Instructions	2013
Admin Policy & Guidelines	2004
Complaints Handling	2015
Document & Record Management	2009
Contract Register and Disclosure	2014
Guidelines for Assessment of Sporting Grants	2004
Event Risk Management	2010

Probity

Document	Year
Selection Advisory Panel Guidelines	2014
Confidential Advice Draft Legislation	2004
Conflict of Interest – Declaration of Personal and Financial Interests	2014
Fraud & Corruption Risk Management	2014

Human Resources (HR)

Document	Year
Absenteeism Management	2011
Studies Assistance	2014
HR P&P Manual	2013
Contractor Management	2009
Volunteer Management	2009
Management of Work Experience Students	2010
Employment Instructions 1-3	2015

Assets and Procurement

Document	Year
Use of the Administration's Motor Vehicle and Plant Fleet (v2)	2014
Use of Government Plant Vehicles	2004
Asset Management	2014
Procurement of Goods Services	2004

Repairs, Maintenance and Land

Document	Year
Use of Trunking Phones	2004
Working near Overhead & Underground Assets	2011
Maintenance & Repair of Footpaths	2006
Warning Signs as Remote Supervision	2009
Trees & Tree Root Management	2009
Depasturing Stock on Public Lands – Responsibilities of ANI Land Managers	2015

Health & Safety

Document	Year
Emergency Evacuation Procedures	2004
Asbestos Removal (Revised January 2015)	2004
Personal Protective Equipment	2004
First Aid Procedures	2009
Infection & Health Control	2009
OH&S Training & Competence	2009
OH&S Purchasing Guidelines	2009
Manual Handling	2009
Manage & Protect Hearing	2009
Hazardous Substances	2009
Construction Site Safety	2009
Working in Confined Spaced	2009
Height Safety and Fall Prevention	2009
Workplace Amenities	2009
Plant & Equipment Safety	2009
Office Health & Safety	2009
Portable Equipment Electrical Safety	2009
Return to Work Program	2009
Policy for Relocating Buildings Containing Asbestos	2009
Safe Asbestos Removal and Disposal Practices	2015

Information Technology (IT)

Document	Year
Information Technology Policies	2014
Information Technology Security User Password Policy	2014
Bring Your Own Device	2014
FMIS Access Policy	2014
IT Software, Hardware & External Support Services Procurement	2014
Social Media	2014
Internet & Email Usage	2004

Appendix G: Addendum

On 18 June 2015, the Norfolk Island Legislative Assembly ceased to operate. This marked the beginning of the transition period to an elected Regional Council. The day-to-day running of the Administration of Norfolk Island will continue until the Regional Council is established. Under the interim arrangements the former Assistant Minister for Infrastructure and Regional Development (now the Minister for Territories, Local Government and Major Projects) is responsible for many decisions affecting the Administration of Norfolk Island. These were previously made by Norfolk Island ministers under Norfolk Island laws. The former Assistant Minister delegated many of his decision making powers to the Administrator and the Executive Director of Norfolk Island. An Executive Director of Norfolk Island to which the CEO of the Administration reports commenced in July 2015.

Notwithstanding the change in government arrangements on the Island, the principles of good governance still apply. The term 'governance' in this report refers not to the physical government but rather to the manner in which government activities and functions are conducted. It refers not to those who are in charge of government, but rather to the policies, procedures, rules and regulations which characterise and define it.

The principles discussed in this report are intended to apply both to the ANI as a whole as well as individual business units, and should be borne in mind by the Commonwealth as it progresses with the ongoing Norfolk Island reform process.

Limitation of our work

General use restriction

This report is prepared solely for the use of the Department of Infrastructure and Regional Development and the Administration of Norfolk Island. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose set out in our proposal dated the 17th of November 2014. You should not refer to or use our name or the advice for any other purpose.

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