



Norfolk Island Public Service Review

Prepared for the Department of Regional Australia,
Regional Development and Local Government

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Executive Summary

The Australian Continuous Improvement Group has been engaged by the Department of Regional Australia, Regional Development and Local Government (DRARDLG) to review the capacity of the Norfolk Island Public Service.

It is the firm view of this Review that Norfolk Island does not have the capacity to deliver the range of services for which it is currently responsible, in particular those services usually delivered by the Australian or State/ Territory Governments.

The most significant issue uncovered is that most of the issues identified in this review have been identified in earlier reviews, sometimes multiple times and some as many as fourteen years ago.

As such, this report is not intended to reflect only on the present governments or the present Administration. The issues have been raised with and recommendations for improvement put to several governments, both Commonwealth and Norfolk Island, and multiple CEOs.

Key Issues

Key issues uncovered by the Review include:

Vision and Direction

- This Review found little evidence of a clear vision or sustainable long term plan for the future of Norfolk Island.
- The Norfolk Island public sector does not have the capacity to provide strategic resourcing, policy and direction setting advice.

Overview of Current Structures

- The public sector consists of nineteen branches within the Administration (Public Service), sixteen service areas called Government Business Enterprises (GBEs), and two Territory Authorities - the Hospital and the Tourist Bureau.
- Within the Administration the nineteen branches do not have the capacity to deliver the current range of services to the standards required.
- GBEs in Norfolk Island are not independent entities yet, until recently, were managed as if they were, with heavy influence from some previous Ministers. Due to poor financial and management controls they have now been brought back under the control of the Administration.
- The two main Territory Authorities are the Norfolk Island Hospital and the Norfolk Island Tourist Bureau. Recent events suggest the Authorities do not have the capacity to manage their operations within their financial constraints. The Hospital in particular does not have the capacity to deliver services to the standards required.
- The Public Service Board is a powerful group which has frustrated the efforts of the CEO to manage his organisation. It contributes to a reduction in accountability and in the capacity of the Administration to effectively deliver its services.

- The *Public Sector Management Act 2000* (NI) is out of date, contains inconsistencies and requires a complete rewrite. The Human Resource policies are similarly incomplete and require a complete overhaul.

Internal Management

- The nineteen branches within the Administration each currently reports to either the CEO or the Deputy CEO. This existing span of control is too broad for effective operation of the Administration.
- Ministerial involvement in operational matters is excessive and commonplace.
- The Public Service is the major employer on Norfolk Island. Employees tend to remain for many years and threats to job security are taken very seriously. Low staff turnover also minimises the opportunities for career progression.
- Poor work performance is a problem, exacerbated by a belief amongst staff that they have a “right” to a public service position, that “permanent” means for life, and that it is almost impossible to terminate poor performers.
- Resistance to change within the Administration is considerable. The Review believes that maintaining the status quo has been one of the main causes that recommendations from past reviews have not been successfully implemented.
- Organisational integrity is an issue. A number of stakeholders from the community, the private sector and the public sector suggested that, in the conduct of their official duties, some elected representatives and some members of the Administration have been or are influenced by personal interest. This perception of existing conflicts of interest substantially undermines community confidence in the Administration.
- The Review team assessed the Administration against the criteria of the Australian Business Excellence Framework. It scored 82 points out of 1000. This is a particularly low score which reflects the lack of Approach (the thinking and planning) that should but doesn't go into the management of the Administration.

Internal Service Delivery

- The Human Resources function is not adequately supporting the organisation. The HR Policies and Procedures manual is poorly structured and incomplete. The current middle level management culture breeds complacency and doesn't respect or understand contemporary management practices. The HR manager is starting to address the issues however, with limited resources and a considerable task, history suggests that further change management failure is highly likely.
- The Finance function is not adequately supporting the organisation. It does not produce timely or adequate information for the executive and managers and it does not have a customer service focus. Financial recording and reporting systems are antiquated and expose the Administration to an extremely high level of risk.
- The Information Technology function is not adequately supporting the organisation. Information and communication systems are antiquated and expose the Administration to an extremely high level of risk. The Administration has recently

started to address this however the recent departure of the long serving IT Manager and the lack of a coherent succession plan mean that there are high implementation risks.

- There is a widespread perception that appropriate and transparent procurement processes are not always followed by the Administration. The existing procurement guidelines require review, particularly in respect of the criteria and process for dispensing with competitive tendering process and transparent reporting of decisions.
- The Legal Services Unit does not have the capacity to provide core quality legal services. Serious concerns exist about the quality of advice regarding: legislation; contracts; and dispute resolution.
- Several of the managers interviewed were concerned about poor OH&S practices and lack of a maintenance program which is contributing to employee risks.

Community Service Delivery

- The delivery of services is not coordinated. Various examples were provided of lack of coordination, including the duplication of effort, wasted resources, and examples of the difficulties for the community to access services.
- Overarching issues of training deficiencies, ineffectiveness, and poor managerial capacity were common to the majority of service delivery areas.
- Waste management practices represent an environmental and OH&S risk. Hard waste is burnt in an open fire and the residue pushed over a cliff and into the sea.
- Tourism is the main economic driver for Norfolk Island but is not performing and has not recovered from the world wide drop in tourism in recent years. The Tourist Bureau is charged with attracting people to Norfolk Island. It has struggled to implement the five year Tourism Strategy, due to expire in 2012, and has had a string of General Managers in recent years; the most recent one resigned in July.
- Norfolk Islanders' ineligibility for Australian social security payments renders an entire set of Australian citizens at a disadvantage to their mainland peers. There is a disparity between social security payments available on Norfolk Island and on the mainland, both in financial terms as well as in the types of benefits available.
- The Norfolk Island Hospital is not accredited with any mainland or international organisation. The Hospital Director informed the Review that nursing staff have not received any formal training "for several years", however in responding to this report the Minister indicated he was informed by the Hospital Director that hospital staff do undertake formal training, at work, to ensure they have enough points to re-register each year. Community members raised serious concerns about the standards of hospital services and care.
- The hospital, the Norfolk Island healthcare scheme and the Norfolk Island workers' compensation are currently operating under considerable financial strain, and are underwritten by the Administration (itself effectively insolvent and reliant on emergency Commonwealth funding).

Recommendations

The overriding conclusion is that Norfolk Island cannot continue to deliver the range of services to the standards that its residents expect or are entitled to as Australian citizens. The Norfolk Island public sector must divest some of its functions to other parties, such as Commonwealth Government agencies, State type service providers for Education and possibly Health, and the private sector.

Recommendation 1: Adopt a modified version of the 'Local Government' option of the Road Map – the Island Government option.

In the 'Island Government' option Norfolk Island would assume responsibility for funding and delivery of local government type functions, and be governed by a Legislative Assembly with responsibility for Island leadership and advocacy.

The Australian Government would be responsible for all Commonwealth type services. These services would be delivered predominantly by locally-engaged staff, initially managed by the Commonwealth agencies until the local management capability was developed enough for local staff to assume the management functions. The Australian Government would also be responsible for the funding and delivery of state level services such as Health and Education, most likely by contracting with a suitable service provider.

In moving from the present situation to the Island Government option, two streams of activity must occur in parallel:

1. Movement of functions to other providers such as Commonwealth agencies, the private sector or state type service providers; and
2. Building capacity of the functions that remain with the Norfolk Island Government.

Recommendation 2 focuses on the movement of functions from Norfolk Island. Recommendations 3 to 12 focus on building capacity of the Norfolk Island Public Service. The number of recommendations devoted to each of the two streams of activity does not reflect the importance of or the amount of work involved in those streams.

Recommendation 2: The Norfolk Island Government and the Australian Government to develop, agree and deploy a strategy for moving to the new governance structure.

The divestment of functions will be a complex process that could involve a large number of stakeholders and occur over a significant timeline. The Review stresses that Norfolk Island must lead this process, however it will need significant support from the Commonwealth Government. The Review recommends that Norfolk Island:

- appoint a suitable Project Manager for the Divestment Program;
- develop a detailed divestment strategy; and
- work collaboratively to divest functions to the Commonwealth Government, State type providers and the private sector.

Capacity building recommendations

Recommendation 3: Employ an external Capacity Building Team (CBT) to fast track the change process.

The intention of using a Capacity Building Team is to provide a targeted input to kick start the capacity building process. It is recommended the team would have capabilities in HR, IT, Finance, Legal Services, and Project Management (to support Norfolk Island as it manages the divestment program). It would be led by a Chief Administrative Officer with sufficient authority to overcome any structural, political or internal resistance. It is expected the team would remain in Norfolk Island for at least a year, although the actual time would depend on progress and on the funding arrangements. These positions are in addition to any other Commonwealth-based positions being created, for example the Commonwealth Financial Officer.

Recommendation 4: The Norfolk Island and the Australian Governments to agree a governance arrangement which provides the CBT with appropriate authority and safeguards to enable it to carry out its task effectively.

The purpose of this recommendation is to minimise the impact of potential sources of resistance which the Review believes is inevitable and has been a cause of slow progress in the past.

Recommendation 5: Implement a targeted capacity building program for the Norfolk Island Hospital.

The hospital requires special focus because of its importance to the community and the skills required to build capacity. It is recommended the hospital be reviewed by a survey team from the Australian Council on Healthcare Standards against the EQulP standards used in mainland hospitals. Following the review it will most likely require resources to build capacity and reshape the service delivery model, including the resourcing base.

Recommendation 6: Replace the Public Sector Management Act 2000 and the Human Resources Policies and Procedures Manual.

Recommendation 7: Norfolk Island Government to develop a long term vision and strategic community plan for Norfolk Island.

Recommendation 8: Implement an Organisational Integrity Development Program for all MLAs and all Public Servants.

Recommendation 9: Restructure the Administration to improve policy advice, management control and productivity.

Recommendation 10: Introduce a program of functional reviews.

Recommendation 11: Restructure the Legal Services Unit.

Recommendation 12: Undertake a program of legislative review.

An Appetite for Change

Since the 1970s Norfolk Island has been the subject of more than a dozen government reviews, reports and committee investigations. The reports raise similar issues and make similar recommendations.

Each report flags the need for important changes and the next report – in flagging the same or similar issues – makes it very clear that those important changes have often not been fully or well implemented. In our experience this illustrates that it is easier to identify challenges than to overcome them in a practical and sustainable way.

The current climate of financial crisis may have provided Norfolk Island with an incentive and opportunity for genuine reform. The only questions are: whether the Norfolk Island Government has the political will to confront the issues; whether the Australian Government is able to support and assist with funding for the required change; and whether the Norfolk Island community will accept that change is necessary for its own long term future.

Introduction

The Australian Continuous Improvement Group has been engaged by the Department of Regional Australia, Regional Development and Local Government (DRARDLG) to review the capacity of the Norfolk Island Public Service.

The current financial and administrative problems of Norfolk Island should have been a surprise to no-one. Most of the issues identified in this review have been identified in earlier reviews, sometimes multiple times and some as many as fourteen years ago.

As such, this report is not intended to reflect on the present governments or the present Administration. The issues have been raised with, and recommendations for improvement put to, several previous governments and multiple CEOs. The responsibility for moving forward however clearly lies with the current government and current CEO.

It is the firm view of this Review that Norfolk Island does not have the capacity to deliver the range of services for which it is currently responsible, in particular to be able to provide those services usually delivered by the Australian or State/ Territory Governments.

Scope and Methodology

In partnership with the Norfolk Island Government, the DRARDLG commissioned this review into the capacity of the Norfolk Island Public Service.

In March 2011 the Norfolk Island Road Map (the Road Map), was jointly agreed between The Hon Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government and the Norfolk Island Chief Minister and is designed to describe the reforms needed to strengthen Norfolk Island's:

- economic diversity to provide a sustainable and growing economy;
- social cohesion and resilience; and
- unique heritage and environment.

The Road Map includes the goal of creating an efficient public service that meets the needs of the Norfolk Island Government and the community.

Terms of Reference

The terms of reference for this Norfolk Island Public Service Review 2011 are as follows.

In respect of whole-of-government operations, including the Administration, Government Business Enterprises, Territory Authorities, boards and committees, the Reviewer is to examine:

1. The capacity of the existing public sector model including the function and control of Territory Authorities and their ability to provide policy advice and respond to government policy priorities and objectives while maintaining organisational and individual integrity and advancing the public interest;
2. The capacity of the existing public sector structures to provide:
 - 2.1. national government - type services;

- 2.2. state government - type services; and
- 2.3. local government - type services;
3. The capacity and appropriateness of the existing public sector structures to provide strategic resourcing, policy and direction - setting advice to the Norfolk Island Government;
4. How the current structure differentiates between the roles of policy, service delivery and regulation, including the role of Ministers in decision-making;
5. The ability of the current structure of the Norfolk Island Administration (NIA), including all Government Business Enterprises, to coordinate the delivery of government services;
6. How current accountability for decision-making is defined, delineated and enforced, and the efficacy of the public sector's formal and informal performance management systems; and
7. The capacity of the NIA to provide core quality legal services, including legislative drafting and commercial contracting support;

Review to recommend actions that the Norfolk Island Government and the Australian Government can take, if required, over the short, medium and long term to:

- a. more efficiently and effectively provide an appropriate and sustainable range of government services to the highest ethical standards;
- b. improve the capacity and the skills of NIA to deliver government services;
- c. deliver government services to a similar standard as those provided by a local or state level government in mainland Australia;
- d. improve resilience, change management and innovation across the public sector; and
- e. improve performance and accountability mechanisms.

Our Approach

This review was undertaken in a phased approach which included:

- research and review;
- consultation with key stakeholders on Norfolk Island and within DRARDLG;
- a draft report;
- further consultation with key stakeholders; and
- delivery of a final report containing recommendations for action.

Our methodology incorporated the Business Excellence Framework against which we assessed the Norfolk Island Public Service. The Business Excellence Framework is an internationally recognised set of practices and requirements that describes the elements

essential to sustainable organisational excellence. It was designed to assist organisations to measure current performance and build a pathway to long-term improvement.

Research and Consultation

This final report is based upon our consultation activities and research. In our first visit to Norfolk Island the Review team spent a single week speaking to many employees of the Norfolk Island Administration, to members of the Legislative Assembly and to other stakeholders. Details are provided in Appendix A.

We spoke to managers and employees from many work units – but not all. We are very conscious of the fact that where we did speak to people, we usually were able to spend only an hour or so. In that hour we could only develop, at best, a feel for each particular situation or a very high level overview of the issues facing that particular work unit. That said, it soon became clear that many issues and concerns are common across most, if not all, the work units. Given that this Review is of the Administration as a whole, rather than a detailed examination of work unit practices, we are comfortable that we've been able to capture the key themes from the pattern of the interviews and our own extensive research.

In the weeks following our visit we received considerable additional material from stakeholders and we had ongoing conversations with key stakeholders. We also undertook further research of our own, becoming familiar with the substantial number of reports on Norfolk Island that have been produced over the years.

Following the issue of our draft report the Review team made a second visit to Norfolk Island where we further consulted with key stakeholders before finalising the draft report.

Next Chapters

In the following chapter (The Current Situation) we examine the situation as we found it, and address the Terms of Reference. We have structured our findings into five logical headings:

- Vision and Direction;
- Overview of Current Structures;
- Internal Management;
- Internal Service Delivery; and
- Community Service Delivery.

In the subsequent chapter (Issues for Consideration) we articulate those issues, concerns and themes that have emerged from our research and consultation.

In Recommendations, we provide our considered advice as to what the most practical and useful next steps should be.

And in the chapter titled Implementation Approach we consider, through two scenarios, some of the issues that may be faced in implementing change.

The Current Situation

In this chapter we examine the situation within the Norfolk Island as we found it. We have structured our findings into five logical headings:

- Vision and Direction;
- Overview of Current Structures;
- Internal Management;
- Internal Service Delivery; and
- Community Service Delivery.

Under each of these sub-headings we list the key issues, then discuss those issues in detail.

Throughout this chapter, we also directly address the Terms of Reference

Vision and Direction

Key Issues

- This Review found little evidence of a clear vision or sustainable long term plan for the future of Norfolk Island.
- The various documents we saw labelled as Strategic Plans were manifestly inadequate for any modern public service.
- The Norfolk Island public sector does not have the capacity to provide strategic resourcing, policy and direction setting advice.

Vision and Long Term Plan for the Future

This Review found little evidence of a clear vision or sustainable long term plan for the future of Norfolk Island.

In our discussions with MLAs, public servants and the community, most people focused on the past, believing their situation to be better in the past than at present, and blamed the current situation on the economic downturn.

However, the many reports over the years demonstrate that the current economic downturn is not the cause of Norfolk Island's problems, the downturn has merely highlighted an already serious situation. A Financial Advisory Report in 2005 noted the unsustainable practices used by Norfolk Island and stated that:

*"The modelling predicts that the NIG will be insolvent within 2-3 years."*¹

This Review considers that the belief that persists about the current situation arises because of inadequate leadership and direction.

¹ Acumen Alliance Financial Advisory Report 2005

There have been attempts to provide leadership and direction in the past. A letter to Norfolk Island residents in May 1998 explains that the Eighth Legislative Assembly agreed that a plan was needed for the next century and they subsequently engaged John Howard and Associates² to develop a Strategic Plan for Norfolk Island for the period 1998 - 2003. The review was extensive and included consultation with the community, business and government. Many of the findings were the same ones this Review has found, and it is unclear how many of, and to what extent, its recommendations were implemented.

And more recently in the 12th Assembly the Chief Minister prepared a strategic plan, however it was not linked to a long term vision or plan and did not involve community consultation.

In the current Assembly a draft document titled 'Strategic Plan 2010-2013' exists, however it only outlines the five key result areas the current ministers focus on; it has not been completed; it doesn't contain any structured way of measuring whether its goals are being achieved; and it would not constitute an effective strategic plan in the usual meaning of the term.

In his report on the first six months, the Chief Minister stated that:

"Upon commencement of this Legislative Assembly in March 2010 it would have been ideal to set out the path that the government would want to follow. Governments do that. However, put simply, it wasn't practical given our circumstances, financial and otherwise, to at that stage, offer realistic projections. We could have had rhetoric, but little substance at that stage."

It is this Review's opinion that the government has missed an important opportunity to demonstrate strong leadership by developing a long term vision and plan in this time of uncertainty. In fact some of the work in developing a long term plan is already underway. The development of the Roadmap by the Norfolk Island and Australian Governments and the reviews associated with that Roadmap, including this one, could all be placed within the context of a long term plan.

Previous reports have also highlighted Norfolk Island's limited performance at long term planning. The Quis custodiet³ report in 2003 noted there was:

"A general inability to address long term issues that affect the whole community."

And the first recommendation of the 2005 Baran Report⁴, commissioned by the Norfolk Island Government, is that a long term plan be developed.

Uncertain times need direction and leadership. Norfolk Island needs a community vision and long term plan for the future (with a 20 to 30 year horizon), underpinned by a sound strategic financial plan. It would help the community develop a realistic understanding of the challenges they face and what is needed to improve their situation.

² John Howard & Associates, 1998, Norfolk Island Administration Strategic Review

³ Joint Standing Committee on the National Capital and External Territories, 1999, Quis custodiet ipsos custodiet, Inquiry into Governance on Norfolk Island

⁴ Peter Baran & Associates, 2005 Review of Norfolk Island and Administration,

Capacity to provide strategic resourcing, policy and direction setting advice

The Terms of Reference require the reviewer to assess the capacity and appropriateness of the existing public sector structures to provide strategic resourcing, policy and direction-setting advice to the Norfolk Island Government.

The Review finds that the public sector does not have the capacity to provide strategic resourcing, policy and direction setting advice.

Some advice is provided to the Executive by a Chief of Staff position and a Senior Policy advisor role within the Government Secretariat, however policy advice from the Administration is limited.

The lack of planning and strategic thinking within the Administration reflects the lack of such planning and thinking within the Executive and the Legislative Assembly. In the absence of such planning and strategic thinking the Administration lacks a framework to guide its planning and so directions tend to be ad hoc and reactive.

Comparing Norfolk Island's policy advice process to Better Practice Principles for Developing Policy Advice⁵, the Norfolk Island Administration and Government:

- does not have a strategic perspective on policy advising requirements in corporate and business plans;
- does not link its planning to the objectives and risks identified in higher level plans (in some cases because the higher level plans don't exist);
- does not have any articulated expectations for policy advice, nor does it measure the performance of policy advice;
- does not have a formal process for managing policy projects;
- does not have adequate information to inform policy advice;
- does not engage its managers in professional development in the area of policy advice; and
- does not review or improve the policy process.

The CEO indicated that quality policy advice is received from the Internal Auditor and Human Resource functions, the latter function having recently been recruited from outside Norfolk Island.

Most managers however do not have the time or the inclination to provide policy advice or to conduct research that might inform policy advice. Their focus is on action with respect to service delivery.

There are many causes for this limited capacity to provide advice:

- The range of services the Administration is attempting to deliver is too broad for the resources it has available. Norfolk Island delivers services typically covered on the mainland by the Australian, State and local level governments with almost complete

⁵ ANAO, *Some Better Practice Principles for Developing Policy Advice*, Nov 2001

independence and minimal external support. Delivering this wide range of services means that Norfolk Island Public Servants will always struggle to develop the breadth and depth of expertise necessary to provide adequate policy advice.

- Most managers and staff in the public service are focused on service delivery; policy advice does not rate highly in their view.
- The requirement to provide policy advice occurs infrequently and tends to be reactive to political issues, rather than proactive in the interests of having a cohesive policy basis for government action.
- Ministers are heavily involved in policy development. The effect of their hands-on approach is to both reduce the need for advice from the Administration or to cause managers to withdraw from providing advice because ministers are so actively involved.

Providing high quality policy and direction setting advice requires a sound process and set of principles, such as those provided by the ANAO, performance data and information on which to base policy advice, and competency in using the process, principles and information to formulate advice. Norfolk Island is lacking in all these areas.

Overview of Current Structures

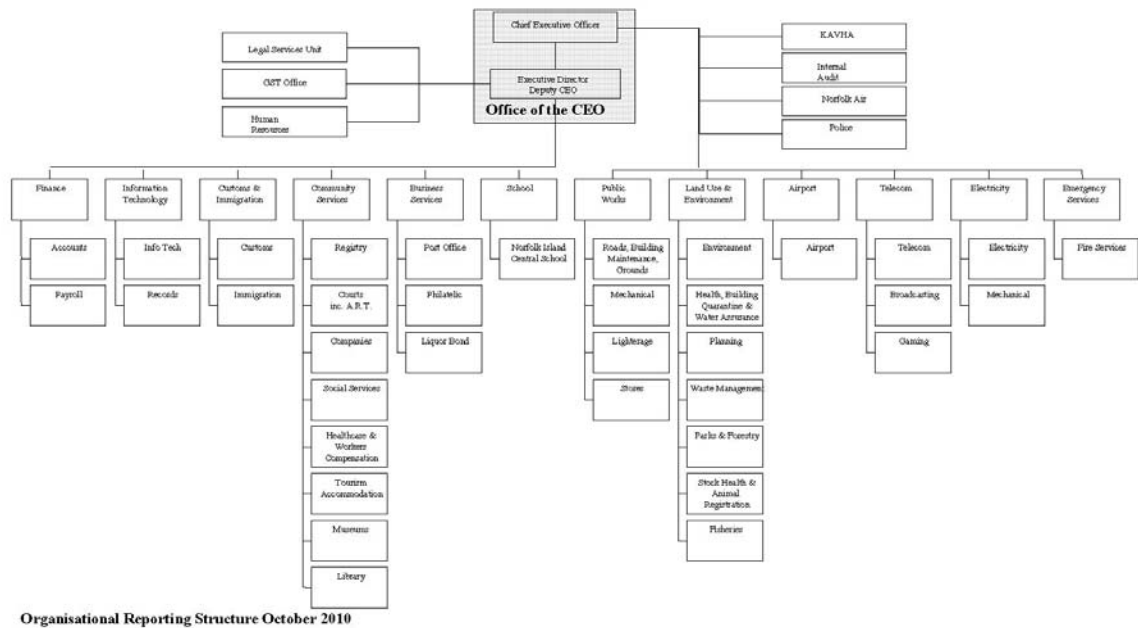
Key Issues

- Norfolk Island GBEs are not separate authorities or companies as in other Australian jurisdictions, yet they have been managed as independent entities with advisory boards and, in some cases, significant ministerial involvement. Due to ongoing financial management problems they have been consolidated into the revenue fund.
- The two main Territory Authorities are the Norfolk Island Hospital and the Norfolk Island Tourist Bureau. Recent events suggest the Authorities do not have the capacity to manage their operations within their financial constraints.
- Within the Administration, each of nineteen branches currently report to either the CEO or the Deputy CEO. This existing span of control is too broad for effective operation of the Administration.
- The Public Service Board frustrates the efforts of the CEO to manage his organisation and contributes to a reduction in the capacity of the Public Service to effectively deliver its services and is neither an effective accountability mechanism nor an independent source of expert advice to government.
- The *Public Sector Management Act 2000* (NI) contains inconsistencies and lacks clarity.
- The Norfolk Island Administration does not have the capacity or capabilities to deliver the current range of services to the standards required.

Structure of the Administration

The existing public sector model consists of an Administration made up of nineteen branches that represent all public sector activities (less the hospital and tourism authority) reporting to a Chief Executive Officer (CEO) and a Deputy CEO (shown below).

Although the organisational reporting structure has remained unchanged since October 2010 and is readily available on the intranet, not all managers interviewed were clear about whether they reported to the CEO or to the Deputy CEO.



Government Business Enterprises (GBEs)

Prior to the 2010/11 budget year there were 16 Administration GBEs:

- Liquor Bond;
- Norfolk Energy;
- Norfolk Telecom;
- Electricity Undertaking;
- Lighterage Undertaking;
- Sale of Rock;
- Workers Compensation Scheme;
- Postal Services & Philatelic;
- Museums;
- GST Office;
- Norfolk Island Airport (including Norfolk Air)
- Healthcare
- Roads
- Gaming

- KAVHA
- Water Assurance Scheme (including Waste Management Centre)

On Norfolk Island the GBEs present something of an anomaly. On mainland Australia, Commonwealth GBEs are Commonwealth authorities or companies that are prescribed by the regulations under the *Commonwealth Authorities and Companies Act 1997 (Cth)*, ('CAC').

Characteristics of Commonwealth GBEs include:

- They have two Shareholder Ministers – a Portfolio Minister and the Finance Minister, who represent the Government's interest;
- They have a Board that is responsible for achieving the Government's broad policy objectives. The Board has absolute responsibility for the performance of the GBE and is accountable for this to the shareholder Ministers.⁶
- GBE Boards of directors are to "comprise people with an appropriate mix of skills, who are appointed on the basis of their individual capacity to contribute to the Board having an appropriate balance of relevant skills (such as commerce, finance, accounting, law, marketing, workplace relations and management) and contribute to the achievement of the GBE's objectives."⁷
- A key factor in ensuring that Boards can function efficiently is their independence. "Boards must be free from day to day involvement by Ministers."⁸

Norfolk Island's GBEs are nothing like Commonwealth Government GBEs or those in other States and Territories. There is no enabling legislation like the *CAC Act*. They are not legal entities in their own right. As far as the Review can determine they have always been a part of the Administration but have been treated as if they were separate. Some have associated legislation which establishes an Advisory Board.

Ministerial involvement in GBEs varies considerably and in some cases (KAVHA; Healthcare; Workers Compensation Scheme) ministers are actually members of the various advisory boards, not as shareholders but as part of the decision making process.

Prior to the 2010/11 budget the financial control of the GBEs was managed under section 11A of the *Public Monies Act 1979 (NI)* as Administration services. Under the Act they were not subject to appropriation. The Finance Minister had absolute control over both the revenue and expenditure of these funds, without any oversight of his activities or decisions.

In the 12th Legislative Assembly the Finance Minister delegated control of GBEs to their respective Portfolio Ministers. It meant that each GBE's Portfolio Minister had areas of expenditure available to them without any effective scrutiny. It resulted in runaway and uncontrolled expenditure in some GBEs. This was further complicated because, prior to 2010/11, whilst each of the GBEs were treated as Administrative Services under the *Public Monies Act 1979 (NI)*, they all operated from the same physical bank account. In effect it

⁶ *Governance Arrangements for Commonwealth GBEs, 1997, Section 3.2*

⁷ *Governance Arrangements for Commonwealth GBEs, 1997, Section 3.4*

⁸ *Joint Committee of Public Accounts and Audit Report 372 - Corporate Governance and Accountability Arrangements for Commonwealth Government GBEs, 1999, Section 4.6*

was possible for a minister to spend more funds from a GBE than its apportioned equity amounted to.

As a result of ongoing problems the Government of the 13th Legislative Assembly took the policy decision to consolidate into the Revenue Fund all the GBEs in the 2010/11 budget and all expenditure was subject to appropriation. The only areas currently outside the Revenue Fund are Healthcare, Workers Compensation Scheme, KAVHA and airline pre-paid ticket sales which require funds to be held in trust.

Territory Authorities

The two main Territory Authorities are the Norfolk Island Hospital and the Norfolk Island Tourist Bureau, both established under their own Acts. Staff employed in each authority are exempted from the *Public Sector Management Act 2000 (NI)* ('PSMA') and are separately engaged under different employment conditions and management.

Operational control for the Authorities remains with their management, reporting to the responsible Minister. Each Authority receives an annual block grant subsidy, paid as a monthly tranche to the hospital, the amount of which is approved through the Budget Review Committee process. The Administration provides some support, such as IT services and insurance cover.

Recent events suggest the Authorities do not have the capacity to manage their operations within their financial constraints. In 2009/10 financial year the Administration took over the accounting function of the Tourist Board because of serious budget overruns. Recently the hospital experienced a funding shortage which required the Administration to provide additional funds, drawn from emergency Commonwealth financial assistance. The Administration did consider taking over the Hospital's accounting function, as an option to improve financial management, however this has not yet proceeded because the magnitude and complexity of the hospital's transactions will be a considerable burden on the Finance Branch. The Administration has also started providing HR assistance to the Hospital.

Management of the Administration's Functions

The current structure of the Administration has nine functions reporting to the Deputy CEO and another ten (plus the Deputy CEO) reporting to the CEO.

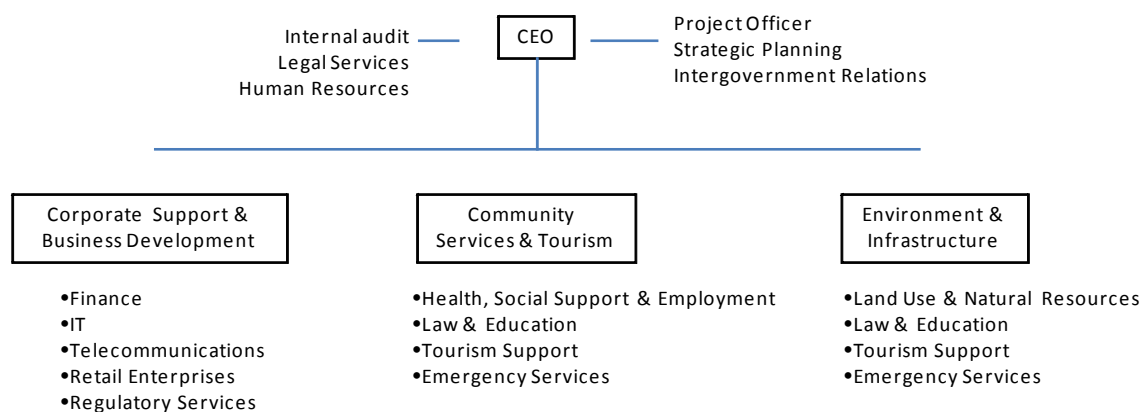
While there is no "right" span of control, a wide span of control means that a manager cannot have close control over operations and therefore depends more heavily on subordinate managers for effective operations. It works well where there are clear goals and policies, where responsibility can be confidently delegated, and where subordinate managers are competent to operate with less supervision.

Managers below the CEO or Executive Director are operational managers. They are good at getting things done but in most cases their competency levels in management skills such as planning, financial management, resource allocation, performance management or policy development have been learned on the job and are limited at best.

The Review believes the existing span of control is too broad, given the limited management sophistication below the CEO, for effective operation of the Public Service with the current range of services and responsibilities.

The 1998 Howard Report also addressed this issue and recommended the Public Service be managed as a single “corporate” entity, structured around seven “lines of business” with a Senior Manager heading up each line of business. It further recommended the Senior Managers work as a Corporate Management Group to encourage and ensure a consistent and coordinated approach to management.

The Public Sector Management Act (NI) (PSMA) includes the roles of Executive Director and refers to a Corporate Management Group. Executive Directors have been used in the past. From 2002 there were three directorates each with its own Executive Director.



It has been suggested that a structure with Executive Directors failed in the past and that therefore it wouldn't work now. However the evidence suggests it failed because of a concerted effort of resistance from within the Public Service, led by a powerful lobby, against the then CEO and Executive Directors.

The idea of grouping like functions with an Executive Director heading each group has a lot of merit. It allows synergies to be realised between similar functions within a group; it allows the lower level management group to focus on operational issues while leaving more strategic issues to the Executive Director; and it provides an opportunity for the Executive Directors to work collegiately in a Corporate Management Group. The issue of resistance to a layer of Executive Directors may occur again, however this Review considers that the threat of resistance shouldn't prevent a change will benefit the organisation. The resistance needs to be recognised and managed as a change management issue.

The Public Service Board

The Public Service Board is established under Section 9 of the PSMA. The Public Service Board is a major factor in frustrating the efforts of the CEO to manage his organisation and contributes to a reduction in the capacity of the Public Service to effectively deliver its services. There are two aspects to this issue.

1. The Board has considerable power that can frustrate decisions of the CEO.
 - It can review the outcome of the recruitment process and form an opinion as to which of the candidates is the most eligible, and then direct the CEO to either cancel a decision to appoint a person or appoint a person to that position. (Section 59).

- It can review the termination of an employee. If the Board considers the termination was harsh it may order the reinstatement of the employee or order that compensation be paid to the employee. (Section 63).
- It can review a matter referred by any person “who has complained to the CEO and is not satisfied with the action taken by the CEO”. The Board may then elect to investigate that action and report on its decision. (Section 65).
- A member of the Board is not subject to direction by an executive member or, as an employee, by any other person when that Board member is engaged in a Board activity. (Section 13 (5)).
- With respect to a Merit Review or termination review the Board is not bound by rules of evidence, but may inform itself on any matter in such manner as it thinks fit. (Schedule 2, Point 2.(b)).

There is a requirement under the *Norfolk Island Act 1979 (Cth)* section 48M that “the CEO must manage the affairs of the Administration in such a way that promotes proper use of the Administration resources for which the CEO is responsible”. It is the opinion of this Review that the CEO cannot fulfil this requirement in the current situation where his decisions on resources can be overruled by the Public Service Board.

2. The Board’s membership includes members of the Public Service, including the President and other senior members of the Public Service Association. Other members include community representatives. The Review was told these representatives have no legal expertise and some have little or no managerial experience.

The evidence suggests that standards of probity are not adhered to by the Board in its operation and that it is used by certain of its members for personal gain. For example, the Review sighted several memos to the Chief Minister from the CEO in April/May 2010 which covered concerns about the legality of the Board’s decisions and about the Board’s conflict of interest in five matters it had recently acted on. The Review also heard from other employees and the community about concerns with the Board.

The interests of public servants are represented in three ways in Norfolk Island – through the Public Service Board; through the Public Service Association and through the Staff Consultative Committee. The three bodies are established by the PSMA.

There is duplication of work between the Staff Consultative Committee and the Public Service Association. A small group of employees are members of all three bodies, which raises conflict of interest issues, particularly with staff association members being on the Public Service Board which is supposed to be an independent review body.

The Chief Minister has acknowledged the problems with the current situation. In the Hansard of 23 June 2010 the Chief Minister says:

“There are a number of difficulties with the Public Sector Management Act. Not the least is the process for appeal in various circumstances. I’ve got to identify that these difficulties are long standing. They are prior even to this Legislative Assembly. Therefore to solve the overall problem requires significant review of this particular piece of legislation, the Public Sector Management Act 2000.”

It is the opinion of this Review that an independent review body such as the Public Service Board will not work where the majority of its members are drawn from a small community like Norfolk Island. The potential for conflict of interest is high and the pool of talent to draw from is too small.

The Public Sector Management Act 2000 (NI)

There is an inconsistency between the *Norfolk Island Act 1979 (Cth)* and the PSMA with respect to Public Servants being members of the Legislative Assembly.

Section 12 (1) of the *Norfolk Island Act 1979 (Cth)* states that a person employed in the Public Service of the Territory is not eligible to be a minister, and a person holding office as a minister vacates his or her office if he or she becomes so employed. Section 39 (1)(d) further states that a person is not qualified to be a candidate for election as a member of the Legislative Assembly if, at the date of nomination, he or she is the holder of an office or appointment under a law of the Commonwealth or of the Territory, being an office or appointment that is prescribed for the purposes of this paragraph". Consist with this schedule 4 of the PSMA lists a range of public sector prescribed positions for which one is automatically considered to have resigned if they are elected to the Legislative Assembly.

Yet Section 52 (1) of the PSMA also says that an employee who is a member of the Legislative Assembly will be taken to be on leave without pay when the employee is attending a meeting of the Legislative Assembly. It has been suggested this last clause is intended to only relate to junior employees not holding a prescribed position listed in schedule 4, however this is unclear.

The effect of the PSMA appears to be to allow for some employees to participate in the Assembly while remaining employees. Such a situation contributes to an insufficient delineation of roles between the Administration and the Legislature observed by this Review.

It is also noted that the list of roles in schedule 4 of the PSMA is out of date and that the sections in the PSMA relating to the Public Service Board require significant revision, as noted above.

In this Review's opinion it is unlikely the PSMA could be rendered effective with some minor changes. It is recommended the PSMA be repealed and a completely new PSMA developed that is based on contemporary public sector management principles similar to those found in mainland jurisdictions.

Range of Services Delivered

The Norfolk Island Administration, Government Business Enterprises and Territory Authorities deliver a range of services that on the mainland are distributed across Commonwealth, State and local level government. Norfolk Island is to be commended for managing to deliver the services it does with the limited resources it has. However delivery of services is becoming increasingly complex and community expectations about service standards are rising everywhere. It is a challenge facing all governments, including Norfolk Island.

The Norfolk Island Administration does not have the capacity to deliver the current range of services to the standards required.

Some of the issues impacting the capacity of Norfolk Island to deliver the range of services required include the following.

- The small number of officers to deliver a wide range of services. Economies of scale do not exist and it is common to find officers doing several jobs, sometimes in unrelated areas.
- In the absence of sound management control, as found in the Administration's operational areas, a workforce will effectively set its own work practices and levels of productivity. This is the Review's assessment of the situation on Norfolk Island and it was confirmed by a number of stakeholders who referred to a culture of complacency in the Administration.
- A customer service orientation was not evident, the focus is internal.
- Although it needs to be confirmed with more detailed study, there appears to be an overlap of resources across some branches which could lead to inefficiencies in resource utilisation. For example:
 - Plant Operators/ Labourers are separately employed by a number of areas including Forestry, Waste Management, Ground Maintenance, and Roads.
 - The mechanical section of the Works depot performs similar functions to the mechanical section in the Electricity function.
 - Admin Officers are used by a number of areas. There may be potential to co-locate some services, particularly those that interface with the community, and allow sharing of resources.
 - Grounds and reserves staff are used by a number of areas including Forestry, Airport, Hospital, KAVHA, Works Depot and the School. The 2008 Public Accounts and Estimates Committee report on the Review of the Cost to Maintain the Public Grounds and Reserves by the Public Sector recommended amalgamating some of these areas to improve efficiency.

Although it might not be practical to share all of these positions, especially qualified tradespeople, it is doubtful that each area requires dedicated resources in all cases.

- Processes are inefficient. The Review team only mapped in detail one process within the Finance area, however it confirmed that considerable non-value adding activity exists. See also Appendix B. Non-value adding activity creeps into all processes over time due to changed work practices, inadequate support systems, and poor management control. It is not uncommon for the non value adding component of processes to exceed 50% if it hasn't been assessed for some time. Anecdotal evidence suggests that similar amounts of non-value adding activity will be found in most areas throughout the Administration.

Internal Management

Key Issues

- Ministerial involvement in operational matters is commonplace.
- The Public Service is the major employer on Norfolk Island with employees tending to remain for many years. Perceived and actual threats to job security are taken very seriously. Low staff turnover also minimises the opportunities for career progression.
- Poor work performance is a problem, exacerbated by a perception amongst staff that they have a “right” to a public service position, that “permanent” means for life, and that it is almost impossible to fire poor performers.
- Resistance to change within the Administration is considerable and should not be under-estimated. Internal resistance is one of the main causes that recommendations from past reviews have not been successfully implemented.
- A number of stakeholders from the community, the commercial sector and the Public Service suggested that, in the conduct of their official duties, some elected representatives and some members of the Administration have been or are influenced by personal interest. Whether or not there have been actual conflicts of interest, there is a strong community perception that conflicts of interest definitely exist and thus confidence in the Administration is undermined.

Terms of Reference

How the current structure differentiates between the roles of policy, service delivery and regulation, including the role of Ministers in decision-making.

The current structure doesn't differentiate well between the roles of policy, service delivery and regulation, or the role of Ministers in decision-making. The Review was told that some public servants believe they both determine and implement policy, and resist implementing policy at odds with either previous practices or their preferred direction. It is not uncommon for public servants to approach Ministers directly to seek policy reversal or change.

Effective and fair regulation in a small community is difficult and, combined with the culture described earlier, means that regulation is often applied at the discretion of a regulating officer. This reluctance to enforce compliance exposes the Administration to criticisms of conflicts of interest or probity complaints and the perception of whether a conflict of interest exists is just as damaging to good governance. Because of complex disciplinary processes and a lack of any external independent monitoring most officers are not concerned about complaints and so the behaviour continues.

Involvement in decision making by ministers is commonplace and was raised by almost all interviewees. In addition the ministers themselves acknowledged that they get involved in detailed operational matters too much.

There may be several causes at work:

- The limited capacity of the Public Service may encourage ministers to roll up their sleeves to get quick action.

- The 'can do' attitude of Norfolk Island and the lack of clear boundaries between elected members and the Public Service.
- Ministers do not understand the importance of separation of Government and the Public Service.
- Existing legislation requires ministerial involvement in decision making, often via membership of an oversighting board.
- The small community and close relationships means that community members have unparalleled access to their elected members. This situation is particularly difficult when a complainant is a member of the Public Service. Interviewees commented that it is not uncommon for a community member to approach a Minister when they have a problem with the Public Service. There is an expectation that the Minister will take their concern directly to the appropriate manager and resolve the issue.

The effect of excessive involvement by ministers is that management effectiveness is reduced and inefficiencies introduced because planned decision making is subverted and resources are redirected to the priorities that ministers consider urgent. It is not that a public service should not be responsive to the policy agenda of the government-of-the-day, it is the fact that in Norfolk Island minister's are intimately involved in micro-decision making that leads to public servants expecting to be second-guessed by their minister.

Again this interference of Assembly Members in the daily operation of the Administration was highlighted in previous reports.⁹

For significant change to occur the CEO and Public Service must be allowed to act in a professional manner without their decisions compromised by politicians becoming overly involved or the threat of sanctions from ministers acting on behalf of a dissatisfied community or another Public Service member.

Managing Human Resources

The Public Service is the major employer on Norfolk Island, and this leads to issues around job security and career progression.

The community sees the Public Service as the main vehicle for employing the next generation of Norfolk Islanders if they are to remain on the island. Although there are calls, mainly from the private sector, to reduce the size of the public sector, there are also concerns that reducing the size will mean fewer jobs for young people.

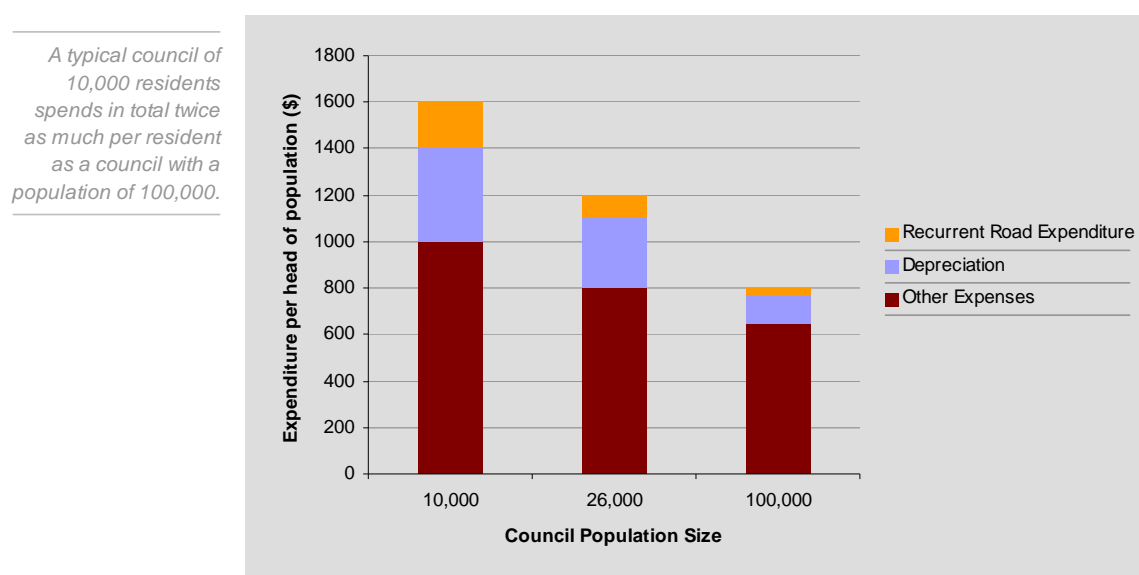
Cost associated with the training programs for young people, such as traineeships and apprenticeships are very high, especially for the formal training segments of these programs. To send an apprentice away to the mainland for compulsory block training results in a cost factor of \$10,000 for each block period. This includes airfares, cost of delivery by RTO, accommodation, etc. As employers are currently not able to access the Australian Government Employer program for taking on trainees and apprentices, no subsidies are provided to employers on Norfolk Island.

⁹ *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island, Dec 2003, p20, section 2.22*

But apprenticeships are only one form of training and it is the view of this Review that many other training and development opportunities exist that the Administration could explore and encourage. Formal learning and development programs are an obvious choice but where any were available they have lapsed due to recent funding shortages. Placements with mainland local, state or federal government agencies are very much possible, to develop individuals and expose them to other environments. Similarly, exchange programs can often be attractive. Rotating staff within the Administration, nurturing talent, action learning projects – these are all areas that require investigation and implementation.

Caution must be exercised when comparing resource numbers with other service delivery agencies. As the graph¹⁰ shows, expenditure per head increases dramatically as the population size decreases. This is not making a statement about the adequacy of the numbers of staff in the Administration, it is simply cautioning against simplistic comparisons.

Chart 5: Council Size and Average Expenditure Per Head



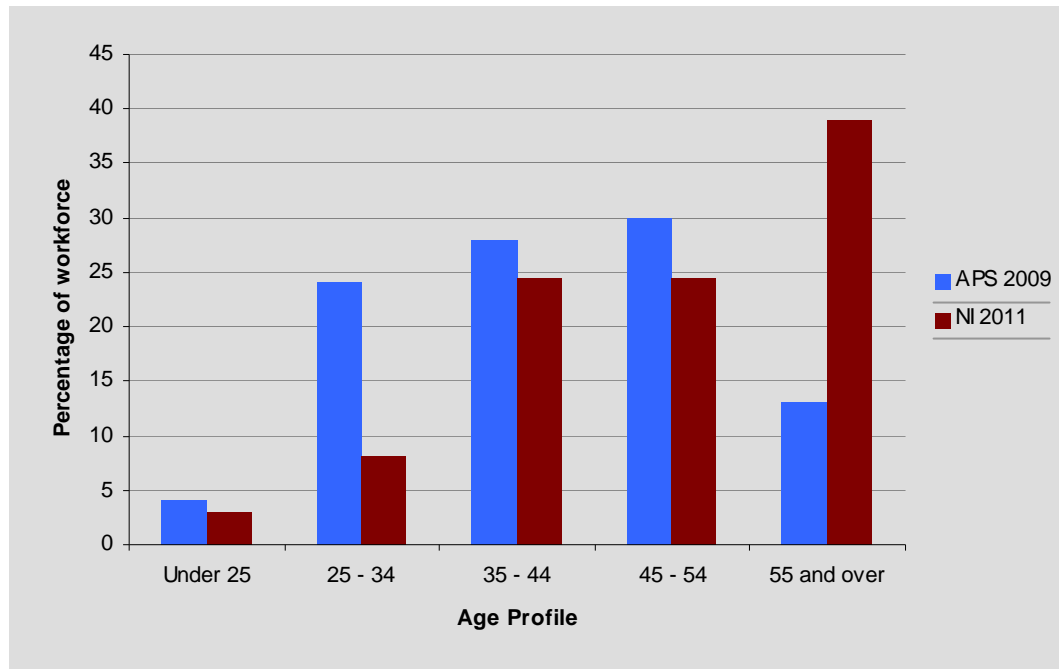
As the major employer job security amongst Public Service staff is also a cause of concern because they are unlikely to find another position that matches their skill set on the island. This influences their decisions to move from permanent to contract based employment.

It also means that once a person has joined the Public Service they are unlikely to move from it, so career progression is limited because people tend to stay in the same role in the Service.

¹⁰ *Local Government in Victoria Report, 2009*

The following graph highlights the age profile differences between the Australian Public Service and the Norfolk Island Public Service.

Graph showing Age profile differences between APS and NI Administration



There are a number of people issues within the Public Service including: very limited training or professional development; and no career planning, performance management, or succession planning. Some of these are now starting to be addressed. For example:

- Performance criteria are now included in all contracts;
- Performance management is being introduced through the Program budgeting approach currently being rolled out;
- Access to training is about to commence. The Administration has purchased "Learning Seat" an e-learning program that gives greater capacity for all staff to access training on-line at a reduced cost. This will allow for more funds to be distributed for specific mandatory and technical training and compliment training already conducted.

The implementation of this system will assist in addressing lack of formal training for Line Managers particularly in the areas of budget development and financial reporting, developing business plans, people performance, staff management, report writing, handling conflict in the workplace, continuous improvement, etc.

Performance Management

The formal performance management system is covered in Section 6.4 of the Human Resources Policies & Procedures Manual 2001 by a single line: "a set of guidelines for managing underperformance will be developed by the CEO."

There is a limited system of performance management, limited in that it effectively only applies to recent appointees for increment increases based on performance. Therefore, formal performance management reviews are only conducted for a small minority of the workforce – those on contracts.

The current performance management system, as it is currently implemented, does not allow for an across the board approach to review all job descriptions on a yearly basis, as is the “usual practice” in performance management systems in the majority of public sector workplaces. Therefore it does not allow all employees to engage in a formal review of their positions and have focussed conversation with their Line Managers on how they see changes in their work tasks, skill gaps and training needs, etc. This then results in ad hoc training requests, that may not necessarily be the most appropriate to bring staff up to the standards in order for them to carry out their work effectively and efficiently.

Annual performance appraisals do occur but only for the purpose of moving to the next pay level. The system is limited because there are only three pay levels within each band, thus it is only effective for three years. Permanent employees who have been employed for more than three years are on the highest pay level within their band, and so no further performance assessment occurs.

A second problem is that most line managers and employees are not trained or experienced in conducting these reviews.

In the absence of an appropriate system of performance management, the tool provided in the HRP&PM for managing under-performance is disciplinary measures. This lumps underperformance with other issues such as probity and employee conduct and the process mandated is complex and is not appropriate for addressing performance. In an attempt to clarify the legal requirements of the existing system the current CEO has issued a checklist for managers. It is a lengthy and onerous process and left to the discretion of the manager, which is difficult in the Norfolk Island context of a small community. Even if the process was followed through and a person terminated, the decision could be overturned by the Public Service Board. As a result performance is not managed formally and no staff member has ever been terminated for poor performance.

To counter this situation management is attempting to simplify disciplinary procedures and to adapt all permanent positions which fall vacant to fixed term performance based contracts. These contracts include performance measures which are linked to renewal requirements. However the current HRP&PM does not allow the CEO to renew contracts after a three-year maximum period. The HRP&PM requires the CEO to re-advertise contracted positions even if they are filled with well-performing staff. The move to contracts is widely unpopular due to the fear of losing permanent status or jobs through not performing as performance requirements are included in these positions. A number of interviewees said they have not applied for promotion because of the fear of going to contract.

The formal performance management system has very board indicators and these have limited impact on a true assessment of an individual’s performance. It does not include a focus on individual positions and the “key performance tasks” required to meet the work output and standards of each position effectively and efficiently. Its application is further hindered because of cultural resistance and because managers have not been trained in formal performance management techniques.

Informal performance management usually refers to the practice of managers talking informally with their employees about their performance on an ongoing basis. This rarely happens in even the most sophisticated organisations and in a small community it has even less chance of being effective.

The most common mechanism for behaviour control in a small community is the unspoken peer group pressure – the understanding that if you “don’t pull your weight” the whole group will know and may isolate the individual. It is quite likely that this operates to enforce established poor codes of practice within the Norfolk Island Public Service. The problem is that the codes of practice are determined by the staff themselves and are not at the standards expected of a professional public service.

Accountability

Overall accountability for the performance of the Administration is defined in the PSMA (section 22) as a responsibility of the CEO to the executive member. The CEO is responsible for:

- The effective management of the public service;
- Promoting and enforcing compliance with the public sector general principles and employment standards;
- Efficient and effective implementation of policy decisions of the Executive; and
- Efficient and effective delivery of Public Service functions to the community.

The CEO may in turn delegate a power or function to another employee (Section 24 of the PSMA). In practice this is achieved through the organisation structure. The CEO has delegated responsibility for approximately nine functions to the Deputy CEO. Delegation for operational management is then delegated to branch or section managers.

The CEO is held to account through an annual report which is presented through the Minister to the Legislative Assembly. This element of the formal accountability system appears effective.

The CEO and Deputy CEO have issues with branch and section managers because they tend to push up difficult decisions. Performance based budgeting is being introduced as a mechanism for making Section/Branch managers more accountable for their performance.

The CEO is introducing Performance Based Budgeting slowly over several years. The approach of using PBB is sound and commended however the process is constrained by limited skills and understanding by managers, by antiquated IT systems and also by difficulties in accessing financial information. This element of the formal accountability system does not appear effective. It is entirely possible that resistance to being held accountable may overcome the CEO’s efforts and render this approach ineffective.

Change Management

The CEO has been introducing change to the Administration, including structural change and a level of performance management through the Program Based Budgeting process. This is commendable but a herculean task given the wide span of control and the many operational issues the CEO gets pulled into.

The CEO has chosen to take an evolutionary restructuring approach. The advantage of this is that it is less resource intensive and can be managed within the Administration's current resource levels. The disadvantage is that it will take a long time, during which substantial resistance can develop. The CEO feels that the slower approach has a higher chance of success in Norfolk Island.

The resistance to change in the Administration is considerable and should not be underestimated. It is the Review's opinion that internal resistance is one of the main causes that recommendations from past reviews have not been successfully implemented.

There are a number of people within the Administration who have been in their positions for a long time and have vested interests in maintaining the status quo. Many of these people wield considerable power because of their experience, positions, knowledge and network. They understand the PSMA and the powers of the Public Service Board very well and use them to their advantage.

It is the Review's opinion that evolutionary change provides this internal resistance with ample time to respond to attempted changes and to slow the change process. For this reason the Review believes a rapid and significant intervention, followed by a period of consolidation and evolutionary change, will have a greater chance of making significant improvement to the Administration's performance. To achieve this change will however require additional resources than are currently applied.

Maintaining Individual and Organisational Integrity

According to the NSW Independent Commission Against Corruption (ICAC):

"Organisational integrity is more than just preventing corruption or having a written code of conduct. It is when an organisation's operational systems, corruption prevention strategies and ethical standards are fully integrated to achieve the organisation's purpose. At the ICAC we have found that, when it comes to ethics, employees are strongly influenced by the words, and particularly the actions, of their leaders."¹¹

During the interviews and in subsequent submissions a number of stakeholders from the community, the commercial sector and the Public Service suggested that, in the conduct of their official duties, some elected representatives and some members of the Administration have been or are influenced by personal interest.

Whether these views are perceptions based on the past or present situation or reality is difficult to substantiate, however they collectively point to a system that does not instil confidence in its stakeholders that it is operating in their best interests. The consequences for an organisation that is lacking in integrity include:¹²

- Decision making becomes harder and less consistent;
- Staff find it harder to operate in, they are less committed and less satisfied;
- The culture is not one that values efficient and effective service;

¹¹ P5, *The First Four Steps, Building Organisational Integrity*. Independent Commission Against Corruptions, April 2001

¹² *The First Four Steps, Building Organisational Integrity*. Independent Commission Against Corruptions, April 2001

- Corruption is more likely to occur or to grow in seriousness if people perceive it already occurs; and,
- The organisation's reputation is stained and this in turn influences external stakeholder perceptions about its performance.

The foundation of organisational integrity is a set of core ethical standards and behaviours. A discussion of ethics in the Administration or Government in Norfolk Island can only be made in the context of the community culture which many refer to as the "Norfolk Way". Almost every interviewee stressed the uniqueness of Norfolk Island and the Norfolk Way.

Our sense of the Norfolk Way is that it describes a culture that has grown out of the story of the Pitcairners as they journeyed to and established themselves on Norfolk Island, and the continuing struggle of isolation, limited supplies and at times significant perils. The characteristics of this culture could be expressed as (although not limited to):

- A preparedness to hold authority to account;
- A preparedness to stand up and confront adversity (leadership);
- A 'can-do' attitude, which translates as Norfolk Islanders being able to turn their hand to many tasks;
- A strong belief in self reliance and resilience; and
- Pride in the achievements of the past.

These characteristics can influence positive attitudes and behaviours. They can also lead to negative attitudes and behaviours. Many submissions related negative aspects of the Norfolk Way, such as:

- A suspicion of authority, especially the Commonwealth Government;
- A tendency to only value the way things were done in the past, which stifles progress. The attitude of many towards the use of the lighters is a case in point¹³;
- A 'can do' attitude has become a 'make do' or 'good enough' attitude (i.e. accepts lower standards) and leads to complacency;
- A strong belief in self-reliance can lead to arrogance about one's abilities or minimising the importance of qualifications, skills and experience necessary to do a job in a modern environment; and
- A fear of outsiders 'taking away' from Norfolk Island.

Many people were reluctant to speak openly and wanted assurance their views would not be traceable. Others sent anonymous letters to the Review team highlighting problems in the Administration or Government. These negative themes are not new and have been noted in the past, such as in the 2003 'Quis custodiet' report where the Review Committee reported:

¹³ Lighters are the small open boats still used to transfer cargo from ships to shore.

"The Committee is therefore greatly disturbed by the number of witnesses whose participation was made contingent on written submissions being kept confidential and oral evidence taken in-camera. A common theme in these requests was the witnesses feared being ostracised or believed they were at risk of reprisal."

A significant number of people warned the Review team about using the government email system or telephones because, they said, privacy could not be assured. If a significant number of people have a common understanding like this (whether perceived or real) it can lead to a culture of paranoia, which in turn can affect productivity and effectiveness. The Review's position is that it should be reported and acted upon. If phone and email tapping is occurring then it could be an offence under the *Telecommunications Act 1992 (NI)* and should be investigated further. It should not be peremptorily dismissed as "hearsay" without further enquiry.

Norfolk Island's isolation and small community effectively makes it a "closed system", and a characteristic of all closed systems is "Groupthink". The term Groupthink is used as a label for a collective of symptoms that all closed groups exhibit. These are:

- an illusion of invulnerability (a 'can do' attitude);
- collective rationalisation – members discount warnings and do not challenge their basic assumptions;
- members believe in the rightness of their cause and ignore ethical or moral consequences of their decisions;
- stereotyped and negative views of outsiders;
- direct pressure on dissenters – members feel under pressure not to express counter-views;
- doubts and deviations from the perceived group consensus are not expressed or discussed;
- illusion of unanimity – the majority view is assumed to be unanimous; and
- self-appointed mind guards – members protect the group from information that is problematic or contradictory to the group's collective view.

The evidence before the Review team suggests strongly that Groupthink is alive and well on Norfolk Island and that this Groupthink reinforces the negative aspects of the Norfolk Way.

In organisations that operate in large communities organisational integrity can be nurtured as a unique organisational characteristic because the organisation is sufficiently different from the community in which it operates and there is a recognised boundary between the two. The size of Norfolk Island means that there is not a well defined boundary between the public sector and the community. As a result the culture of the public sector is heavily infused with the Norfolk Way and the characteristics of Groupthink.

The Administration has put in place some measures to address integrity, such as a section in the HR Policies & Procedures manual called 'Conducting ourselves professionally in our work' and section 8 in part 2 of the PSMA which deals with Standards of Conduct for public sector employees.

Measures such as these are only one part of addressing the organisational integrity issue. What is also needed is a set of core values, principles and purpose, and a culture of integrity. The ICAC report also suggests the four steps to organisational integrity are:

- identifying a set of values;
- the leaders following those values themselves;
- the leaders promoting those values to others; and
- building integrity into every decision and action.

Although the controls put in place by the Administration are a step in the right direction, the Government of Norfolk Island and the Administration still have a lot of work to do to address organisational integrity.

Internal Service Delivery

Key Issues

- The Human Resources function is not adequately supporting the organisation.
- The Finance function is not adequately supporting the organisation. Financial recording and reporting systems are ludicrously antiquated and expose the Administration to an extremely high level of risk.
- Information and communication systems are antiquated and expose the Administration to an extremely high level of risk.
- There is a widespread perception that appropriate and transparent procurement processes are not always followed by the Administration. The existing procurement guidelines require substantial review.
- The Legal Services Unit does not have the capacity to provide core quality legal services. Serious concerns exist about the quality of advice regarding:
 - legislation;
 - contracts;
 - dispute resolution.
- Several of the managers we spoke with were concerned about poor OH&S practices.

Human Resources

The Human Resources function is not adequately supporting the organisation. There are only two people supporting this function – a HR Manager who has only recently been employed and a HR Officer who has been in this position for two years (one year as Acting HR Manager while the position was being recruited).

Key issues in delivering HR services include:

- Absence of an HR system, which has now been provided for in the 2011/12 budget. Prior to the current manager starting the Administration had purchased a HR module for the SmartStream system. The Review was told that annual fees were being paid but the implementation team (consultant and IT) could never get the system to work. Addressing this issue was one of the HR manager's objectives. One month prior to the current manager starting in her role all the data was wiped from the system, apparently because there wasn't enough storage space for it.
- The HR Policies and Procedures manual is poorly structured and incomplete. It was approved by the Assembly in 2001 even though it was incomplete. As noted in the preface of the manual:

"The attached copy of the Human Resources Policy and Procedures is a compilation of the document approved by the House on 24 January 2001 and any decisions made consequently by MLAs. As the House makes determinations under Section 26 of the Act, all parties and the Public Service Board and the Public

Service Association recognise that some items are still the subject of discussion between staff and MLAs."

Areas that need revision include:

- o Section 3.2 Higher Duties Payment. Fails to give direction, only a recommendation. "...a system of recognising when a person is performing higher work of a higher graded position and ensuring that the appropriate payment is made in a timely fashion is recommended."
 - o Allowances are very generous and mostly at the discretion of the immediate supervisor. Allowances are described for: Higher duties, Overtime, Public Holidays, On call status, Call back allowance, Tool allowance, Meal allowance, Travel or business allowance, Mileage allowance, Telephone reimbursement, Relocation expenses allowance, and Recreation travel allowance (this is a benefit specifically to enable staff to take time away from the island once every two years. It is discriminatory because not all staff have the financial resources to cover costs for the initial seven days that they are required to stay away.)¹⁴
 - o Given the lack of managerial control at the operational level and the organisational culture, this level of discretion is a risk to the organisation. One stakeholder referred to the practice of "allowance farming" which it is suggested is how people get extra pay in the absence of promotion opportunities.
 - o The policy on 'On Call Status' is incomplete. The manual indicates that the Corporate Management Group, in consultation with the Consultative Committee, will review the call out system and make recommendations to the CEO.
 - o Section 6.4 Managing Underperformance is incomplete. It refers to a set of guidelines the CEO will develop. The CEO has developed a set of informal steps to take to manage poor performance, but it is not currently part of the HR manual.
- A middle level management culture that breeds complacency and doesn't respect or understand contemporary management practices.
 - Lack of competency standards for positions.
 - Lack of training. The HR manager is currently in the process of setting up on-line modules for bullying, OH&S and other common training elements.
 - Performance is not recognised – people are rewarded based on time in the job, not performance.

Finance

Finance is a critical support function and impacts the operation, efficiency and effectiveness of all areas of the Administration. The Finance function is staffed by a Finance Manager, an

¹⁴ HR Policies & Procedures Manual, p20

Examiner, two Accounts Clerks and two Cashiers. Issues relating to the performance of the finance function include the following.

- The Finance Manager is nearing retirement and there is no succession plan in place. The Review understands that an Assistant Accountant was being groomed for the senior position but that person has left and the position remains vacant.
- There is a lack of people with formal qualifications or training and a lack of reference to professional standards supporting the function. Finance uses the SmartStream system for creditors and a Burroughs system for debtors. The Burroughs system is antiquated and a risk to the Administration because it depends on the former IT Manager manually programming it. It is noted that the CEO has recently initiated a project (with Commonwealth funds) to upgrade the debtors to SmartStream also.
- Some processes, such as payroll, are manual. The Payroll process was process mapped by the Review team (refer to Appendix B). Staff records are kept on cards however these have not recently been checked against the established positions. The process is inefficient and a potential risk for the Administration. Payroll is about to be changed to use the Attaché system however attendant processes will also have to be reviewed and upgraded. Not all salary-related payments are processed via the payroll, making accountability and transparency almost impossible to achieve.
- Processes are not customer friendly. For example:
 - If someone wants to apply for a driver's licence they start at the Registry Office, then walk to the Accounts Department to make a payment and have it recorded on the Accounts computer system, then they go back to Registry who record it on their computer system.
 - To purchase bulk fuel a person must drive to the Accounts Branch in Kingston to pay for the fuel and receive a receipt, then drive to the fuel depot at the Airport and produce the receipt to collect their fuel.
 - If a person lodges a form with the Workers Compensation or Companies branch they must then walk to Accounts to make their payment. Accounts call the receipt number back to the initiating branch to save the customer walking back again.
 - Opening hours are not respected causing frustration for the public. Feedback suggests that Accounts is often late opening and staff take long lunch breaks which makes them unavailable for service.
- Invoicing for purchases involves managers physically bringing their invoices to Accounts at the end of each month. The details are then entered by Accounts into their system before payments are generated. The backlog of invoices can cause significant delays in payments being sent out.

Information Technology

The Information Technology Office is another critical support function which impacts the operation, efficiency and effectiveness of all areas of the Administration. The IT Office is

staffed by an Acting IT Manager and two IT Officers. Issues associated with IT services include the following.

- The operation of IT services was heavily dependent on the previous manager who resigned during this Review. The IT manager had been in the Administration for 29 years and possessed technical skills which other staff members did not have, such as programming the antiquated Burroughs system. The IT manager was also active in the Public Service Board, the Public Service Association and the Consultative Committee, which took him away from his role. The extent of dependence of IT services on a single manager presented a substantial risk for the Administration however it is now being addressed through changed systems and increased training of key staff in operation and system management.
- Investment in new IT infrastructure is limited. The IT section recycles a lot of equipment (they employ students to pull apart old computers so they can reuse the parts) and use this to keep computers going. This recycling is critical in the case of some equipment that is so old that parts cannot be sourced.
- IT services mostly react to problems, little proactive planning or maintenance seems to occur and there is no IT Strategic Plan or similar document.
- Some training is provided to users by IT services but it is limited.
- There were many complaints about the attitude and level of service provided by IT, including lack of training, and poor internal customer focus.

Development and then implementation of a cohesive IT strategy must be a high priority within any planned organisational change.

Procurement

One of the themes that emerged consistently during our discussions with stakeholders was procurement. Many people had stories about tender processes that were undermined by conflicts of interest, contracts that were let without going to tender, inappropriate purchasing decisions and poor contract management.

The current CEO is confident that the previous practice of non-compliance with procurement guidelines has been rectified. The Review could not determine to what extent this was now the case, however the fact that so many people raised their concerns with us indicates there is a widespread perception that appropriate and transparent procurement processes are not always followed.

The current Procurement Guidelines were approved by the Corporate Management Group in September 2004. They do not appear to have been updated or reviewed since.

The Procurement Guidelines provide an overview of government procurement policy regarding:

- the procurement of goods and services, including contract labour;
- the letting of tenders and contracts for the purchase of plant and equipment and services; and

- the engagement of consultants.

The purchasing principles articulated in the Procurement Guidelines include:

- value for money;
- open and effective competition; and
- fairness and equity in dealing.

These principles are discussed at some length within the guideline document but in our view could be further enhanced.

Our practical suggestions for revising the Procurement Guidelines, and regarding procurement practices generally, are provided at Appendix C.

Legal Services

Legal services are provided by the Legal Services Unit (LSU) which is staffed by three fulltime legal officers, two clerical support staff and an off-shore legislative draftsman on a fee for service basis. The manager of the branch is the Crown Counsel.

It is the Review's position that the LSU does not have the capacity to provide core quality legal services.

The Review also notes that measuring the quality of legal services is a qualitative exercise and as such prone to conflicting points of view.

The present approach to obtaining core quality legal services fails to acknowledge the broad range of specific legal expertise the Administration requires in its operations and places too much reliance on the general expertise of the LSU. At present LSU expertise is expected to include:

- Drafting expertise in areas governed on the mainland by local, state and federal legislators and regulators;
- Commercial contracts covering complex industries requiring significant industry level expertise such as telecommunications, health, commercial leases, airlines and energy contracts; and
- Highly specific areas of legal practice including (but not limited to) employment law, commercial law and criminal law.

The LSU does not have the depth and breadth of expertise required and may never have. The over-reliance on in-house legal advice by the LSU impacts both the effectiveness and efficiency of legal services provided to the Administration. This is seen in the past complaints about the service which have included:

- A complaint in relation to long delays in implementing the recommendations of the GST review working group. The process took seventeen months. An investigation into the causes concluded that there were accountability and managerial oversight issues that needed to be addressed.

- A formal memorandum of complaint from the Chief Minister of the 12th Assembly to the CEO in January 2009 about the quality of advice received and the time it took to receive advice on progressing reforms in relation to the introduction of the Administrative Complaints and Ombudsman function in Norfolk Island.
- Complaints about the quality of commercial legal advice from the LSU.
- Complaints about the quality of legislation drafted by the LSU. In the 12 month period to July 2011, 59 out of the 154 draft documents presented to the Executive Council required amendments, representing an error rate of 38%.

In 2009 the LSU submitted a proposal to have it removed from the operation of the PSMA and have it directly responsible to the Executive Member. This was rejected on the grounds that it might compromise the independence of future legal advice.

The capacity of the LSU to provide legal services in the three areas of legislative drafting; commercial contracting support; and general legal advices, highlights the challenges they face. Each of these areas is discussed below.

Legislative Drafting

The quality of the present approach to legislative drafting was reported to the Review as a concern. These concerns included:

- redundant and conflicting legislation;
- failure to define key terms;
- ambiguity;
- grammar and spelling issues; and
- decisions affecting rights and entitlements being made by unclear and subjective criteria.

These findings highlight issues not only in the drafting process itself, which is often outsourced (albeit not via an open tender process), but the management of legislation once drafted. Management of the legislation includes ensuring powers are delegated appropriately, authorised officers are identified, legislation is harmonised and instruments are repealed where necessary.

Rather than focus on only on issues of quality the Review feels it is more appropriate to focus on the reliance by the Administration on drafting bespoke legislation as a principal means of policy execution. Given the small jurisdiction covered by Norfolk and the broad array of rights residents expect, creating unique legislation for Norfolk is unsustainable and prone to creating an ambiguous legal environment where significant gaps in legal protections exist.

The present approach to drafting reported to the Review aims to copy, where appropriate, sections from applicable jurisdictions in mainland Australia. The Review's view is that Norfolk Island should shift from copying and redrafting to fully adopting legislation with limited exclusions where appropriate. This would make the legislative tables more manageable and enable access the full resources of the jurisprudence associated with Australian legislative frameworks.

The Administration currently administers 148 pieces of legislation dating from 1913 to present day. This legislation is intended to bring clarity to the rights of Norfolk Islanders. The online database of the NSW Parliamentary Counsel's Office shows more than 1700 acts and statutory instruments in force. The Commonwealth's online Comlaw database lists more than 50,000 pieces of legislation in force. While some protections are extended from the Commonwealth to the Norfolk Island jurisdiction, for instance the Criminal Code and the *Privacy Act 1988 (Cth)*, such examples are limited at the Commonwealth level and non-existent at State level. These measures indicate the scope of the task to bring certainty to the rights of individuals within the Norfolk Island jurisdiction.

The Review finds that the scope of the task of both the drafting and management of legislation is underestimated by the Administration. This has led to a situation where the legislative process is generating ambiguities in the legal rights of residents. An absence of legislation covering significant protections – for example trade practices and consumer law – contributes to this ambiguity.

Commercial Contracting Support

Commercial contracting support is provided to the Administration through the LSU. The Review finds the quality of advice received in commercial contracting is inadequate to appropriately mitigate the Administration's legal and commercial risk. In making this finding the Review notes the significant role appropriate procurement processes play in mitigating risk in commercial contracts the Administration enters into. Enhanced procurement processes, in particular greater reliance on standard form agreements and requirements schedules would result in significantly less risk.

Legal services with enhanced subject matter expertise would have minimised commercial risk to the Administration in the terms of several contracts reported to the Review in areas such as energy, the airline, commercial leases and the purchase of high value goods and services. Enhanced scrutiny of commercial contracts by not only legal specialists but also government procurement specialists would significantly lower the risk the Administration is presently exposing itself by relying so heavily on commercial contracting provided through the LSU.

The review notes that GBEs in particular are specialised areas where specialised subject matter legal expertise has not been sought by the LSU and significant legal and commercial risk exists for the Administration.

General Legal Advices

A pivotal function of the LSU is to provide the Administration with general advices in matters other than those noted above. The amount of requests for the LSU to provide general legal advice as reported to the Review has increased significantly over the course of the last two years. Such an increase in demand is regarded by the Review as having a significant impact on the capacity of the LSU to provide quality advice in a timely fashion.

The increase in requests for the LSU to provide general advices to the Administration was reported to the Review as being driven by a desire to use the LSU as a dispute resolution body. The belief that the 'legal opinion' would be the right and final position on any matter is thought to be a significant driver of the increase in LSU general advices.

The role of the LSU in providing general legal advice to different parties to the same matter, for example, an employee, the Public Service Board and Administration in some dispute proceedings creates conflicts of interest in the LSU. The review notes such a situation could be avoided through the adoption of a standard conflict of interest policy by the LSU.

For significant change to occur in the quality of general legal advice provided by the LSU to the Administration any reliance on the LSU as a proxy for the management internal disputes must be minimised. This could be achieved by the NIA adopting a clearly documented dispute resolution process. This dispute resolution process should be mediated by the HR Department and contain a right to have the results of the mediation independently reviewed, say by an external authority like the Administrator. Under this dispute resolution process the LSU's role should shift from providing legal advice to the parties to providing such advice only to the dispute resolution process owner, the HR Department. This approach would minimise the potential for conflicts of interest in the LSU and enhance the efficiency of their operations by removing the capacity for the LSU to be used as a proxy for dispute resolution.

The Review notes that a mediation and conciliation procedure is planned to be incorporated in the Human Resources Policy and Procedures Manual. This will assist in giving a more transparent and objective process to staff complaints and dispute issues.

Mediation will be the first step in the dispute resolution process. This will be a voluntary process in which the parties to a dispute, with the assistance of a neutral third party (the mediator) can identify issues, consider alternatives, develop options and endeavour to reach agreement. Conciliation will follow if the mediation process does not reach a resolution to the dispute or complaint.

Occupational Health and Safety (OH&S)

Several of the managers we spoke with were concerned about poor OH&S practice. They told us no funds were available for OH&S training or, often, appropriate equipment. Low levels of past investment in infrastructure replacement, for example power reticulation equipment, has resulted in at least one serious long term injury to a worker.

The Administration is starting to place more emphasis on OH&S. An initial mapping of what is required for staff OH&S training has commenced. With the introduction of Learning Seat (e-learning), all staff will have access to basic mandatory OH&S training for office, manual handling, working at heights, plant safety, forklift safety, and emergency management, etc.

The Administrative Officer who is coordinating OH&S has also completed a WorkCover approved training for the Introductory to Return to Work Coordinator's Course and is scheduled to complete Part 2 (advanced) in this financial year.

This has resulted in assisting injured staff back to work under return to work programs in consultation with medical practitioners and the injured employee in a quicker timeframe.

The OH&S provisions within the HR Policy Manual are unfinished. Some thirty incidents are reported per year, mainly low level "trips and slips". There was a strong sense that such incidents were under reported.

Incidents, we were told, were not routinely investigated and – apart from police – there was no-one qualified or appointed to conduct such investigations anyway.

The OH&S Committee meets on a monthly basis. Routine workplace inspections of all work areas within in the Administration are carried out by members of the OH&S Committee on a rotating yearly roster. An OH&S news Bulletin is also published on a quarterly basis and distributed to all staff and is also on the Administration intra-net. Safe Working Practices are also described within Part 4 of the *Employment Act 1988* (NI).

Norfolk Island Provident Fund

The NIPF acts as a form of superannuation for employees of the Administration. The funds, managed by trustees, are (by legislative requirement) invested in banks and term deposits. There is currently some \$8.5 million under management.

0 -12 years of service	5% employee contribution	5% employer contribution
12-18 years of service	5% employee contribution	6.5% employer contribution
18+ years of service	5% employee contribution	8% employer contribution

Employees who resign before six years of service are only entitled to their employee contribution. After six years service, any employee can access both their employer and employee contributions – there is no compulsion to leave funds in situ until the employee is aged 65, for example.

Community Service Delivery

Key Issues

- The delivery of services is not coordinated. Various people gave evidence of lack of coordination, including the duplication of effort, wasted resources, and examples of the difficulties for the community to access services.
- Overarching issues of training deficiencies, ineffectiveness, and poor managerial capacity were common to the majority of service delivery areas.
- Requirements to upgrade the Norfolk Island runway resulted in a Commonwealth debt of some \$11.4 million dollars. The debt remains outstanding; the runway will need to be upgraded again in 12-15 years; and no funds are currently being set aside to fund that future requirement.
- Waste management practices represent a high environmental and OH&S risk. Hard and some other waste is burnt in an open fire and the residue pushed over a cliff and into the sea.
- Tourism is the main economic driver for Norfolk Island but is not performing and has not recovered from the world wide drop in tourism in recent years. The Tourist Bureau is charged with attracting people to Norfolk Island. It has struggled to implement the five year Tourism Strategy, due to expire in 2012, and has had a string of General Managers in recent years; the most recent one resigned in July.
- Norfolk Islanders' ineligibility for Australian social security payments renders an entire set of Australian citizens at a disadvantage to their mainland peers. There is a disparity between social security payments available on Norfolk Island and on the mainland, both in financial terms as well as in the types of benefits available.
- Norfolk Islanders are also at a disadvantage because of the way their payment system is administered.
- The Norfolk Island Hospital is not accredited with any mainland or international organisation. Nursing staff have not received any formal training "for several years", according to the Director. Community members raised concerns with our Review team about the adequacy of hospital personnel, services and care.
- The hospital, the Norfolk Island healthcare scheme and the Norfolk Island workers' compensation are currently operating under considerable financial strain, and are underwritten by the Administration (itself effectively insolvent).
- The ongoing financial and practical sustainability of healthcare on Norfolk Island is questionable, at best. The responsible Minister has stated publicly on at least two occasions that it is not sustainable.
- There are ongoing concerns about contamination of Norfolk Island's groundwater. In the past it has been found to be contaminated by e.coli at rates above the recommended safe levels of drinking water.

The ability of the Administration to coordinate the delivery of government services.

Coordination of services occurs through the office of the CEO and involves the CEO and the Deputy CEO working together on cross functional issues to ensure a consistent approach is followed.

The Corporate Management Group (section 42 of the PSMA) was established to provide consultative or advisory functions to the CEO or to the Legislative Assembly. The HR Guidelines list lists its functions as providing advice on:

- major policy issues (such as social and asset infrastructure);
- Human Resource policy issues;
- financial strategies; and
- strategies relating to the improvement of the Administration.

It was intended that the Corporate Management Group would meet fortnightly and provide regular reports to the CEO and/or Legislative Assembly. It is clear that this was intended to provide a collegiate approach to managing the Administration and by so doing ensure the coordination of resource usage, service delivery, and policy advice. With the departure of several executive Directors the Corporate Management Team does not now exist.

The 2008 Public Accounts and Estimates Committee review of the Public Grounds highlights the overlap of services and duplication of functions and recommends greater coordination and streamlining. Previous reports also highlight opportunities for greater coordination, streamlining and collocating of services. Although the CEO and Deputy CEO are have been working to address these issues various people gave examples from the past and present of lack of coordination, including the duplication of effort, wasted resources, and examples of the difficulties for the community to access services. The Review concludes that coordination of delivery of services could be improved.

Process Maturity

A major opportunity for improvement is in eliminating non-value adding activities in processes. This applies to both internal and customer service processes. Unless they have been studied, most processes have significant amounts of non-value adding activity. Mature processes are documented, clear, broadly communicated and transparent. The more mature a process the more it is likely to be in control and to deliver the outcomes intended.

As an example of the maturity of an Administration process the Review team, with staff from the Finance Branch, mapped the Administration's payroll process (see Appendix B). The mapping of the payroll process demonstrates a poor process maturity with considerable opportunity for improvement in efficiency and effectiveness.

Anecdotal evidence from interviewees suggests that most of the Administration's processes will have similar opportunities for improvement.

Key service level processes are not documented and as a consequence impede efficient coordination between service lines. For example, the Payroll Process demonstrates eleven hours of service activity and forty-two hours of elapsed time. The Review emphasises it made

similar observations informally across all key delivery processes, and Payroll was selected only due to the ease of mapping a generic support process.

The Payroll Process map demonstrates all of the key inefficiencies observed by the Review in service level processes. These include inefficiencies attributable to:

- instances of rework;
- waiting for information to be provided by other service lines;
- backlogs;
- the use of multiple databases for similar data types; and
- redundant or unnecessary steps.

Such process inefficiency is a consequence of the flat organisational structure and an insular approach to service delivery, where requirements are not clearly documented and communicated between service lines.

The lack of process maturity is also contributing to the loss of organisational knowledge. Over-dependency on key people was reported to the Review many times, with single resources regarded as 'the only person who knows the process'. Such a situation coupled with an environment where processes are poorly documented creates a key risk to service coordination over time as key resources leave the Administration.

The Review also notes the significant role process maturity has in enhancing the transparency and accountability of decision making in the Administration. For example the Review was provided with several examples of procurements where processes did not follow transparent and repeatable decision making processes.

For significant change to occur in the quality of service coordination process maturity must be enhanced. The Review notes also that poorly documented and communicated processes are a key impediment to improvement activities by providing an ambiguous picture of the Administration's existing approach to delivery at the service level.

Service Area Examples

In the course of a single week on Norfolk Island, the Review team spoke to employees of the Norfolk Island Administration and to other stakeholders. Refer to Appendix A for details.

We spoke to many people, usually managers from many work units – but not all. And we are very conscious of the fact that where we did speak to people, we usually were able to spend only an hour or so. In that hour we could only develop, at best, a feel for situation or a very high level overview.

To follow therefore, are some examples of various work units where the issues are typical of the key issues that emerged for us. The overarching issues – of training deficiencies, ineffectiveness, poor managerial capacity, etc – were common to most.

Fire and emergency services personnel are based at the Norfolk Island airport. In the past, personnel have been on duty for the arrival and departure of all flights. However their working rosters did not correspond to the scheduled arrival and departure times of the

average of eight flights to and from the island each week, so overtime was charged in order to ensure an emergency services presence for all scheduled flights. Recent changes to the HRP&PM eliminated allowances for rostered overtime (although emergency overtime is still paid). In practice this meant that emergency services were not present for scheduled evening flights, although one staff member was officially on call during these evenings. Although this was the situation as described to the Review team, in commenting on the draft report the NI government pointed out there is now coverage on evening flights.

Norfolk Island airport runs at a profit¹⁵ but all funds go into the Norfolk Island Administration Revenue Fund. Commercial flights are effectively the only way on and off Norfolk Island. Some managerial and all budget decisions are therefore made by the Norfolk Island Administration (largely by the CEO). The airport manager would prefer to work to a Board of Management, so that they could focus specifically on running an airport. Apparently the bulk of the airport's income comes from landing fees, which are set by the Norfolk Island Government. There is one small cafe operating at the airport but no other retail or commercial space is let. Requirements to upgrade the runway resulted in a Commonwealth debt of some \$11.4 million dollars. The debt remains outstanding; the runway will need to be upgraded again in 12-15 years; and no funds are currently being set aside to fund that future requirement. Air traffic control is provided out of New Zealand but a licensed operator is required at the Norfolk Island airport for the arrival and departure of every flight.

Waste Management: Householders must bring all waste to a central depot – the Administration provides no waste collection service. The Administration charges no fee for the disposal of waste, even though it can do so according to the Waste Management Act 2003 (NI), section 10. A waste management levy is applied to all imported goods. At the depot waste is sorted before being stored on site (in the case of asbestos waste, for example) or disposed of. A landfill site is not an option on Norfolk Island, due to the presence of a substantial underground aquifer. Where possible, some waste is recycled and exported but the financial viability of this exercise is at best marginal. Hard and some other waste is therefore burnt in an open fire and the residue pushed over a cliff and into the sea. We were told by a stakeholder that volunteer Board Riding Club members annually clean Anson Bay, fouled by poorly burnt waste that has washed ashore.

Parks and Forestry: There are some 400 hectares of National Park on Norfolk Island. Unusually, a section of this is an allocated forestry zone for harvesting plantation Norfolk pine. Whether or not the forestry zone is commercially viable is the subject of some debate. Weed management within the National Park (and across the island more generally) is a constant financial burden. The Parks and Forestry officer has a dual Conservator/ Forester role and as such sits in a strange legal position that does not seem to be widely understood. As a Forester has a statutory responsibility and can only be directed by the Administrator in relation to public reserves. As a Conservator he is a public servant and subject to direction from the CEO.

Stock Health and Animal Registration: Registered cattle graze freely along the roads and verges of Norfolk Island. These cattle numbers are capped and owners pay a fee to the Norfolk Island Administration. It was suggested to us that the net cost to the Administration of keeping cattle on roadsides, once fence maintenance, erosion, weed control and inspection services are taken into account, exceeds the income derived however this is disputed by the responsible Minister.

¹⁵ Deloitte Touche Tohmatsu Norfolk Island – FY12 Budget Review

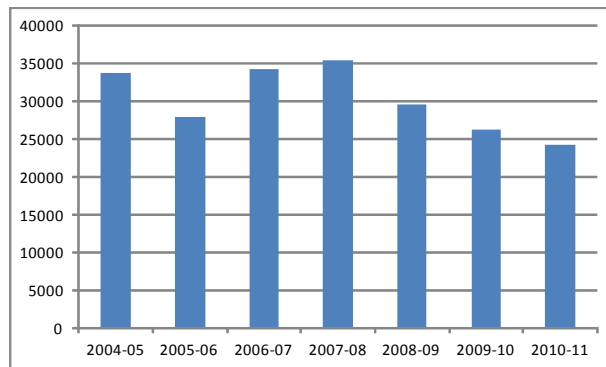
Norfolk Island Post Office has recently, and successfully, moved to a business model resembling Australia Post outlets, acting as both a post office and a retail outlet. There is no delivery service and all householders must use a post office box.

Demand on the postal service fluctuates a great deal: peaking upon the arrival of the regularly scheduled cargo ships. The demand fluctuations are managed using a pool of casual staff, although the Post Office Manager would like more autonomy in appointing casual staff. The Post Office Manager is obliged to offer work to all members on a regular basis instead of her preference to preferentially engage the more efficient members of that pool (although the Post Office Manager was involved in recruiting that pool of casuals).

Some of the parcels the workers must move and dispatch are very heavy (many Islanders buy tinned and packaged food online) but parcel handling facilities are antiquated and, frankly, dangerous. The racking used to store parcels would be unlikely to meet Australian standards for warehouse racking and presents an OH&S risk.

Tourism and Accommodation is the main industry on Norfolk Island. The Norfolk Island Tourist Bureau (NITB) is the agency responsible for promoting the Island. The NITB is a body corporate established under its own Act whose functions are to encourage visits to Norfolk Island from people mainly from Australia and New Zealand. It fulfils its role in a variety of ways including the Norfolk Island website, a year round events calendar, attendance at relevant travel shows and expos, public relations activities, promoting the Norfolk Island Brand and many other activities.

The problem for the Bureau and the Government is that attracting tourists in a sophisticated and highly competitive sector and in the context of the economic changes in recent times, is a complex task. The graph below shows that the number of tourists to Norfolk Island has been decreasing in recent years:



In terms of contextualising the challenge facing Norfolk Island, the Review notes the Acumen Report's (2005) modelling that estimates that tourist numbers would have to increase to over 100,000 each year to generate sufficient revenues for the NIG to adequately finance the capital requirements of NI, replace existing run down assets and achieve self sustainability.

The Government has a five year tourism strategy which is due to expire in 2012, however it has had some difficulty progressing it and few of the strategies have been completed. In 2011 the Minister ordered a review of the five year strategy and replaced it with a three year Recovery Strategy. In doing so he has also attempted to address one of the causes of the previous strategy not progressing – the commitment of all stakeholders in the industry:

In effect within that new strategy will be areas that are specifically developed to recognise some of the issues in the retail sector, in the accommodation sector, in the touring sector, in the broad tourism areas for Norfolk Island. And those areas of the strategy will be developed in conjunction with, for example, for the ATA and the Chamber of Commerce, so they have ownership of it, and they are then committed to the changes and they then become realistic changes that we all work towards. (NI Hansard, 6 July 2011)

The Bureau has also suffered from internal problems. These have included financial management issues which, after problems for two to three years, culminated in the Minister ordering that all spending commitments were to go through his office for vetoing (Hansard, 14 April 2010). The ongoing issues have also included a high turnover of General Managers, with the most recent one resigning in July 2011.

Social Welfare Payments on Norfolk Island. Norfolk Island residents do not qualify for Australian social security, family assistance and supplementary payments. Instead, they may be eligible for one of the income tested Norfolk Island pension entitlements:

- age benefit;
- invalid benefit;
- widowed person benefit; or
- special benefit.

Unavailable on Norfolk Island, for example, are pensions for sole parents, or for those caring for someone who has a severe disability, medical condition or who is frail aged. Nor is any form of unemployment benefit available.

The pensions are paid at roughly 85% of their Australian counterparts. As at January 2011 the single rate for a Norfolk Island pension payment was \$622.50 per fortnight. The single rate of an Australian Age Pension is \$670.90 plus a pension supplement to a maximum of \$58.40 per fortnight. Norfolk Island pensioners also receive a reduction in motor vehicle registration costs, free telephone rental for one private line, and reduced electricity charges.

Other non-tested Norfolk Island entitlements include an orphan's benefit (\$114.90), handicapped children's benefit (\$149.60), supplementary children's benefit (payable to pensioners with one or more dependent children: \$88.30) and a long-term care benefit.

These Norfolk Island social welfare entitlements are administered under the *Social Services Act 1980* (NI). There are currently around 100 recipients of social welfare entitlements.

Eligibility requirements for each payment necessarily differ, of course, but seem relatively straightforward. But each pension requires Norfolk Island residency for at least five years immediately prior to the claim (and for ten years for the age benefit).

To make a claim for a pension or benefit, a Norfolk Island resident must lodge a claim form with the Administration's CEO.¹⁶ In practice, the claim form goes to the appropriate manager within the Administration.

¹⁶ Social Services Act 1980, Section 30 (1).

That manager checks the claim to ensure all appropriate information has been provided, and follows up any additional information that may be required. The most common form of additional information is the claimant's bank statements covering the previous twelve months. These statements are used to assess income. The Norfolk Island Administration does not, however, have the ability to access claimants' financial information that may be held in Australia or New Zealand.

The manager then presents the information about each claim to the Social Services Board.

The Social Services Board must have between three and five members. One or two members must be members of the Legislative Assembly. Two or three must be community members appointed by the Administrator. The Board meets every six weeks to consider and make recommendations to the Minister for Community services. According to the *Social Services Act 1980 (NI)* the Board "may make such inquiries and investigations as it thinks fit" and "in the performance of its functions or the exercise of its powers, the Board is not bound by any rules of evidence but may inform itself in such manner as it thinks fit."¹⁷

The Social Services Board then makes its recommendations about each claim to the Minister for Community Services.

The Minister, referred to in the *Social Services Act 1980 (NI)* as the executive member, makes the final decision about whether a benefit shall be granted or refused.¹⁸ The Minister must then inform the claimant, in writing, of their decision. In practice, the Minister may make a phone call to the claimant as well.

A person "aggrieved by a decision of the executive member" may request the Administrator to review the decision. The Administrator then reviews the decision and has the ability to "confirm, vary or annul the decision".¹⁹ The Administrator's powers, in this instance are the same as those of the Social Services Board and of the executive member.

Whether or not the Australian Government makes the residents of Norfolk Island eligible for the full range of Australian social welfare payments is a question beyond the scope of this review. We understand that implementing such eligibility is a far from simple matter. As noted by the then Department of Family and Community Services in 2003,

*"Social security and family assistance arrangements are intertwined with Australia's taxation, health and superannuation systems. Such a decision therefore has significant implications across the whole of government."*²⁰

Yet Norfolk Islanders' ineligibility for Australian social security payments renders an entire set of Australian citizens at a disadvantage to their mainland peers. There is a disparity between social security payments available on Norfolk Island and on the mainland, both in financial terms as well as in the types of benefits available.

Norfolk Islanders are also at a disadvantage because of the way their payment system is administered. Regardless of the quality of the decision-making (which we are not in a

¹⁷ Social Services Act 1980, Section 11 (5) & (6).

¹⁸ Social Services Act 1980, Section 15 (3).

¹⁹ Social Services Act 1980, Section 33

²⁰ FaCS, Submission to the Joint Standing Committee on the National Capital and External Territories, Norfolk Island Governance Inquiry 2003, p 2.

position to judge), and regardless of how well the people within the Administration do their job, the actual process of determining each claim is fundamentally flawed in several ways.

- In such a small community, it is inevitable that decision makers will know or in some way be related to the people about whom they must make decisions. The perception of a conflict of interest, even if not the actuality, must often be present. This places all the decision makers in (at best) an awkward position.
- Under these circumstances, some potential beneficiaries may – for reasons of protecting their privacy or their dignity – decide not to lodge a claim.
- It is inappropriate to have Ministerial involvement in decisions about individual claims for payment. Regardless of the quality of decision-making, such involvement leaves any Minister wide-open to claims of favouritism and/or political interference.
- For the same reasons, it is inappropriate to have Members of the Legislative Assembly on the Social Services Board.
- Decisions made under the *Social Services Act 1980 (NI)* are – or should be – purely operational matters, to be determined by Administration staff. The eligibility criteria should be clear enough and detailed enough to enable a yes/no decision to be readily made in all but the most complex of cases. However, the Administration staff are at a disadvantage:
 - so few new claims are lodged each year that it is difficult for staff to develop the expertise needed to properly interpret the Act and assess claims accordingly;
 - the quality of evidence that Administration staff are able to collect about each claim is undermined by their lack of access to information about claimants' off-shore financial activities;
 - the Act does not limit the Administration or the Social Services Board to any rules of evidence. As a result some decisions seem to be made on the basis of inappropriate assumptions (about whether or not family members can or should care for a claimant, for example) and without recourse to legal precedent (of similar cases in Australia, for example).
- Where claims are refused by the Minister, claimants routinely appeal to the Administrator. In many cases, after reviewing the case, the Administrator has overturned the Minister's decision. This further indicates the lack of expertise in appropriately interpreting the *Social Services Act 1980 (NI)* within the Administration (including the legal advisors), the Social Services Board and at Ministerial level.
- Forthcoming access to a Norfolk Island Ombudsman will do nothing but shift the workload of reviewing appeals. It is important to note that this will be the NI Ombudsman – operating under NI legislation – and that the Commonwealth Ombudsman will fill that role by agreement.
- Demographically, the population of Norfolk Island is a rapidly ageing one. Claims for social services payments will therefore increase over time, placing ongoing financial pressure upon the Administration.

Community Health

On Norfolk Island, the Administration is responsible for:

- a small hospital and healthcare centre (which includes an aged care facility);
- a healthcare scheme for Norfolk Island residents (similar to a health insurance scheme);
- a workers' compensation scheme; and
- a health and medical compensation scheme for pensioners.

As noted earlier in this Review, the Norfolk Island Hospital is established under its own Act. Staff employed at the hospital are exempted from the PSMA and are separately engaged under different employment conditions and management.

The Norfolk Island Hospital is not accredited with any mainland or international organisation. The Hospital Director informed the Review that nursing staff have not received any formal training "for several years", however in responding to this report the Minister indicated he was informed by the Hospital Director that hospital staff do undertake formal training, at work, to ensure they have enough points to re-register each year.

Like other remote hospitals, the Norfolk Island Hospital struggles to offer professional development opportunities. But unlike remote hospitals on the mainland, it remains very much isolated from existing professional and state health networks (the exception being linkages to facilitate patient transfer). Community members raised concerns with our Review team about the adequacy of hospital personnel, services and care.

The Hospital Director reports directly to the responsible Minister. The Hospital receives an annual block grant subsidy, the amount of which is approved through the Budget Review Committee process. In effect, this means the Administration subsidises the hospital. According to Deloitte, the hospital's financial deficit in FY11 amounted to some \$1,932,000. In FY12 that deficit is expected to increase slightly, to \$1,982,000.²¹

The Administration also provides in-kind support, such as IT services and insurance cover. The Administration has looked into the option of taking over the hospital's accounting function however the magnitude and complexity of the hospital's transactions will be a considerable burden on the Finance Branch.

The hospital provides a wide range of services, including maternity and aged care. The hospital also has a surgery, a dialysis unit and an intensive care unit. A single ambulance is operated by a roster of on-call volunteers with first aid training. Mental health care is one area where the hospital is trying to improve its services, which have to date been under resourced. A counsellor with expertise in the mental health sector has been engaged, as has a child welfare officer. But both operate with inadequate resources and support networks. None of the permanent medical staff have formal expertise in mental health. The Hospital Director is a qualified mental health nurse, however his qualifications may need updating as he has not practised for some time. In addition his focus is on the management of the hospital, not delivering medical services.

²¹ Norfolk Island – FY12 Budget Review, Deloitte, 21 July 2011

Patients requiring specialist treatment, or who are considered high risk, are sent to mainland hospitals – most often to Sydney but also to Brisbane and elsewhere. Norfolk Island patients then enter the mainland Australian healthcare system as private patients.

The cost of such care is met by the Norfolk Island Healthcare scheme – of which all residents are supposedly members. The scheme is, in effect, a form of private health cover. The Healthcare scheme carries a compulsory excess of \$2500. That is, members of the scheme must incur \$2500 worth of medical expenses within a 12 month period, and pay for them out of pocket, before being eligible for assistance from the healthcare scheme.

In practice, the Hospital Board and Director informed us, the hospital would provide treatment to anyone and seek payment (if practicable) afterwards. Hospital debtors in fact receive strongly worded letters seeking recovery of funds owing. The Director estimated that up to twenty percent of his time is spent on debt recovery, which distracts his attention from the core business operation. If the outstanding debtors subsequently seek treatment, the Hospital Director decides (on the spot) whether or not that treatment shall be provided. Several stakeholders informed us that some people on low incomes are loathe to seek medical services that they do not feel they can afford, and forgo medical services as a result. The Community Services Minister, asked to confirm the situation, was unaware of anyone forgoing medical treatment because of affordability issues.

During FY11 the Healthcare scheme ran at a deficit of \$531,000. In FY12 it is anticipated to run at a \$214,000 loss, even after increasing the Healthcare levy by 23%, from \$530 to \$650 per person, per annum.

Both the healthcare scheme and the workers' compensation scheme are currently operating under considerable financial strain, and are underwritten by the Administration (itself effectively insolvent). The ongoing sustainability of both schemes is questionable, at best and the responsible Minister has publicly acknowledged that both are unsustainable.

That the hospital provides the services it does is also dependent upon it being able to engage General Practitioners who hold specialist skills in obstetrics and anaesthetics. When we visited Norfolk Island the GP/obstetrician was on extended leave and a locum with similar skills could not be sourced. As a result, pregnant Norfolk Islanders were now obliged to travel to the mainland at or before reaching 36 weeks gestation, in order to give birth there. In fact such multi-skilled GPs are becoming increasingly rare and, we were told, mainland trainee GPs no longer received such specialist training anyway. It seems that the basic operating model for the hospital is therefore unsustainable. When questioned, the Director was unable to tell us how GPs would be sourced over the next five to ten years.

Yet in the face of concerns about being able to source medical practitioners with appropriate skills, the Hospital Board is planning to build a new hospital. The existing hospital and its facilities are considered too rundown for further refurbishment and the Board is conducting fundraising activities and seeking grants for an entirely new facility. The estimated cost for the new hospital is \$30 million. Architects have drawn up plans.

We asked the Board members if they had a strategic plan for the hospital, or if they had recently held any sort of strategic planning meeting. The answer was no. After the Minister pointed out to the Review team that there was indeed a strategic plan we subsequently received a document from the Director entitled "Strategic Plan". In the Review's opinion the

strategic plan is manifestly inadequate. The plan was prepared in 2004 and has apparently been "rolled over" a number of times so that it now represents the plan for 2009 – 2012.

The strategic plan's contents are simplistic and broad brush, its strategies are not aligned to objectives nor do they represent what would normally be accepted as strategies. For example one strategy is expressed as: "To develop and implement strategies that maximise health gains". The associated outcome is "Increase Physical Activity", the date nominated is "ongoing" and the associated action is "Increase Physical activity options".

The Business Plan 2011 – 2012 is equally simplistic and lacks clarity and logic. It links poorly to the strategic plan. The business plan contains an "action" – "Develop planning strategies to continue planning for new hospital", yet a new hospital isn't mentioned in the strategy document. There are no performance targets or performance indicators.

Finally the annual report is a five page narrative with no real structure, no commentary on changes over time and no recognition of the very real challenges that healthcare faces on Norfolk Island. It doesn't relate to the business plan or the strategy document, and doesn't contain performance data.

Residents on Norfolk Island are so concerned about the management of the hospital and its capacity to deliver quality health services that a not for profit group – the Norfolk Island Women's Forum – recently staged a health workshop to discuss the future of health services in Norfolk island. The workshop was attended by the Minister for Community Services as a keynote speaker. In staging the workshop the Women's Forum is filling the void and providing leadership and direction in the area of Health services.

Due to its complexity and the technical nature of the services provided, we don't believe the hospital will be well served by the general capacity building program recommended for the rest of the Public Service. The Review recommends that the Norfolk Island Hospital be comprehensively reviewed by an independent and qualified body such as the Australian Council on Healthcare Standards to appropriate clinical and governance standards such as the EQuIP 5 standard used in mainland hospitals. After such a review, it is then very likely that the organisation will require significant assistance in capacity building.

Education

The Norfolk Island Central School caters for some 300 students from kindergarten to Year 12. There are 24 full time staff members.

The grounds cover approximately 4.621 hectares. There is a school oval, complete with athletic standard running track, expansive grassed areas, a basketball and netball court and play equipment. School buildings include an historic K-2 block which is the original section of the school, 2 primary blocks, science, woodwork and hospitality rooms, three secondary classroom blocks, a visual arts building housed in the historic "Bean Shed", modern toilet blocks and storage areas.²²

The Norfolk Island Government has a contractual arrangement with the NSW Department of Education and Training (DET). For a fee, the NSW DET operates the school, providing

²² www.school.edu.nf/_/About_NICS.html

teachers and curriculum. The Norfolk Island Government's debt to DET is currently some \$2.6 million in arrears.²³

The Principal told us that advertised teaching positions were highly sought after by teachers on the mainland, who are seconded to the Island for a contracted period of time. A small, set number of teaching positions were filled by Norfolk Islanders and NI language and culture is a compulsory subject until Year 8. During our visit to Norfolk Island we heard nothing but praise for the school and for students' academic outcomes.

The school is oversighted by the Minister for Education (currently the Chief Minister). A Parents and Citizens Association also operates. However, capital maintenance and the future development of the school is beset with the same financial restraints that are evident across the Public Service. New or refurbished buildings are required and equipment, such as laptop/notebook computers are required to maintain parity with the educational opportunities provided elsewhere in Australia.

Public Health

Water quality on the island has been an ongoing topic of debate. Many people use privately owned rainwater tanks, others source their drinking water from ground water, bores and wells.

The debate restarted when a report was produced in March 2010 titled Assessment of Ground and Surface Water Contamination in the Built up Areas of Norfolk Island and the Lower Catchment. The report states:

*"The quality of the water was compared with the Queensland Water Recycling Guidelines for surface and subsurface irrigation. Water samples have been taken from 24 sites and were tested for contaminants which can indicate effluent contamination. The results show contamination across the entire sample area, and indicated serious levels of faecal contamination. As the samples have been collected in areas without the presence of livestock, the source of contamination is almost certainly from human effluent."*²⁴

The Minister acknowledged the report in the Assembly meeting of 14th April 2010. He also pointed out this is not a new issue, and that the Norfolk Island Natural Resource Management (NRM) Plan, tabled on 27 January 2010, stated that "there is evidence that the island's water resources are polluted...the main sources of contaminants in the catchment are considered to be from livestock waste and sewage effluent which is making its way down to the groundwater and into the creeks".

The Minister requested the Administration review the report. In doing so the Administration challenged the methodology used and concluded:

"The Administration does not believe there is sufficient evidence to state with any certainty that contamination is solely the result of human effluent". That is, the Administration is not arguing against the contamination finding, only the conclusion that its source is from human effluent.

²³ Norfolk Island – FY12 Budget Review, Deloitte, 21 July 2011

²⁴ PJ Wilson, Assessment of Ground and Surface Water Contamination in the Built-Up Areas of Norfolk Island and the Lower Catchment, 25 March 2010

The Administration advised that it would be prudent for the Government to state clearly that groundwater across Norfolk Island has various levels of contamination and may not be suitable for drinking. The Administration also advised it will be conducting further investigations into the sources of contamination of surface and groundwater. The Minister issued a press release advising the community of the potential contamination.

And in June 2010 the Minister made the following statements with regard to water quality:

"I do agree that the e.coli levels of the areas that are monitored by the Administration are above the recommended safe levels of drinking water and agree that the use of this water for consumption and/or used for potable purposes would pose health risks. The level of risk and allowable levels for irrigation does vary across documentation available on the subject. Madam Speaker this is why at the various outlets across Norfolk there is a notice to advise that the water is unsafe for human consumption or potable use. This advice was first mentioned by me back in April 2010. Reports completed at the time, in 1980, indicated that the Ground Water, both surface and deep, is heavily and probably permanently contaminated. Various reports since and before this time have also indicated that the Island's groundwater is contaminated. Part of the situation with regards to the vastness of the problem was reported as being, and I quote, "the high underground flow rates measured in parts of the Island were seen as having implications for having ground water pollution". And quote, "there is a strong probability that at least in local areas that some of the pathogens would find their way to the lower aquifers. In the Summer of 1981, when an outbreak of a viral illness became apparent on the Island, it was only with complicated identification tests carried out in the USA that eventually revealed the relatively rare eco virus type 17, as the cause."

After more than a year since the latest report the testing the Administration recommended has not been carried out. In the Assembly sitting of July 2011 the Minister stated:

"the reason for the deferring of the audit of the water assurance scheme is essentially exactly the same as to why this audit has had to be deferred all of the previous financial year. This Government is in a precarious position with regards to its finances and all non-essential tasks have been deferred."

Funds have finally been provided for a review in the 2011/12 budget. The Administration has considered three options: Internal inspection of sewers; DNA testing of e-coli found in the water; and Dye tracing. It recommends dye tracing as the most cost effective option.

It is likely, given the regular issues raised with water quality and this latest report, that water quality issues do occur in Norfolk Island and constitute a potential public health risk. It is also apparent that the Administration does not have the capacity to regularly monitor groundwater or check the sewer systems on an ongoing basis.

Assessment against the Business Excellence Framework

It is important in any review to compare the organisation's practices against some well accepted standard. Our approach was to use the Business Excellence Framework (BEF) against which to review the Norfolk Island Public Service.

The BEF is an internationally recognised set of practices and requirements that describe the elements essential to sustainable organisational excellence. The BEF was developed in Australia in 1987 and is aligned to many other best practice frameworks, such as the US Baldrige Criteria and the European Business Excellence Framework. It is considered by many to be Australia's framework for innovation, improvement and long-term success.



Diagram Source: GB 002-2007
The Business Excellence Framework, SAI Global

The BEF is used by many organisations in both the private and public sector. In Victoria for example most local councils are using the BEF to improve their performance in servicing the community. And in 2010 the South Australian Public Service launched its High Performance Framework which it is rolling out across the whole of the Public Service. The High Performance Framework is heavily based on the BEF.

The BEF consists of seven categories and seventeen sub-categories of practices. The logic of the framework is that organisational excellence is driven by excellence in Leadership and a strong focus on the Customer. These two drivers work through the enablers of People, Strategy and Planning, and Processes to deliver Success and Sustainability. Knowledge and Information underpins the whole system.

How is the BEF used?

The BEF is used by comparing an organisation's practices against the practices described in the BEF. For every one of the seventeen areas of practice we have assessed whether the Norfolk Island Public Service has an Approach (done the thinking and planning), how well they have deployed the Approach (breadth and depth), whether they measure the effectiveness of the Approach and Deployment and whether they use the Results to improve their performance.

The results of the Review team's assessment of the Norfolk Island Public Service are shown below. Each item is scored out of 10.

BEF Categories	Items	Score /10
Leadership	Leadership throughout the organisation	0
	Leading the organisational culture	0
	Society, community and environmental responsibility	1
Strategy and planning	Strategic direction	0
	The planning process	2

Information & Knowledge	Generating, collecting and analysing the right data to inform decision making	1
	Creating value through applying knowledge	0
People	A great place to work	1
	Building organisational capability through people	2
Customer/ community focus	Gaining and using knowledge of customers	1
	Effective management of customer relationships	1
	Customer perception of value	0
Process management, improvement and innovation	Identification and management of processes	1
	Process improvement and innovation	1
	Process outputs	1
Success & sustainability	Measuring and communicating organisational performance	1
	Achieving sustainability	0

The Item scores are then multiplied by their weightings for a final score out of 1000. Norfolk Island Administration scored 82 points out of 1000. This is a particularly low score which reflects the lack of Approach (the thinking and planning) that should but doesn't go into the management of the Administration.

Issues for Consideration

Overview

The current financial and administrative problems of Norfolk Island should have been a surprise to no-one. Most of the issues identified in this review have been identified in earlier reviews, sometimes multiple times and some as many as fourteen years ago.

As such, this report is not intended to reflect only on the present governments or the present Administration. The issues have been raised with and recommendations for improvement put to several governments and multiple CEOs. The responsibility for the lack of progress on these issues must therefore be shared amongst these various groups. Many of the stakeholders we spoke with were quick to blame the Australian Government for not providing enough assistance but our Review clearly indicates the Norfolk Island Government has also, in many cases, failed to act on its own recommendations.

The responsibility for moving forward however clearly lies with the current government and current CEO. To their credit both present organisations have started to address these problems.

Whether those efforts can succeed, given the entrenched resistance to change which is evident in the local culture, remains to be seen.

The Norfolk Island Administration is effectively insolvent, with substantial debts and no means of meeting their obligations. They are now also reliant on ongoing emergency funding from the Australian Government with the most recent funding package in September 2011, to provide the Norfolk Island Government with \$14.1m in 2011/12 to fund Norfolk Island's underlying operating deficit, to ensure that viable airline services can be negotiated for the Island and to help improve the efficiency and effectiveness of their public Administration. Many of the services the Norfolk Island Administration currently delivers only continue because third parties (such as NSW Department of Education, NZ Telecom and the Australian Government) continue to provide services despite bills remaining unpaid.²⁵

Limited Change

The most significant finding in this Review is that most of the issues identified have been identified in earlier reviews, sometimes multiple times and some as many as fourteen years ago, yet little seems to have changed.

The Quis custodiet report, finalised eight years ago in 2003, came to a similar conclusion:

*"Most, if not all the issues raised, have been dealt with in numerous inquiries and reports over the past 10 to 15 years but, to a large extent, have remained unaddressed."*²⁶

The Baran Report in 2005 also notes that:

"For a variety of reasons only a small percentage of these suggestions and recommendations have actually been progressed and implemented. Many reports

²⁵ Deloitte, *Norfolk Island – FY12 Budget Review*, July 2011

²⁶ Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island, December 2003, p46, section 2.24.

and discussion papers, all of which took time to compile and were costly to produce, lie untouched gathering dust on Government and Administration bookshelves."

It was claimed during this Review that one of the reasons for the lack of change has been that the Commonwealth Government has not fulfilled its obligations with respect to various recommendations. There is some truth to this assertion. In its 2005 report titled Norfolk Island Financial Sustainability, The Challenge – Sink or Swim, the Joint Standing Committee on the National Capital and External Territories noted in points 1.6 and 1.7 that:

"On 5 February 2004, the Norfolk Island Government released its response to the recommendations of the Committee's first governance report. Many of the Committee's recommendations were accepted despite the Norfolk Island Government's contention that the Committee had failed to recognise the unique governance arrangements on Norfolk Island.

The Committee reiterates its disappointment that the Commonwealth Government did not respond to the recommendations of the Committee's first report on Norfolk Island governance. The Committee stands by these recommendations and now encourages the Commonwealth Government to expedite its response to both governance reports and to the outstanding recommendations in the Committee's review of the Annual Reports of the Department of transport and Regional Services and the Department of the Environment and Heritage with respect to Norfolk Island."

The Norfolk Island Government also submitted to this Review evidence of its willingness to progress various recommendations but where progress was held back by the Commonwealth Government's lack of action.

It was claimed during this Review that one of the reasons for the lack of implementation of past recommendations was they did not take into account Norfolk Island's uniqueness. This Review does not agree with this assessment. The past reports reviewed all took note of Norfolk Islands special circumstances and all obtained considerable input from a variety of stakeholders. They recognised Norfolk Island's uniqueness and addressed it in their discussions.

It was also claimed that the recommendations of past reports were not practical. This Review also rejects this claim. In fact the Baran report tried to address this criticism by making its recommendations particularly practical – many are actions that could have been directly implemented. When we queried why the Baran report, which was commissioned by the then Government, was not only not implemented but also not tabled, the response was "the reasons were all political".

It has been claimed that Norfolk Island did not have the finances to implement the recommendations from past reports. While this may have been true for some recommendations it is not true for many of the recommendations, which could have been implemented within the resources available. This Review rejects the lack of finance argument as an excuse for lack of action.

While these various reasons can be used to explain why some recommendations have not been addressed as intended they do not explain why others have not proceeded, especially those with respect to the capacity of the Administration, which is the focus of this report.

As well as the specific causes for inaction cited above, the Review concludes that there are two main underlying factors which have worked against any intentions or any efforts to change in the past. They are:

- The culture of Norfolk Island and the existence of Groupthink, coupled with the effect of the political consequences of pushing unpopular change. This resistance to change has worked in two ways: first by not even addressing the proposed changes (e.g. Baran report); and second it works through a variety of mechanisms to frustrate change (e.g. use of appeal mechanisms to frustrate CEO decisions, interference by MLAs in operational matters, etc)
- A lack of skills and knowledge about what is required to effect change. The way this works is that, when change is attempted, it is clumsy and ineffective (e.g. the HR Policy and Procedures Manual – poorly written, incomplete, and not easily implemented).

The recommendations in this Review attempt to address these underlying causes.

Some interviewees have suggested the situation is different this time because the dire financial situation Norfolk Island finds itself in will jolt people into action. However the Review found this attitude to be in the minority. The attitude most prevalent among interviewees was that the current situation is temporary and due to a drop in tourism, and once the Commonwealth Government gives Norfolk Island the funding support it needs to get over this period of downturn then the situation will return to “normal”, that is that there will be no need for further reform. The Review found little evidence to support the idea that this time things will be different.

Lack of Effective Vision and Long Term Plan for the Future

This Review found little evidence of a clear vision or sustainable long term plan for the future of Norfolk Island.

In our discussions with MLAs, public servants and the community, most people focused on the past, believing their situation to be better in the past than at present, and blamed the current situation on the economic downturn.

A community vision and long term plan for the future (with a 20 to 30 year horizon), underpinned by a sound strategic financial plan, is essential to help the community develop a realistic understanding of the situation and what is needed to improve it. This in turn will increase ownership of any change proposals and mitigate resistance to them.

Excessive Involvement by Ministers in Operational Matters

Ministers in Norfolk Island get too involved in operational matters and don't respect the boundary between Government and Public Service normally observed in other jurisdictions. Our overall impression is that Ministers act more like managers than members of the Government. The uniqueness of Norfolk Island means that people can easily contact Ministers and use that contact to access the authority of a Minister to progress or promote their interest.

The impact of this involvement is that it:

- Reduces the effectiveness of management and its decision making capacity.
- Erodes the organisational integrity of the Administration because it works directly against the Standards of Behaviour At Work in the HR Policies and Guidelines (page 28): *"We will not make improper use of our power or authority, or use inside information for personal gain, benefit or advantage for us or any other person."*

The Public Service Board is Too Powerful and Used to Frustrate Management

The Board has the power to overturn recruitment and dismissal decisions. Thirty percent of the Board's members are public servants, several of whom are also in the Public Service Association or the Consultative Committee.

The Board is meant to be an independent appeal mechanism. It is not. In practice it is used to frustrate the CEO's efforts to manage and improve the performance of the Public Service.

For effective change the negative impact of the Board must be removed.

Lack of Capacity to Deliver the Wide Range of Services

Norfolk Island does not have the capacity to deliver the range of services it does, at the standards required.

As services become more complex the small workforce with its current levels of capability cannot deliver the range of services to standards commensurate with the mainland.

The Government has recognised this and the Road Map goes some way to alleviating this problem by proposing the transfer of Commonwealth type services to the Australian Government.

However the Review is of the opinion that Norfolk Island will not be able to adequately manage even state type services without considerable contractual and financial support from the Australian Government and that the most appropriate option is for the Norfolk Island Government to focus on delivering local government type services.

Inadequate Structure and Management

The structure of the Administration is very flat with a wide span of control reporting to the CEO and Deputy CEO. These two senior roles regularly get involved in operational matters leaving little time for strategic issues.

Resources are duplicated across sections and branches and there is opportunity to increase productivity by removing duplication and grouping like services.

GBEs (until recently) Treated as Stand-Alone Entities

GBEs should not operate as stand-alone agencies. They provide too much temptation for ministers to get involved in operational matters. And Advisory Boards will not be independent because of the small community, and they will suffer from a paucity of appropriate skills. The best approach is for GBEs which are not divested to remain within the Administration.

Administration has Limited Capacity to Provide Policy Advice

Most middle level managers are focused on operational issues and do not value or want to be engaged in policy advice. General policy advice falls to the CEO and Deputy CEO, who in the current structure have limited time to devote to it.

Inefficient Processes

Processes are inefficient. This is caused by several factors including: they have not been analysed for some time, poor IT systems, lack of resource sharing, inflexible duty statements/job design and inadequate management controls. There is potential to improve efficiencies through multi-skilling, resource sharing job redesign and process reviews that focus on removing non-value activities.

Administration's Culture Not Conducive to Effective Operation

The culture has been described by almost everyone in negative terms. Descriptions such as complacency, self interest, intimidation, lack of respect, bullying, fear, change resistant, and lack of professionalism were common. It is the Review's opinion that the Public Service and Government do not act according to standards of probity that one would find adhered to in mainland governments and administrations. The culture has a significant impact on the ability of Norfolk Island to change and must be forcefully addressed if real change is to occur.

Financial Management and Commercial/Contracting Acumen Limited

Both the Administration and the Government have demonstrated limited skills in financial and commercial contract management. Moving forward these skills will be critical and must be developed.

Internal Functions of HR, Finance and IT Do Not Provide Adequate Support

Human Resources, Finance and IT are critical services for the effective performance of the Public Service. There are a number of issues in each area that need to be addressed. It is unlikely that the current management and staff have the capacity to strengthen these service areas without external assistance.

Current Provision of Legal Services is Inadequate

A number of issues have been raised with respect to the quality and performance of legal services provided by the Administration. The range and complexity of legislation the Legal Services Unit is required to advise on is too great. Their general expertise would be more effective in a coordinating role.

Recommendations

Overview

On the following pages each recommendation is described in detail. A summary is provided below.

- Recommendation 1:** Adopt a modified version of the 'Local Government' option of governance – the Island Government option.
- Recommendation 2:** The Norfolk Island Government and the Australian Government to develop, agree and deploy a strategy for moving to the new governance structure.
- Recommendation 3:** Employ an external Capacity Building Team to fast track the change process.
- Recommendation 4:** The Norfolk Island government and the Australian Government to agree a governance arrangement which provides the CBT with appropriate authority and safeguards to enable it to carry out its task effectively.
- Recommendation 5:** Implement a specific capacity building program for the Norfolk Island Hospital.
- Recommendation 6:** Replace the Public Sector Management Act 2000 and the Human Resources Policies and Procedures Manual
- Recommendation 7:** Norfolk Island Government develop a long term vision and strategic community plan for Norfolk Island
- Recommendation 8:** Implement an Organisational Integrity Development Program for all MLAs and all Public Servants
- Recommendation 9:** Restructure the Administration to improve policy advice, management control and productivity
- Recommendation 10:** Introduce a program of functional reviews
- Recommendation 11:** Restructure the Legal Services Unit
- Recommendation 12:** Undertake a program of legislative review

Recommendation 1: Adopt a modified version of the 'Local Government' option of the Road Map – the Island Government option.

The discussions around the Road Map identified three governance options: A Modified Self-Government Model, a Local Government Model, and a Modified Self-Government with Additional Powers. This Review is of the opinion that the most appropriate option is described under the title 'Local Government' but sees the need for some development of that option under a more appropriate heading such as 'Island Government'.

Although the operational functions proposed are essentially those delivered by local government in mainland states, the isolation and distance limitations of the Norfolk Island community demands a stronger community leadership role than is found in most local governments on the mainland.

In the 'Island Government' option Norfolk Island would assume responsibility for funding and delivery of local government type functions but be governed by a Legislative Assembly with responsibility for Island leadership and advocacy.

The Australian Government would be responsible for all Commonwealth type services.

The Australian Government would also be responsible for the funding and delivery of state level services such as Health and Education, most likely by contracting with a suitable service provider. The Review considers this important because:

- Norfolk Island does not have the financial or administrative capacity to deliver state type services itself;
- Norfolk Island is unlikely to be able to fund these services in the future; and
- Norfolk Island does not have the contract management capability to manage these as contracted services (although this could be handed to the Norfolk Island Government in the longer term when it builds these capabilities).

The 'Island Government' model differs from the Indian Ocean Territories model in that where possible Commonwealth Government services would be delivered on island by locally-engaged staff, initially led by skilled and experienced officers from other public services. . . This is recommended because it specifically addresses one of the community's major concerns about job availability.

Potential structure of the Island model

In considering the move from the present structure to an Island Government structure it is noted that some functions could be performed by the Commonwealth, by State type service providers, by the private sector or by a combination of these. It is also noted that many previous studies have made detailed recommendations about another provider, usually the Commonwealth Government, taking responsibility for some services. The final decision therefore requires considerable further discussion and planning within Norfolk Island and between Norfolk Island and potential service providers.

This Review is of the opinion that:

- On the basis that these functions are performed by it on the mainland, the Commonwealth Government should assume responsibility for Commonwealth type

functions such as social security, aged care services, healthcare benefits, workers compensation, immigration, census, customs and quarantine, GST collection, police, parks, broadcast licensing. Where practical the Commonwealth agency should use Norfolk Island staff to deliver its services.

- Norfolk Island should continue to contract Education services and extend this model to the hospital by contracting with a suitable State based service provider to deliver the complete (as negotiated) hospital services on Norfolk Island. It is strongly recommended that the Commonwealth maintain a key role in establishing and overseeing the contractual negotiations and continues in a governance role.
- Income producing services such as those provided by the Airport, Liquor Bond, Norfolk Energy, Electricity, Telecom, Ports and Lighterage, Post, Philatelic and Gaming should be retained by the Administration.

There has been discussion about whether Norfolk Island would be better served if these services were delivered by the private sector and the government acquired income indirectly. This thinking is based on the assumption that competition and profit motive should lead to more efficient services and therefore better outcomes for customers. The problem with this assumption is that it is based on experience in much larger markets such as Australia which can accommodate multiple competitors who can leverage economies of scale. It does not necessarily apply to Norfolk Island. A detailed report on Telecommunications Competition on Norfolk Island²⁷ concluded that Norfolk Island would not be better off with competition in the Telecommunications field. Another issue to consider is that the government may have to regulate the market to avoid price escalation given that the market would only have one or two competitors. Finally this view assumes the private sector can be much more efficient than the public sector. The opinion of this review is that the Administration has enormous opportunity to improve its efficiency and that competition isn't the only lever to improve the efficiency of these services and the level of outcomes delivered to the community.

- The museum could be managed by KAVHA (alternatively by the National Maritime Museum).
- Local type services such as library, planning, waste management, stock health, animal registration would be carried out by the Administration.
- Services which are already delivered by the private sector such as building maintenance, grounds maintenance and mechanical services should be outsourced to the private sector. Some specialised trades specific to historical restoration in KAVHA may have to be retained. Further investigation is required to assess whether Roads would be better outsourced or delivered by the Administration.

²⁷ Review of Telecommunications Competition on Norfolk Island, 2010, Strategic Economics Consulting Group

Summary of the Potential Structure

The following table is a summary of the potential structure under the Island Government model. Further investigation and discussion is required before a structure can be finalised.

	Mid blue shading indicates a strong recommendation for where the responsibility should lie.
	Light blue shading means the final structure needs to be informed by further detailed analysis and the service could feasibly be undertaken in several different ways.

Potential Structure				
Function/Service	Commonwealth	State type provider	NI Administration	Private sector
GST Office				
Police				
Customs				
Quarantine				
Immigration				
Companies				
Healthcare Benefits				
Workers Compensation				
Fisheries				
Norfolk Air				
Parks				
Broadcast licensing				
Social Services				
Environment				
Forestry				
Tourism				
Health & Water Assurance				
KAVHA				
Museums				
Norfolk Island Central School				
Hospital				
Electricity				
Gaming licensing				
Post Office				
Philatelic				
Liquor Bond				
Lighterage				
Telecom				
Airport				
Legal Services				
Human Resources				
Internal Audit				
Finance				
Information Technology				
Registry				
Library				
Planning				
Waste Management				
Stock Health				
Animal Registration				
Fire & Emergency Services				
Roads				
Ambulance				
Building Maintenance				
Grounds				
Mechanical				

Implementation

In moving from the present situation to the Island Government Model, two implementation issues have been considered:

- the extent, rate and timeframe of divestment of functions (whether to the Commonwealth, providers for State type services or to the private sector); and
- how to strengthen the capacity of the Norfolk Island Public Service so that it can sustainably deliver the services that remain.

In considering these issues, three implementation options can be identified:

Option 1: Build capacity and divest functions to external agencies, in parallel.

Option 2: Build capacity first, then divest functions progressively to external agencies.

Option 3: Divest functions to external agencies first, then build the capacity of the Public Service to what is required to deliver the remaining functions.

Option 3 is attractive because more focused effort could be applied to building the capacity of the functions that remained after the divestment program is complete. Option 3 is the preferred option of the Administration.

However, and unfortunately, Option 3 is perhaps the most impractical because it relies on the agreement and close cooperation of multiple stakeholders. Although the model recommends the Commonwealth Government take responsibility for Commonwealth Government type functions, in practice it will be multiple Commonwealth Government agencies that will be involved. Since these agencies have not been fully involved in discussions about extending their services to Norfolk Island it is unlikely they will be prepared for or necessarily have the resources in the short term to apply to this activity. Added to this is the complication that there will most likely be changes to legislation required and that will have timing impacts, and they will have to establish the logistics for service delivery. Taking these significant issues into consideration, the point at which they would be ready to take on these functions could be several years away, assuming they agree to the proposal.

For these reasons option 3 is not a practical alternative. Option 1 suffers from similar issues. The most practical option from the Review's perspective is Option 2.

In practice Option 2 will mean building capacity within the Administration in the short term, while in parallel developing and deploying a divestment plan with a time horizon of two to five years.

Recommendation 2: The Norfolk Island Government and the Australian Government to develop, agree and deploy a strategy for moving to the new governance structure.

The divestment of some of the Administration's functions will be a complex process that could continue for up to five years. In some areas work has already begun, however there is considerable detailed planning yet to do.

It is vital that Norfolk Island drive the process of divestment of nominated functions. This process should be treated as a strategic project of high priority, appropriately resourced and effectively project managed.

Although Norfolk Island should lead the process it is also recommended that an advisory task force be established, consisting of at least representatives from the Norfolk Island Government, the Administration and the DRARDLG, to oversight the program.

The Norfolk Island Government should assign an appropriate high level project manager (Project Manager – Divestment Strategy) reporting to the Chief Executive Officer. This person should have high level experience in government and possess excellent relationship, communication, contract negotiation and project management skills.

The Project Manager would need to work closely with ministers, the Administration, and particularly the DRARDLG who would have a key role in facilitating discussions with target Commonwealth Departments and sourcing specialist advice.

As a first step the Project Manager should develop a detailed and realistic project plan. Using the list of functions described above as a starting point a priority list should be developed. Criteria for selection of priority divestment areas could include, for example, impact on the community and impact on financial sustainability of the Administration.

The project plan should include a communication strategy and a regular reporting program to both the Norfolk Island Government and the DRARDLG. The taskforce should make regular progress reports against its project plan, tabling these in the Legislative Assembly to maintain transparency.

Recommendation 3: Employ an external Capacity Building Team to fast track the change process.

To facilitate rapid capacity building and to assist Norfolk Island develop a practical divestment plan we recommend employing an external capacity building team.

The Capacity Building Team (CBT) could be a group of independent experts or a smaller group of multi disciplinary experts. The competency areas would include:

- A Chief Administrative Officer who would lead the team and work with the CEO to plan and implement the capacity building process.
- Finance expertise in public sector finance management, to work with the Finance function.
- IT expertise.

- Public Sector HR and Organisational Development expertise.
- Legal Services expertise.
- Project management expertise to establish and implement a divestment program.

The focus of the CBT would be to quickly build capacity in these core functions which in turn will support the change process of other functional areas. The CBT would work in partnership with current office holders but have ultimate authority for the change process in each area. The CBT members would report to the Chief Administrative Officer (CAO).

Characteristics of the CBT

The CBT members must be hands-on roles with the objective of implementing significant change within approximately the first year. They must:

- be high quality experts in their respective areas with hands on experience at both operational and management levels;
- be experienced in turn-around change projects, change management, and sustainable capacity development principles;
- be familiar with Commonwealth Government standards of probity;
- be single minded in effecting change and dealing with resistance; and
- have experience in implementing change in diverse cultures such as indigenous communities or offshore development work.

Recommendation 4: The Norfolk Island government and the Australian Government to agree a governance arrangement which provides the CBT with appropriate authority and safeguards to enable it to carry out its task effectively.

An appropriate governance arrangement could be approached in two ways:

- It will be essential that formal arrangements be entered into between the Australian Government and the Norfolk Island Government to enable the Norfolk Island Government to continue but provide the CAO with adequate authority over the Administration and transition process. The CAO would report directly to the executive of the Department of Regional Australia with a role for on Island direction and reporting to be determined through appropriate mechanisms.

And/or

- The present Government's mandate could be reconsidered within the framework established by the *Norfolk Island Act 1979* (Cth).

Options for changing the current officer-holders in the executive and legislative branches, may need to remain open during the reform process should implementation of the change program be threatened by the local political process. Were the local political environment to deteriorate during the change process to such an extent that the executive or legislative branches could no longer operate, the Administrator's role in discharging those functions at the direction of the Governor-General might be activated. Although this would be a last

resort, the history to date of partial or failed change implementation detailed in this report suggests that such an eventuality must remain a possibility.

The success of option 1 would depend on the conviction of the Government to see the change process through and the structure of the associated funding arrangements.

Note that this recommendation should be a prerequisite for the Capacity Building Team to commence.

Recommendation 5: Implement a specific capacity building program for the Norfolk Island Hospital.

The Hospital is singled out for specific focus because of its importance to the health of Norfolk Island residents and its capacity shortcomings described earlier. It is also singled out because it is unlikely the Capacity Building Team could devote the resources required or have the technical expertise required to impact its capacity to deliver services.

The Hospital should first be reviewed, in detail, by a survey team from the Australian Council on Healthcare Standards against the EQulP accreditation standards framework.

The outcome of this review should then inform the capacity building program. It is the Review's opinion however that a significant amount of capacity building will be required, to support the Hospital Director to implement the ACHS recommendations.

Support for the Capacity Building Team

To be effective the capacity building program will require support from the DRARDLG and the Norfolk Island Administration and Government in two core areas:

- They will need support to offset the inevitable resistance they will encounter.
- They will need support in the form of administrative resources and possibly additional capacity.

The most fundamental support need will be administrative support. Some actions will also need support from Public Service officers. For example, in carrying out detailed capacity reviews, mapping processes, etc the CBT will need involvement of officers. In other cases the CBT might need external support. For example, assessing the IT infrastructure and establishing an IT strategy might need an external consultant to assist. The nature of the support is difficult to quantify at this stage, however both the DRARDLG and the Norfolk Island Government should recognise that support will almost certainly be required.

Managing Resistance

Resistance will come in several forms:

- Political involvement in the process is inevitable and particularly difficult because of the uniqueness of Norfolk Island. It is small and the community and public servants have easy access to Ministers and a history of confronting them about policy direction and change. Making difficult decisions for the long term when they involve short term pain to people that are related or in the same community takes a great deal of courage and leadership.

- Lack of cooperation from managers and staff. This is a common form of resistance in change programs. While it can to some extent be mitigated by a good change management strategy (and communication plan), there will also be a need for appropriate sanctions if required. Since the Administration's performance management process is ineffective, the CBT will require authority to take appropriate action against recalcitrant staff.
- Community backlash. Resistance to the CBT might be exhibited in the community. To limit this resistance will require strong leadership from the Government to communicate to the public the reasons for decisions and to constantly promote the long term benefits of the change.

To manage this resistance and progress change requires appropriate governance arrangements.

Recommendation 6: Replace the Public Sector Management Act 2000 and the Human Resources Policies and Procedures Manual

Both these policy documents are poorly written and severely constrain the ability of the CEO to perform his functions and to drive efficiencies. The PSMA 2000 should be repealed and replaced with a simpler Act founded on contemporary public sector management principles, similar to that used by either the Commonwealth Public Service or one of the mainland States.

The Human Resources Policies and Procedures Manual

The Review believes the Human Resources Policies and Procedures Manual should also be repealed. It should be rewritten as an organisation level policy which should not require review or approval by the Assembly.

The Public Service Board

The Public Service Board has been one of the main mechanisms used to frustrate the efforts of CEOs (past and present) to manage normal Administration business and their efforts to introduce change.

The Public Service Board is supposed to be an independent appeal body, however it cannot be independent in a small community like Norfolk Island. Its independence is further compromised because it has public servants as members of the Board. And its performance is compromised because its members lack adequate levels of legal, human resources or ethics expertise to operate effectively.

It is this Review's opinion that no amount of changes to the *Public Sector Management Act 2000 (NI)* will create a Board that is independent when it is made up of community members and public servants, and for that reason the appeal authority must exist outside the Norfolk Island community.

Mainland jurisdictions have moved away from a representative Board as an appeal mechanism to an independent Commissioner.

This Review recommends the DRARDLG and the Norfolk Island Government identify an appropriate authority – in the first instance the APS Commissioner - that could provide an

independent appeal mechanism (possibly a contracted service) for the Norfolk Island Public Service.

Recommendation 7: Norfolk Island Government develop a long term vision and strategic community plan for Norfolk Island

A vision and long term plan will help create stability in the Norfolk Island community and confidence in the Government because people will know where they are heading and how they will get there. For the Administration it creates certainty and allows for better planning and utilisation of resources, leading to more effective and efficient operations.

A Strategic Community Plan is critical for the success of a major transformation process such as the one Norfolk Island is going through. In his classic article on leading change, John Kotter²⁸ described eight steps to transforming an organisation. The first five steps are:

- establishing a sense of urgency;
- forming a powerful guiding coalition with enough power to lead the change effort;
- creating a vision to direct the change effort, and strategies for achieving the vision;
- communicating the vision; and
- empowering others to act on the vision by getting rid of obstacles to change and changing systems or structures that undermine the vision.

Vision and direction, both of which require strong leadership, are essential. The MLA Ms Ward summed this up during the August 2011 sitting of the Assembly:

"I don't think that anyone in the community needs to be convinced of the need for change, what the community needs is leadership and a Government who has the good sense to drive change in co-operation with the Commonwealth and we need an Assembly who makes the effort to understand and explain to the community the complexities of what we are dealing with and explain that by becoming a Territory type Government and handing back national responsibilities we are not being taken over by Australia, we are choosing, we are choosing a more realistic path."

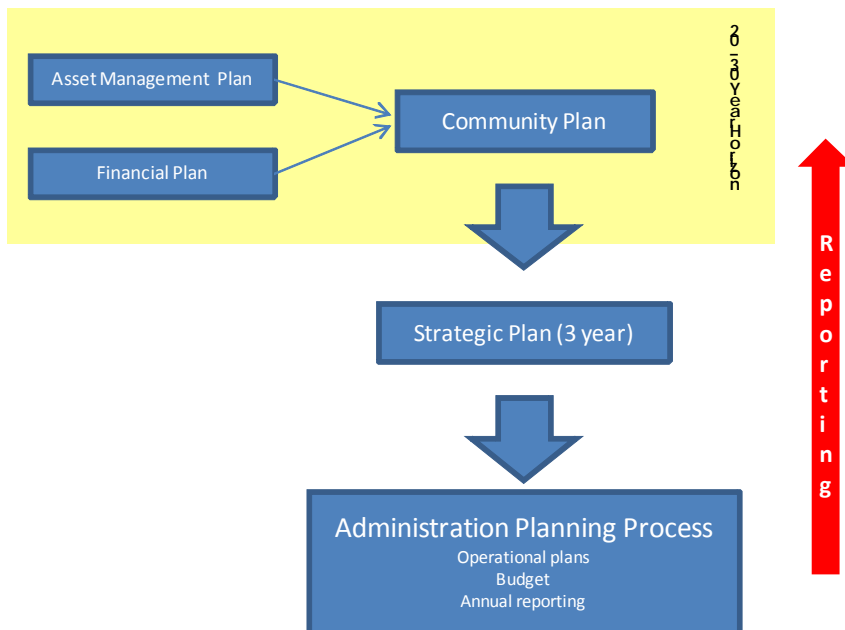
Demonstrating leadership means being seen to be taking charge of the change process, being seen to be "choosing", to use the MLA's words, the direction and not communicating, either directly or indirectly, a state of being "taken over".

This Review has already identified the Norfolk Island culture and the existence of Groupthink as a major obstacle to change. The notion of "take-over" is the negative side of culture at work. As leaders of the transformation, the Government must acknowledge this and actively work to overcome it. It can do this by leading from the front and developing a vision and strategic community plan that covers the next twenty or thirty years.

This process does not have to wait, as the Chief Minister suggested in his six month review, for the situation to stabilise. The Roadmap and various reviews should form part of the long term plan.

²⁸ Kotter, J.P. 1995 *Leading Change: Why Transformation Efforts Fail*, Harvard Business Review, March-April 1995

The vision and long term plan sit within a strategic planning framework, such as the one shown here:



The Community Plan should be underpinned by an Asset Management and a Financial Plan that cover the same time horizon. The Community Plan informs the Strategic Plan that each Government should form upon its election, and the Strategic Plan should in turn inform the Administration’s annual planning process. An integral part of any planning process is a reporting process on the outcomes of the plan.

The Government will most likely need expertise in developing a vision and strategic community plan. There are many resources available, particularly at local government level, as this has been a major drive in local government on the mainland in recent years. However it is recommended the Government engage the services of an experienced community planner to assist with this planning process.

Recommendation 8: Implement an Organisational Integrity Development Program for MLAs and Public Servants

The Review identified a need to improve the organisational integrity of the Administration and the Government. Numerous issues were identified including conflict of interest, inappropriate involvement of Ministers in the Administration’s operations, easy access to Ministers by the public and a general expectation that using a position’s power for personal interest is acceptable. The HR Policies & Procedures manual covers this area only briefly but not adequately.

It is recommended that the DRARDLG and the Norfolk Island Government and Administration work with an appropriate agency such as the APS Commission’s Ethics Advisory Services to develop (and possibly contract) an Organisational Integrity Improvement Program.

Key elements of the program should include:

- A set of ethical conduct guidelines for Norfolk Island. If possible Norfolk Island should adopt the APS values and ethical conduct guidelines. In this way Norfolk Island can have access to the superior resources the APS has for this area²⁹. This would consolidate the disparate references to the standards of conduct expected of public servants within the current HR Policies and Procedures Manual.
- A program of development/ training for both politicians and public servants. Several programs will probably be required to be tailored for different roles. There may also be several different delivery mechanisms. Where possible Norfolk Island should make use of currently available programs such as those delivered by the APS Commission, the Independent Commission Against Corruption, the Institute of Public Administration Australia (IPAA), or training delivered by other jurisdictions.
- An appeal mechanism for reporting potential breaches of probity. It is recommended the DRARDLG and the Norfolk Island Government agree an appeal mechanism and identify an independent office for this role. The independent office should be external to Norfolk Island. In the first instance it is recommended the DRARDLG investigate whether the Independent Commission Against Corruption (ICAC) could fulfil this role.
- Monitoring and evaluation. Monitoring refers to regular observation and reporting on adherence to standards. Monitoring of Organisational Integrity could be built into regular reporting by the CEO to the Assembly. Evaluation refers to an independent assessment of the effectiveness of activities of the Organisational Integrity Development Program and whether they are achieving their intent. An evaluation should be carried out annually in Norfolk Island and be conducted by an independent agency such as ICAC.

Recommendation 9: Restructure the Administration to improve policy advice, management control and productivity

The current structure of the Administration leads to a number of problems:

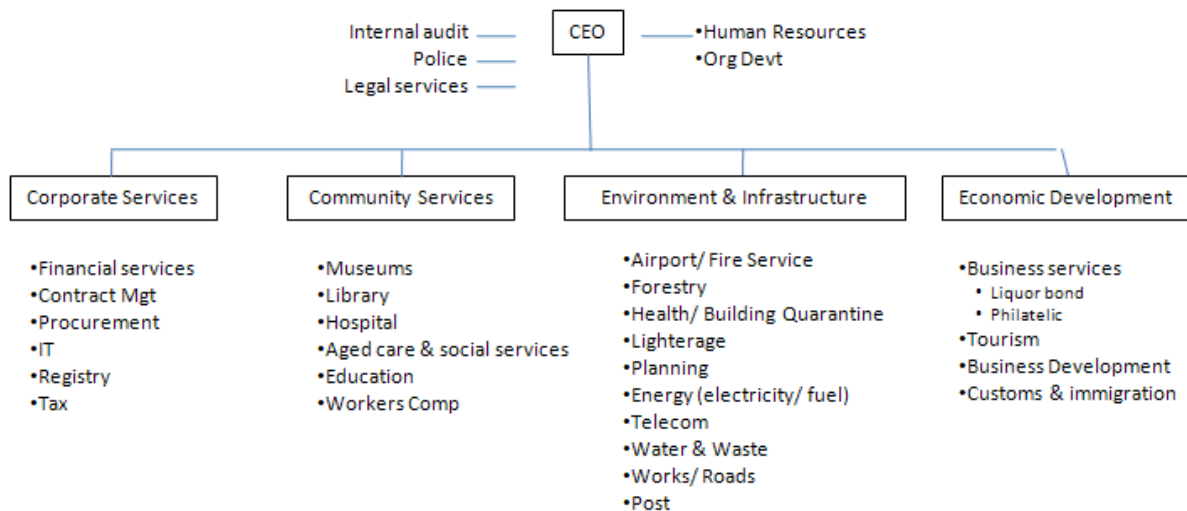
- It is very flat and the CEO and Deputy CEO have a wide span of control. The wide span of control leads to many operational demands on their time, leaving limited time for policy advice or strategic management.
- Until recently GBEs have operated independently from the Administration, even though they are not separate legal entities. Due to financial management problems they have been brought back under the control of the CEO in this budget year. The Review agrees with the CEO's direction and considers there should not be any separate GBEs. Norfolk Island does not have the breadth and depth of financial or general management skills to support independent GBEs. In addition the community is too small and lacks an appropriate level and type of expertise to resource independent boards for GBEs. Furthermore until the separation of the roles of Government and Public Service becomes part of the culture of Norfolk Island, operating separate GBEs increases the risk of mismanagement and corruption.

²⁹ Material from other jurisdictions is easily accessible. See www.apsc.gov.au/conduct/index.html for links to publications, codes of conduct and an Ethics Advisory Service.

- The current structure leads to duplication or overlap of resources. Productivity could be improved by grouping functions that utilise similar resources and encouraging better coordination and sharing of resources. There is opportunity to restructure and make better use of outdoor staff, administrative support staff, and customer interface staff. In some cases staff may have to be relocated to enable more effective management control as part of the restructure. It is recommended the Administration group together like functions and re-establish Executive Manager positions that, in addition to providing oversight to their functional areas, would also provide general policy advice and a focus on strategic management.

Moving to a structure that facilitates improved strategic planning and policy advice, greater operational controls and better productivity will depend on the divestment plan. Initially the Administration may have a similar number of functions as it does now however, as functions are divested, the structure may have to change to reflect the smaller range of functions. Waiting until the divestment program is completed, which could take several years, could however rob the Administration of the benefits a changed structure could bring.

The Review therefore recommends that a dynamic approach be adopted. The Administration should start with a changed structure similar to the one below, recognising that any final structure would be developed by the Chief Administrative Officer and the CEO after a detailed review of the organisation.



A central feature of this approach would be the reintroduction of the Corporate Management Group to provide a coordinated whole of organisation approach to managing the Administration.

It is suggested that because a similar structure was attempted in 2000, and failed, that this structure won't work. The evidence suggests it failed because of a concerted effort of resistance from within the Public Service, led by a powerful lobby, against the then CEO and Executive Directors. In this current change program the significance of the resistance is recognised and one of the reasons for the Capacity Building Team is to help overcome it.

In reviewing the draft report the CEO expressed a preference for a modified CMG that would comprise the CEO, DCEO, Finance Manager, HR Manager, and possibly a group of management trainees that is part of the current CEOs plan to develop internal capability. The Review sees merit in these functions being involved however it also sees merit in having

senior managers, each responsible for a group of services with common characteristics, and working together in a collegiate whole-of-organisation approach.

Recommendation 10: Introduce a program of functional reviews

The evidence suggests the Administration's processes are inefficient, due in part because they have not been analysed for some time, resources are not shared enough across functions, or management controls are inadequate.

There is potential to achieve considerable improvement in efficiencies and effectiveness through multi skilling, resource sharing and process improvement that focuses on removing non-value activities.

Functional reviews would be similar to Best Value reviews conducted by many local governments on the mainland. There is a standard methodology and approach for these reviews however the Administration will require appropriate expertise initially before it builds its own capability.

This expertise could be sourced externally or by partnering with local governments on the mainland in a capacity building exercise. It is proposed an internal resource be assigned to develop this capability within the HR function or CEOs office.

Recommendation 11: Restructure the Legal Services Unit

The Review recommends the LSU be restructured from its present role as the primary source of legal advice to the Administration to a manager of externally provided legal services. The present approach to obtaining legal advice fails to acknowledge the broad range of specific legal expertise the Norfolk Island Administration requires and the availability of such specialised advice from external providers.

The management role for externally sought legal services would include the creation and management of a register of legal services providers established through a formal procurement process. This procurement process should be designed to capture the expertise and competitive rates of providers, both on the mainland and on the Island and make use of mainland tender management organisations such as Procurement Australia to approach the market.

As part of the restructure of the LSU function the Review recommends the LSU becomes a participant of an internal dispute resolution process managed by the HR Department, providing input as a subject matter expert to the HR Department, not to the parties themselves, to minimise conflict of interest issues. The principal purpose of the dispute resolution process is to assist the parties to clearly define the area of contention, narrow these points of contention and remove legal ambiguities from the area of contention.

The dispute resolution process will decrease the reliance on inefficient mechanisms of resolving internal disputes such as searching for legal arguments and make the process for resolving disputes in the Administration transparent.

The dispute resolution process is distinguished from the Tribunal created under the *Administrative Review Tribunal Act* (NI) 1996 by its focus on divergent views as distinct from reviewable decisions. These divergent views may be held by different members of both the Administration and Assembly. A key element of this process must be a right of review to an

independent and final arbiter, such as the Territory's Administrator. This approach is already applied in reviewing some Administration and/or Ministerial decisions (such as the refusal of a Visitor's Permit or a Social Welfare benefit).

As part of the restructure a standard form conflict of interest policy should be implemented by the LSU. Key features of this policy would include not presenting advice to multiple parties on the same matter.

Recommendation 12: Undertake a program of legislative review

The Review recommends a program of legislative review be undertaken by the Norfolk Island Government. This program is intended to address the present state of Norfolk Island legislation which the Review believes demonstrates disparate and unconnected legislative schemes that do not provide a cohesive system of guidance for the jurisdiction.

This program of review would be to greatly reduce the reliance of Norfolk Island on self-made legislation which does not reflect the levels of clarity required in a legislative instrument. The program of review would comprise two key aims:

- Repealing Norfolk Island legislation that is redundant or inconsistent with Commonwealth legislation covering Norfolk Island; and
- Creating legislative rights and protections which mirror those at state and federal level on mainland Australia.

This approach is required to bring greater clarity to the rights of residents, enhance the capacity to manage legislative tables and ensure a high standard of legislation.

As part of this program of review Norfolk Island legislation will be repealed and in its place applicable legislation from the mainland be adopted. This will involve identifying legislative schemes at state and federal levels in the areas presently covered by Norfolk Island legislation. An adoption enactment would be passed by the Norfolk Island legislature. This would allow Norfolk Island to access the jurisprudence associated with the Act adopted as well as revisions, related regulations and explanatory materials.

Such an approach will lower the costs of management to the Administration and allow the greater use of the legislative resources of the mainland. By accessing the expertise of the agencies charged with the management of the Act to be adopted the broader ecosystem of rights and protections associated with that area should be evaluated and communicated to the legislature for their consideration.

The Review notes that in undertaking this program of legislative review the assistance of state and federal law reform commissions would be of assistance.

Implementation Approach

The implementation of the recommendations occurs in the context of two streams of activity:

1. Capacity building of the Administration
2. Divestment of functions to other providers

The two streams differ in timescale – the capacity building will be relatively short and intense followed by a moderate consolidation period, the divestment process will be over a much longer period, probably starting slow and gaining momentum over time.

The two streams won't operate in isolation. In particular the divestment stream will impact the organisation and therefore the capacity building process.

This is a change process and the approach to change must therefore be flexible enough to incorporate modifications to the change process as it evolves. This requires very good understanding of change management and high level project management skills.

Approach to the Capacity Building Process

Preparatory work

Prior to the commencement of the Capacity Building Team the governance arrangements will have to be agreed and in place, as discussed under Recommendation 5 and administrative support arrangements finalised.

In addition the Government and the CEO will have to begin preparing both the community and the Public Service for the change program. The Government and CEO should prepare a preliminary communication strategy that:

- describes what is going to happen, what people can expect, and focusing on the advantages of having the CBT in place;
- profiles the CBT, and details of where and how they are expected to work;
- uses several channels with multiple engagements to press the messages home;
- provides opportunities for feedback and engagement through staff and community meetings; and
- provides an opportunity to meet the team as part of their induction (see below) and prior to their full time arrival.

This communication strategy should commence two to three months before the arrival of the CBT.

Induction

It is important for the CBT to have some understanding of the culture and issues of Norfolk Island prior to commencing. It is therefore recommended that several weeks prior to their full time commencement the CBT undertake an induction visit to Norfolk Island to meet key stakeholders and become familiar with the community, history and culture.

The induction should also include a briefing by this Review team.

Stages of capacity building

There are three stages to the capacity building process:

- Analysis and planning
- Intensive capacity building
- Review and consolidation

Stage 1: Analysis and planning

Analyse the current situation

The first step is to assess the current situation and develop a detailed capacity building plan. To do this:

- The HR, IT, Finance and Legal Services members of the CBT, in partnership with their counterparts, will immediately conduct a detailed analysis of the capacity of their functional area using a recognised and comprehensive framework (for example Best Value, Business Excellence) to identify policy issues, areas of risk, resource capability, infrastructure needs, and opportunities for efficiency and service improvement.
- The Chief Administrative Officer (CAO), in partnership with the CEO, will conduct a review of the service delivery and other organisational functions and identify issues and opportunities for streamlining the organisational structure.

Note that the functional reviews (Recommendation 10) are detailed reviews that will require some time to complete, and would probably occur on a rolling basis. For areas other than the internal service areas of Finance, IT, HR and LSU, it is not intended they form part of this initial analysis but instead are implemented as part of the capacity building in stage 2.

The CAO and CEO would identify an appropriate structure that would address the span of control and facilitate greater utilisation of resources.

Develop a detailed Capacity Building Plan for each area

- The CBT and their counterparts would work cooperatively, probably in a series of planning workshops, to develop a detailed capacity building plan that covered the whole organisation and included specific plans for the core functions of HR, IT, Finance and Legal Services.
- The output of this planning step would be:
 - a detailed capacity building plan;
 - a preferred organisational structure;
 - a communications strategy to inform the public service and the community about the change process; and

- o a set of criteria that describe the capacity expected to be achieved by the end of stage 1. In other words, this would describe the capacity required for the Administration to be able to continue without full time external assistance. These criteria would be used to evaluate when the transition from stage 1 to stage 2 should occur.

It is expected these outputs would be delivered within two months of the CBT's arrival.

Stage 2 – Intensive Capacity Building

The duration of this phase must be driven by the capacity building outcomes but it would be unrealistic to expect all (or even most) change to have occurred within the initial twelve month period.

- Each CBT member would then assume responsibility for implementing the capacity building plan. This may involve a range of development activities including: developing new processes and procedures, implementing changed controls, changing work rosters, training staff, relocating staff, and other activities.
- Some changes may require a two-step approach. For example, a simplified performance management process may have to be implemented until a more thorough process is developed by HR. It is important that the change process is not held up waiting for other processes or systems to be developed.
- The intensive capacity building stage would address the following recommendations:
 - o Recommendation 8: Implement an Organisational Integrity Development Program for all MLAs and all Public Servants
 - o Recommendation 9: Restructure the Administration to improve policy advice, management control and productivity
 - o Recommendation 11: Restructure the Legal Services Unit
 - o Recommendation 12: Undertake a program of legislative review
 - o Recommendation 10: Introduce a program of functional reviews

Functional Reviews

Functional reviews are detailed reviews that should occur on a rolling basis depending on resources available. The Review believes that functional reviews should be an internal improvement capability of the Administration and, as such, should be ongoing and continue beyond the capacity building program. It is recommended the CBT develop a capability for functional reviews within the Administration. The function could sit within the CEO's office or HR.

Functional reviews may initially focus on the existing GBEs – assessing their financial viability and applying a public interest test to the question of divestment.

Because of their detailed approach, the CBT may require additional external resources to develop a methodology and pilot the first few functional reviews.

Commencement of long term community plan

During this intensive change stage it is important for the Government to show leadership and manage community concerns and resistance. To do this the Government should commence the development of the long term community plan, as described in Recommendation 7.

Stage 3 - Review and consolidation

Evaluation of Capacity Building Program

The Capacity Building Team and the short term recommendations are designed to kick start a major capacity building program within the Administration and provide it with enough momentum that the Administration can continue to drive it with its own resources.

The time this will take is unclear however an independent evaluation should be conducted after one year, and annually thereafter, to assess whether the change program is meeting its short, medium and long term objectives.

The outcome of the evaluation will determine whether to continue the short term intensive effort or to plan and move into the stage 2 consolidation phase. An output of the evaluation should be a documented plan for the next stage.

Consolidation

It is anticipated that the consolidation stage would commence no earlier than one year after commencement and possibly later. The transition will be determined by an assessment against the transition criteria contained in the capacity building plan.

Key activities envisaged in the consolidation stage include:

- The Capacity Building Team would leave but ongoing support through the DRARDLG would be available for intermittent assistance. The exact nature of the ongoing support cannot be detailed at this stage. It will most likely be either:
 - engaging a specific capability to develop some policy or procedure where Norfolk Island does not have that expertise, or
 - engaging additional capacity to assist with implementation where Norfolk Island does have the capability but the activity would consume current resources too much – training is one example.
- The Norfolk Island Government completes its long term community plan and begins implementing its strategic plan.
- Functional reviews continue using the internal resource developed during the capacity building stage.
- Progress is evaluated annually. Outcomes of the evaluation will inform forthcoming year's change management plan and divestment plans.

Approach to the Divestment Program

As noted earlier it is vital that Norfolk Island lead this process under the superintendence of the Commonwealth and the Capacity Building Team's CAO. Recommendation 2 included that the Norfolk Island Government should assign an appropriate high level project manager (Project Manager – Divestment Strategy) reporting to the Chief Executive Officer. This person should have high level experience in government and possess excellent relationship, communication, contract negotiation and project management skills.

Although Norfolk Island should lead the process it is also recommended that a Divestment Task Force be established, consisting of at least representatives from the Norfolk Island Government, Administration and the DRARDLG, to oversight the program.

The Project Manager would need to work closely with Ministers, the Administration, and particularly the DRARDLG who would have a key role in facilitating discussions with target Commonwealth Departments and sourcing specialist advice.

However it is also recognised this is a significant task and will require assistance. It was therefore proposed in Recommendation 3 that the Capacity Building Team include project management expertise to establish and help implement a divestment program.

Implementation

There are two stages to the divestment program:

- Develop a divestment strategy and detailed action plan
- Deploy the program

Stage 1: Develop a divestment strategy and detailed action plan

Using the functions listed earlier as possibilities for divestment, confirm and develop a priority list. Criteria for selection of priority divestment areas could include, for example, impact on the community, impact on financial sustainability of the Administration, speed of divestment (for example privatising some of the trades functions could occur quite quickly).

The project plan should include a communication strategy and a regular reporting regime to both the Norfolk Island Government and the DRARDLG.

Stage 2: Deploy the divestment program

Deploying the divestment program will involve considerable negotiations with multiple parties and require sound project management. It is anticipated it would continue for several years.

It is recommended that the divestment program be formally reviewed annually and its progress reviewed by the Divestment Task Force. The purpose of the review would be to identify barriers to progress and opportunities for improvement.

Implementation Scenarios

The two core streams of activity in the change program are very different in nature. The capacity building program is reasonably predictable and within the control of Norfolk Island (given that the commitment to a CBT has already been agreed between the Australian Government and the Norfolk Island Government). The divestment program on the other hand involves a cast of stakeholders, some of whom haven't been involved in the early thinking yet, each with their own priorities and therefore willingness to devote resources to and participate in the divestment program.

Given Norfolk Island's past experience where some report recommendations stalled because another partner did not carry out their part of the recommendation, it is useful to consider at least two implementation scenarios. The difference between the two will be the level of Commonwealth agency buy-in:

Scenario 1

The capacity of the Administration is improved and then after one year the change management program is handed over to the Administration for further consolidation.

Over a period of three to five years all nominated functions are divested.

Scenario 2

The capacity of the Administration is improved and then after one year the change management program is handed over to the Administration for further consolidation.

The divestment program stalls or continues at a slow rate. No functions are transferred to the Commonwealth, the Hospital is managed by a State type provider (have assumed this because negotiations have already commenced, so Norfolk Island may be able to progress this on their own), and local trade services have been privatised (as these are more within the control of Norfolk Island).

Comparisons are shown on the next pages.

Comparison of Recommendations that could be implemented

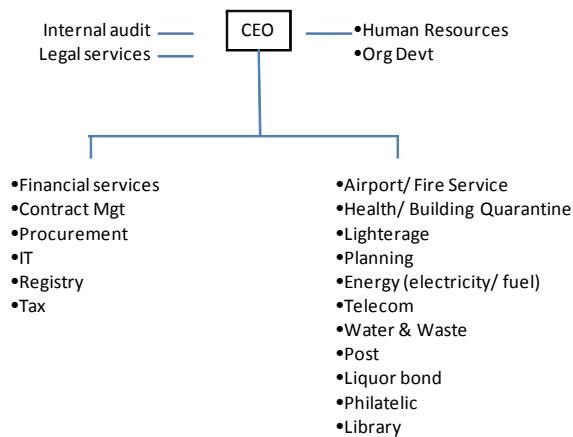
Recommendation	Scenario 1	Scenario 2	Comment
1: Adopt a modified version of the 'Local Government' option of the Road Map – the Island Government option.	Yes	No	
2: The Norfolk Island government to develop and deploy a Divestment Strategy and Action Plan.	Yes	Partial, minor	Some functions under NI control could be divested.
3: Employ an external Capacity Building Team to fast track the change process.	Yes	Yes	Assume it is part of recent funding agreement
4: Implement a specific capacity building program for the Norfolk Island Hospital.	Yes	Partial	Review could be funded by external party (e.g. DVA), however capacity support may be limited.
5: The Norfolk Island government and the Commonwealth to agree a governance arrangement which provides the CBT with appropriate authority and safeguards to enable it to carry out its task effectively.	Yes	Yes	
6: Replace the Public Sector Management Act 2000 and the Human Resources Policies and Procedures Manual	Yes	Yes	
7: Norfolk Island Government develop a long term vision and strategic community plan for Norfolk Island	Yes	Yes	There is some expertise within Administration
8: Implement an Organisational Integrity Development Program for all MLAs and all Public Servants	Yes	Yes	Information is available in public domain, could build own.
9: Restructure the Administration to improve policy advice, management control and productivity	Yes	Yes	
10: Introduce a program of functional reviews	Yes	Yes but at slower rate	Methodologies are in the public domain, some internal expertise exists. Rate of application potentially slower in scenario 2.
11: Restructure the Legal Services Unit	Yes	Yes	
12: Undertake a program of legislative review	Yes	Yes	

Even under scenario 2 assumptions, where Commonwealth agencies did not take over a number of functions, many of the recommendations could still be implemented by Norfolk Island in the short and medium term. Many of the recommendations do not require significant amounts of Commonwealth funding, at this stage.

Comparison of Administration Structure

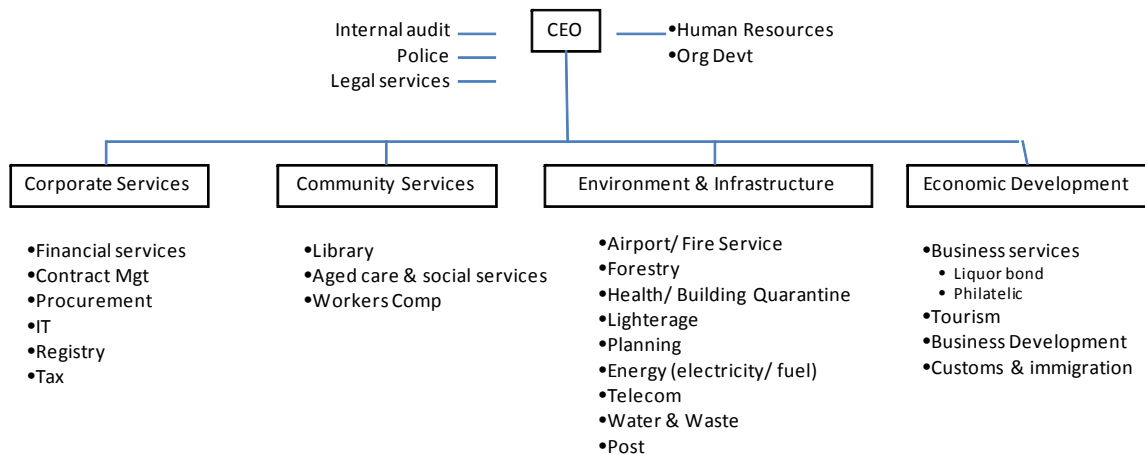
Without the divestment program the structure would be similar to the current one. With functions divested the Administration would be considerably smaller and less costly. The following are provided as examples only.

Scenario 1



The Scenario 1 structure could be even more streamlined if the income producing services were also privatised.

Scenario 2



Comparison of Outcomes

Scenario 1 structure would require less management staff than scenario 2. Overall cost of maintaining scenario 1 structure would be significantly less than the current structure or the scenario 2 structure.

The capacity building program would result in more efficient operations than the current situation. The public service would also be more professional in its approach, more customer focused, and deliver improved outcomes compared to the current situation. These benefits would apply to both scenarios.

Although under scenario 2 the Administration would be more efficient than it is today, it would still carry similar and significant costs and, given the current revenue problems, may be unsustainable.

Estimated resource implications

The following table is indicative. Actual cost implications will need detailed consideration and analysis beyond the scope of this Review.

Capacity building		
Stream of activity	Resources involved	Cost implications
Capacity building	<p>For ~ first year.</p> <p>CBT for 1 year consisting of CAO, specialists for HR, IT, Finance, Legal Services, and Divestment Coordinator.</p> <p>External resources for functional reviews (2 experts for ~ 3 months).</p> <p>Drafting assistance.</p> <p>Community Planning Specialist</p> <p>IT infrastructure (unknown)</p> <p>Additional 2 Exec Directors if proposed model adopted.</p> <p>Organisational Integrity Training</p> <p>For ~ years 2 onward</p> <p>Independent evaluator</p> <p>Intermittent assistance organised through DRARDLG</p> <p>Assistance to LSU for legislative review program</p>	<p>First year cost elements:</p> <ul style="list-style-type: none"> • CBT (up to 6 person yrs) • Functional reviews (~ 6 person mths). • Community Planning specialist (~ 3person mths) • Cwth agency time for: drafting assistance, divestment activities, coordination. • Additional 2 Exec mgrs if CMG concept adopted (~ 100k) • Cost of Organisation Integrity training • NIA staff costs <p>Years 2 onward</p> <ul style="list-style-type: none"> • External evaluator (~50-100k) • DRARDLG Staff costs • Legal drafting assistance costs • NIA staff costs
Divestment program	<p>Project manager appointed by NIG.</p> <p>Divestment assistance provided by CBT.</p> <p>Divestment strategy and detailed action plan developed.</p> <p>Deployment of divestment plan –involves negotiations with range of stakeholders. DRARDLG would have a coordinating role.</p> <p>Significant Cwth Depts' time to develop divestment strategy.</p> <p>Divestment assistance, (from Dept.)</p>	<ul style="list-style-type: none"> • Project manager (~ 50 – 80k) • Cwth agencies time for: divestment activities. • DRARDLG coordination - staff time • NIA staff costs

Note: Resource requirements depend upon the outcomes of the capacity building plan and will vary from these early estimates.

Appendix A: Stakeholder Consultations

In the course of preparing this report, ACIG's consultants have facilitated two group meetings, and met with individuals and smaller groups (usually of two to four people).

Many of the people we met with subsequently sent us letters, reports and/or other forms of information.

Group Meetings

Monday 18 July – meeting of Norfolk Island Administration staff (~110 attendees)

Tuesday 19 July – public meeting, open to all on Norfolk Island (~60 attendees)

Individual and Small Group Meetings on Norfolk Island

Where a person's name is followed by more than one title, we met them (often more than once) in each capacity listed.

Adams, Robert – Norfolk Island Airport Manager

Anderson, Craig – Member of the Legislative Assembly

Baskerville, Bruce – KAVHA Site Manager

Bataille, Allen – Registrar, Norfolk Island Administration

Bell, David – President Norfolk Island Chamber of Commerce

Brett Kytola – IT, Norfolk Island Administration

Buffett, David – Chief Minister, Norfolk Island Legislative Assembly³⁰

Buffett, Alan – Norfolk Island Customs and Immigration

Christian, John – Manager, Norfolk Island Electricity

Clarke, Charisse – Norfolk Island Chamber of Commerce

Creek, Eve – Norfolk Island Women's Forum

Cuthbertson, Nadia – Presiding Member Public Service Board

Davidson, Alma – A/g Chief of Staff, Norfolk Island Legislative Assembly

Davidson, Peter – Norfolk Island Forester & Conservator

Douran, Sput – Acting Manager, Norfolk Island Telecom

Dowling, Gary – Manager Healthcare & Employment, Norfolk Island Administration; Trustee NI Provident Fund

³⁰ The Chief Minister's responsibilities include: Head of Government; Self-government; Intergovernmental Relations; Strategic Planning; Treasury; Budget; Public Monies; Economic Policy; GST; Public Service; Justice; Police; Customs; Immigration; Culture, Heritage and Traditions; Museums; KAVHA and Cemetery; and Education.

Downie, Gerri – Manager, Emergency and Fire Services

Edward, Kim – Manager Social Services and Companies, Norfolk Island Administration

Emery, Wayne – General Manger Norfolk Island Tourism

Evans, Chelsea - Acting Secretary to Norfolk Island Legislative Assembly

Evans, Gaye – Clerk, Norfolk Island Legislative Assembly

Evans, Morgan – Chairperson Norfolk Island Government Tourism Board

Gardner, Mandy – Deputy Manager Norfolk Island Airport

Goldsworthy, Bob – Norfolk Business Group

Goulding, Jenny – HR Manager, Norfolk Island Administration

Graham, Melissa - Executive Member NI Public Service Association; Manager OHS, Risk Management, Insurance, Property & Complaints

Griffiths, Rhonda – Member of the Legislative Assembly

Grube, Ray –Norfolk Island Energy

Howe, Fred – Norfolk Island Chamber of Commerce

Hyatt, Barry – Norfolk Island Chamber of Commerce

Jackson, Doug – Manager, Norfolk Island Liquor Bond; Public Service Board Member

Jenkins, Jo – Finance Department

Johnston, Mike – Manager Public Works, Norfolk Island Administration

Keeping, Arthur – Acting Manager, Norfolk Island Energy

Kelly, Bruce – Official Secretary, Office of the Administrator

King, Mike – Member of the Legislative Assembly

LeCren, Sarlu – Staff Consultative Committee

LeCren, Shelly – Manager, Norfolk Island GST

Little, Bob – Norfolk Business Group

Martinez, Val – Chairperson Norfolk Island Hospital Advisory Board

Martinez, Alex – Public Sector Board Member

Matthews, Steve – IT Manager, Norfolk Island Administration; President Public Sector Association; Chairperson, Staff Consultative Committee; Trustee NI Provident Fund; Member Public Service Board.

McCowan, David – Director Norfolk Island Hospital

McCoy, Shane – Norfolk Island Hospital Advisory Board

McNeil, Alan – Land Use, Environment & Planning, Norfolk Island Administration

Menzies, Nancy – Healthcare & Employment, Norfolk Island Administration

Murdoch, Jeff – CEO Norfolk Air

Nobbs, Andre – Minister for Tourism, Industry & Development, Norfolk Island Legislative Assembly³¹

Nobbs, Becky – Corporate Manager, Norfolk Air

O’Sullivan, Cathy – Internal Auditor, Norfolk Island Administration

Pannell, Vince – Officer in Charge, Norfolk Island Police

Peapells, Sybil – Norfolk Island Liquor Bond

Plant, George – CEO, Norfolk Island Administration

Quintal, Michella - Social Services and Companies, Norfolk Island Administration

Rayner, Graeme – Norfolk Business Group

Richards, Lisa – Museum Director

Richards, Wayne – Norfolk Island Crown Counsel

Robertson, Renay – Finance Department

Robertson, Stuart – Norfolk Island Telecom

Sheridan, Tim – Minister for Community Services, Norfolk Island Legislative Assembly³²

Simpson, Debbie – Norfolk Island Post

Snell, Candice – Norfolk Island Hospital Advisory Board

Snell, Lisle – Deputy Speaker, Member of the Legislative Assembly

Snell, Mal – Manager, Waste Management

Solomon, Neil – Principal Norfolk Island School

South, David – Public Service Board Member

Taverner, Allan – Secretary, Staff Consultative Committee

Taverner, Neil – Manager Health, Building & Quarantine

³¹ The responsibilities of the Minister for Tourism, Industry and Development include: Tourism; Commerce and Industry; Economic Development; Gaming; Electricity; Transportation; Primary Industry; Communications and Technology; New Technology Assessment; Licensing; Liquor Bond; and Post & Philatelic.

³² The responsibilities of the Minister for Community Services include: Social Welfare; Retail Price Index; Benefit Adjustment Factor; Fees and Charges; Health; Environment; Emergency Services and Disaster Management; Sport and Recreation; Civil Works; and Employment.

Taylor, Bruce – Deputy CEO, Norfolk Island Administration

Walsh, Owen – Norfolk Island Administrator

Westwood, Rob – Executive Member NI Public Service Association

DRARDLG Stakeholders

ACIG Consultants have also met with the following stakeholders from DRARDLG.

Clay, Steve – A/g Assistant Secretary, Territories East Branch

Holmes, Michelle – Norfolk Island Taskforce

O'Brien, Dan – Deputy Secretary, Programs and Engagement Group

Pellatt, Simon – A/g Director, Norfolk Island Taskforce, Territories East Branch

Appendix C: Revising the Procurement Guidelines

Conflict of interest – the issue widely perceived to be key to many poor purchasing decisions – is addressed only briefly.

“Purchasing Officers should ensure that they recognise and deal with conflicts of interest in accordance with current policy.”

Current policy is outlined in the HR Manual but a reference to that manual is not provided in the Procurement Guidelines. No reference is made to ensuring any other officers involved in the purchasing process (such as members of the Corporate Management Group or Ministers) adhere to any existing conflict of interest policies.

As useful example, Division 3 of Part 9 of the Victorian *Local Government Act 1989* sets out Best Value Principles through which local governments are required to determine the most effective means of providing a service to the community. The Principles are as follows.

- The need to review services against the best on offer in both the public and private sectors.
- An assessment of value for money in service delivery.
- Community expectations and values.
- The balance of affordability and accessibility of services to the community.
- Opportunities for local employment growth or retention.
- The value of potential partnerships with other local governments and State and the Commonwealth governments.
- Potential environmental advantages.

These Best Value Principles include some that are missing from the Norfolk Island Procurement Guidelines.

The Procurement Guidelines go on to articulate the procedures for purchasing goods and services. Appropriate reference is made to the Norfolk Island *Public Moneys Act 1979*. A list of financial thresholds is provided:

- Petty cash expenditure is for “minor incidental expenditure not greater than \$50 per transaction”;
- Goods and services up to \$5000 “may be purchased without quotations”;
- Goods and services between \$5000 and \$20,000 require “three written quotations” of a fairly basic nature – presumably not much more than a price – and if the lowest priced quote is selected the Purchasing Officer can go ahead and make the purchase. Otherwise a member of the Corporate Management Group must provide approval;
- Goods and services between \$20,000 and \$50,000 require three written quotations of a more detailed nature. Then a report summarising the submissions and making a

recommendation is made to the Corporate Management Group, who then determine the most suitable supplier.

- Goods and services in excess of \$50,000 must usually go to public tender. The open tender process is described below. Several circumstances are listed where the requirement to go to tender might be waived. One of these probably requires a more detailed explanation (or perhaps should be removed altogether). The requirement to go tender may be waived where “there is good reason to believe that, because of the unique nature of the goods or services required or for any other reason it is unlikely that there is more than one potential supplier.” In our view, a supposition about potential suppliers is not an adequate reason to waive the tender process.

Any tender worth more than \$1 million (or a lesser amount if deemed appropriate) “will only proceed with the assistance of an independent probity auditor.” The Procurement Guidelines provide no additional information about such an auditor.

The Procurement Guidelines subsequently articulate the tendering process:

- The development of a Tender Evaluation Plan, which should include “procedures for dealing with conflicts of interest”. The Guidelines do not state who should prepare or approve the Tender Evaluation Plan.
- Expressions of interest. “There will be occasions when it is considered more appropriate to advertise for Expressions of Interest.” These occasions, and examples of them, are not discussed within the guidelines.
- Limited Procurement Processes. This process, where a tender brief is sent to a small number of selected suppliers, is used only where an Expression of Interest process has already been undertaken.
- The tender documents themselves – what to include in them – might be best described at this point in the process. Instead the Procurement Guidelines provide this information at the end of the document.
- Gazettal of Tender. Tender advertisements are to be placed in the Norfolk Island Government Gazette. In our view advertisements placed within mainland Australia, New Zealand and in other places throughout the region may result in more tender submissions.
- Tender receipt, opening and registration arrangements are described and are fairly standard. We can only further suggest that where tender submissions are accepted by email, a secure email address or an online e-lodgement service is used by the Administration.
- Tender documents are then passed to the relevant Executive Director. The Procurement Guidelines state that the Executive Director will then establish the Tender Evaluation Group but we can only presume that such a group was already established to develop the tender evaluation plan (described above).
- The tender evaluation group comprises the Purchasing Officer and relevant Manager or Executive Director. The Executive Director can also nominate other people to part

of the tender evaluation group. “The Tender Evaluation Group shall examine each tender or quotation to ensure that the tenderer has responded to all relevant sections of the tender specifications.” The group then compiles a report, which includes recommendations, for the Tenders Committee.

- The Tenders Committee comprises all Executive Members (that is, all Ministers) and the CEO. The committee assesses the tenders (again) and evaluates them against a further set of criteria, namely:
 - have regard for the economy of Norfolk Island;
 - consider giving preference to local suppliers where prices, quality and specifications are equal to or within 10% of any tenders received from off-island. And such consideration must have due regard to probity and fairness and total cost; and
 - consider whether the Administration is capable of producing the goods and services from within its own resources at an economical price.

It is not clear in the Procurement Guidelines whether or not tenderers have to be made aware of these additional selection criteria. And it is not clear to the Review Team why the last criteria should not be considered before a tender is advertised, rather than afterwards.

- The tenders are then awarded, the successful tenderer notified and contracts drafted and exchanged. We would suggest that unsuccessful tenderers should also be formally notified, after contracts are signed, and provided with an opportunity to receive feedback about their submission.

In our view the Procurement Guidelines lack detail. Existing best practice models, produced by State Governments, are available online for local governments on the mainland. We recommend *Local Government Procurement Best Practice Guideline*, Victorian Department of Planning and Community Development, August 2008. But other guides are also available.

Norfolk Island’s size and close community means that conflict of interest is a key concern in any procurement process. This includes the perception of conflict, as well as any actual conflict of interest. The Procurement Guidelines should address this issue directly and in some detail.

The purchasing thresholds are probably about right. On the mainland the thresholds for local government purchasing are much higher – often at \$150,000 before a tender process must be undertaken – but prudent risk management suggests that Norfolk Island’s lower thresholds are sensible. We do however suggest that for goods and services of less than \$5000 at least one written quotation should be a requirement.

The Procurements Guidelines are currently quite vague about the circumstances where the requirement to go to tender might be waived. We think this section needs to be stronger and would suggest that the Administration be required to go to tender even where “there is good reason to believe that, because of the unique nature of the goods or services required or for any other reason it is unlikely that there is more than one potential supplier.” As stated above, in our view, a supposition about potential suppliers is not an adequate reason to waive the tender process.

The independent probity auditor, required for tenders of more than \$1 million is mentioned only in passing. We would like to see more detail about how such an auditor may be selected, including the criteria for selecting such an auditor.

In general the Procurement Guidelines could further clarify the tendering process, and provide more detail. Some examples are provided below but they are by no means exhaustive.

- The Guidelines do not state who should prepare or approve the Tender Evaluation Plan.
- Examples of and discussion about occasions when it is considered more appropriate to advertise for Expressions of Interest should be included within the guidelines.
- The Guidelines should provide more information (or make more explicit within the existing guidelines) about what should be included in the tender brief – the more information the tenderers have, the better the quality of the response. Selection criteria should be included in the brief and tenderers should be encouraged to address the selection criteria.
- Where tender submissions are accepted by email, a secure email address or an online e-lodgement service should be used by the NIA.
- It is not clear in the Procurement Guidelines whether or not tenderers have to be made aware of the additional selection criteria applied by the Tenders Committee.
- Unsuccessful tenderers should be formally notified, after contracts are signed with the successful tenderer, and provided with an opportunity to receive feedback about their submission.

In order to gain the widest range of submissions, the Administration must ensure tenders are more widely advertised. Placing tender advertisements only in the Norfolk Island Government Gazette limits the likely number of tender responses. In our view advertisements placed within mainland Australia, New Zealand and in other places throughout the region may result in more tender submissions.

The Tenders Committee, which is the body which makes the final decision about which tender to choose, is required to “consider whether the Administration is capable of producing the goods and services from within its own resources at an economical price.” In our view, this should be considered before a tender is advertised, rather than as the final step in the evaluation process.

As mentioned elsewhere in this Review, Ministers should not be involved in decision-making about tenders – it is an operational process that properly belongs within the Administration. It is simply inappropriate to have Ministerial involvement in decisions tenders. Regardless of the quality of decision-making, such involvement leaves any Minister wide-open to claims of favouritism and/or political interference.

Procurement Suggestion

Within each mainland state, local government peak bodies have established organisations to provide procurement services to local government. These organisations exist to save

councils significant money through whole-of-local-government supply arrangements. They also assist in making the procurement process reach best practice.

We strongly suggest that the Norfolk Island Administration contact one or several of these procurement organisations, with a view to accessing their services.

- New South Wales
Local Government Procurement www.lgp.org.au
- Queensland
Local Buy Pty Ltd www.localbuy.net.au
- Victoria
MAV Procurement www.mav.asn.au
- Northern Territory
Local Government Association of the Northern Territory www.lgant.asn.au
- South Australia
Local Government Corporate Services www.lgcs.com.au
- Tasmania
Local Government Association of Tasmania www.lgat.tas.gov.au
- Western Australia
Western Australian Local Government Association www.walga.asn.au