Draft Operational Plan
1 July 2022 – 30 June 2023

Norfolk Island Regional Council

Submission of the Accommodation and Tourism Association (ATA)

Submitted: 14 June 2022
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1. Executive Summary

Imposing the largest increase on record in rates, fees, and charges, and so soon after a severe financial crisis and one of the largest economic contractions on Norfolk Island, is irresponsible and reckless, as it reduces the financial capacity of the community even further. It will potentially accelerate a downward economic spiral, which will eventually make the council itself unsustainable. Businesses are willing to pay their way, but it needs to be within their financial means, sustainable and equitable.

1.1 Limited capacity to pay Excessive Fees and Charges.
The proposed increase in rates and annual charges of $2.37 mil is being imposed without any attempt to assess the limited capacity of the tourism sector or community to pay additional fees, or the current economic context of a vulnerable economy in an early recovery phase with rapidly increasing financial challenges. The council has failed to conduct any economic and social impact assessment or risk analysis.

Clearly, the council fails to recognize that the tourism sector, and community, does not have the financial capacity to pay the proposed increased charges. This is substantiated by the results of a Norfolk Island Business Survey conducted in June 2022, which is included in this submission, as well as the current economic circumstances.

1.2 Inconsistent with Community Strategic Plan
The council's approach to raising revenue from a small tax base is short sighted and flawed. It will severely damage the economy. This directly conflicts with the Council's stated objective 6 of the Community Strategic Plan to ensure a "strong, diverse and vibrant business environment".
The council's transition to sustainability requires a strong local economy to be successful.

1.3 Cumulative Increases are unaffordable
The proposed $2.37 mil increase in Rates and Annual Charges is cumulative, on top of the Council's 2021-22 revenue increase by $3.4m to $14.3m - an exorbitant increase on the community of 30% on 2020-2021 budget figure of $11m. In July 2021, despite the losses sustained by the tourism industry due to record low visitor numbers because of Covid border closures, council imposed a 10% increase in land rates, a new $75/bed waste management (WM) cold bed tax, and increased council fees and charges across the board.

1.4 Increased charges imposed after Tourism Industry Losses exceeded $38-mil
The tourism sector losses due to Norfolk Island border closures were at least $38 mil from March 2020 until January 2022. Economic recovery needs to be carefully nurtured, otherwise the Council's so-called Transition to Sustainability (TtS) will result in a transition to unsustainability for the tourism sector, with the economy being forced into a downward tailspin.

1.5 Increased Charges being charged when economy has significantly contracted. Visitor numbers are down an average 27 % over the three years ending June 2022 compared to the same period before the pandemic, with visitor numbers down 22.5% for 2021-22. Occupancy is currently at 28% for the year ending June 2022.

1.6 Shrinking Tax Base will lead to downward economic spiral
Operators will continue to exit the industry with accommodation units down in the last few years from 600 to 529 units. The council will be required to impose even higher fees on a shrinking tax base, further accelerating this downward spiral. Investors will be deterred.

1.7 Waste Management Fee increase to Accommodation Houses of 247% is unaffordable
From July 2022, the council is proposing to increase the tourist bed waste management cold bed tax even further from $75 per bed to $260.49 per bed ($746.16 per unit), which is a whopping 247% increase to accommodation houses! With the allowance for discontinuance of the disposal tickets, this still represents a 221% increase in WM fees.

1.8 Inequitable distribution of the imposed Waste Management revenue burden
Besides the incredible magnitude of the increase, this is also an inequitable distribution of the imposed revenue burden. The current occupancy rate is 28% which means that units are on average vacant for 72% of the year. Even with 30,000 visitors per annum and 529 tourist accommodation units, these units will be vacant for more than 60% of the year, generating no waste nor income. it is estimated that visitors in an occupied unit generate less than 30% of waste than an average household. Visitors mostly eat out and never dispose of many household items, such bicycles, and nappies. The WM fee imposed on accommodation houses is not aligned with usage or cost to council and is patently unfair.

1.9. The revenue model **provides no financial incentive for conservation.**

1.10 Land Rates increase is excessive and evidence of poor governance
The Council is proposing to increase its revenue from land rates by 38% with the lion's share of the business sector contribution being incurred by the Accommodation A sub-category ($281K). The 2022-23 rating model, compared to 2021-22, for the Accommodation Sector imposes the following massive land Rates increases: **Base Rate Increase: 318%** **Ad Valorem % Increase: 56%.**

The Norfolk Island Regional Council is free to impose any level of increase that it deems fit, without any requirement to assess the financial capacity of the community to afford such increases, and without any regard to current economic circumstances of the economy. The current increase is irresponsible. Good governance requires these considerations, and protections such as rate pegging.

1.11 Increasing Business Prices significantly is not an option
The accommodation sector, which is the mainstay of the local tourism industry, cannot simply recover these exorbitant increases through increased nightly rates, as wholesale contracts are in place at least until 31 March 2023. In addition, Norfolk Island will need to remain competitive with other South Pacific destinations as their borders have re-opened, and the new segment of Norfolk Island visitors that usually travel overseas, have resumed their overseas travel plans. It will also need to remain resilient to continue to market the destination and upgrade its products and services.

1.12 Council should expand the tax base
The ATA strongly encourages the council to engage with the business community to explore ways to broaden the tax base by seeking a greater direct contribution from the visitor. This may include revenue opportunities such as Passenger Movement Charges, Lord Howe Island WM model, Norfolk Island Sustainability Levy, etc. Revenue sources need to be economically and culturally appropriate.

1.13 Council should implement a phased approach
The council should also carefully consider a phased approach to any increases on the local industry and community, which are carefully aligned to the financial capacity of the community. Consultation with industry representatives, and an income and expenditure survey, ***before*** developing a proposed funding model would also be helpful, and lead to more informed decision making. A phased approach would allow the business sector more time for economic recovery and better position businesses to withstand the other financial challenges such as increasing inflation, interest rates and freight.

1.14 Amend Governance Model. Council should work with the community and Federal Government to propose changes to the current Governance model to provide flexibility, reduce the current funding constraints, and increase options for local government funding. This may provide a better path to sustainability.

1.15 Perceived Futility of Submission Process and Lack of Engagement
In a meeting on 3 June 2022 between the ATA and the Council Administrator, Finance Manager and Environment Manager, ATA members expressed a view that it is likely futile to spend precious resources to lodge a submission.

- There are currently no elected council representatives accountable to the community.
- The council has no contingency plans or proposed alternatives.
- Council did not bother arranging a public meeting to hear the community's views.
- Council did not meet with key stakeholders such as the ATA and other business groups before finalizing the draft plan.
- Council did not conduct an income and expenditure survey to assess the community's capacity to pay such a large increase in rates, fees, and charges.
- Confidence in the council and governance model is likely at its lowest point.

It is likely that the proposed fee increases are already irreversibly baked into the budget and the submission opportunity is a farce, only being conducted as it is required by legislation. The ATA Executive hopes that the Council Administrator proves this viewpoint to be wrong. The Council Administrator assured ATA members that the Council was indeed open to making changes to the draft Operational Plan based on submissions it receives.

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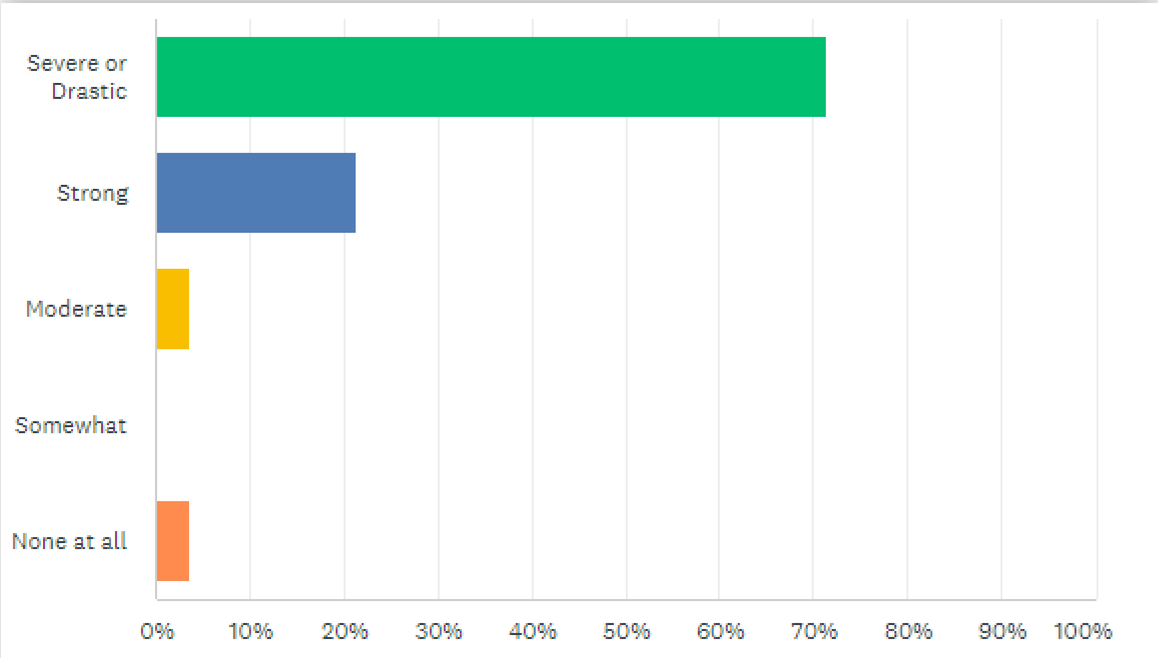
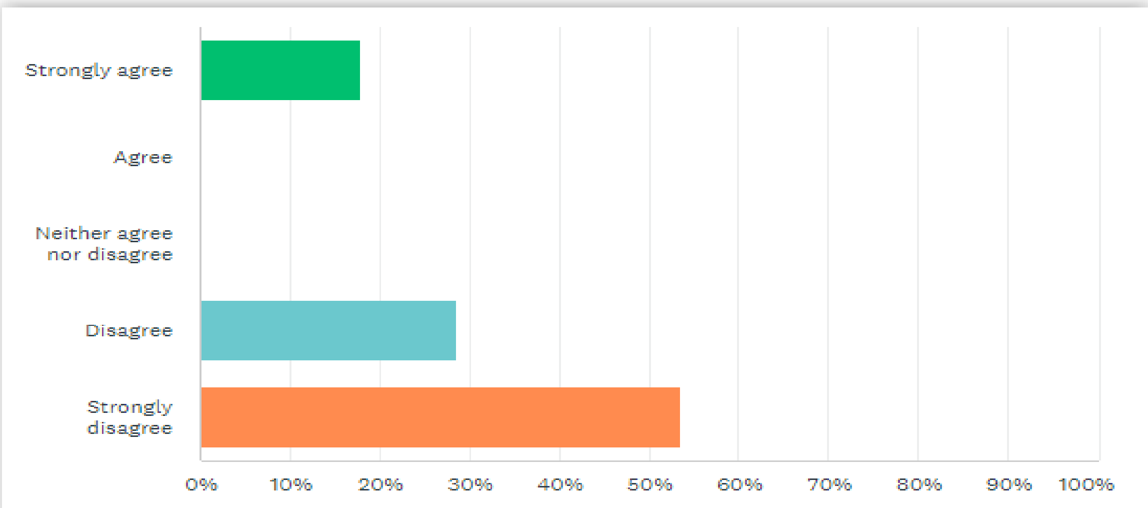
2. Limited capacity to pay Excessive Fees and Charges.

The Norfolk Island Business Survey was conducted in June 2022. Respondents included members of the ATA, Chamber of Commerce, Business Council of Norfolk Island, as well as local businesses who are not members of these organisations. The results below show an overwhelming majority of businesses will struggle to pay these excessive charges, and the distribution of WM charges is inequitable.

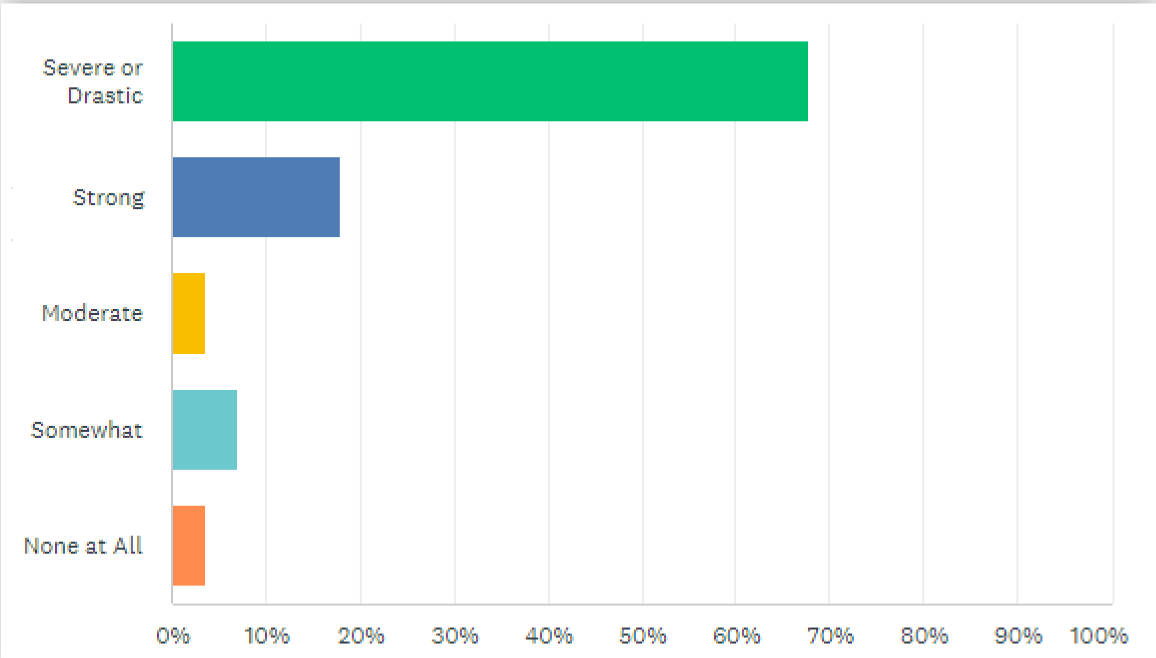
2.1 **The Council proposes to tax the community with an additional $1 million as a waste management fee. Please assess the financial impact on your business.**



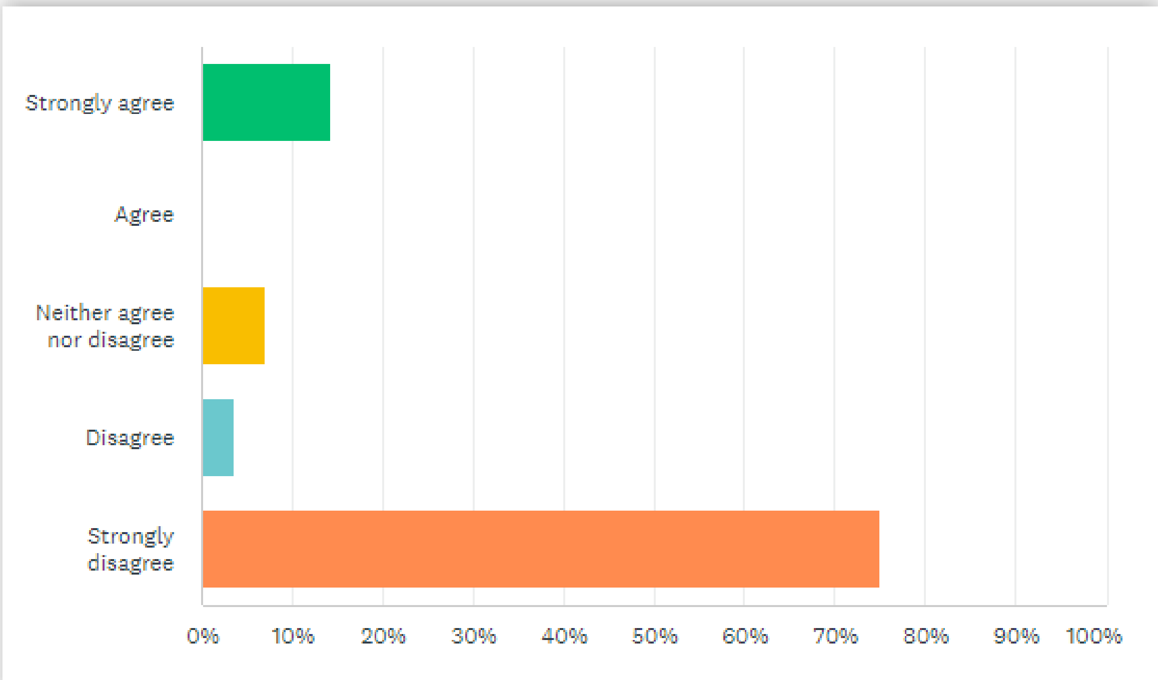
2.2 **The Operational Plan states that sub-categorisation is a more effective way to apply differential waste management charges reflecting usage. Do you agree that the sub-category for your business reflects actual usage?**



2.3 **The Council is proposing to increase revenue received from Land Rates by 38%. Please assess the impact of this increase on your business.**



2.4 **The Council Community Strategic Plan Objective 6 is for the Council to achieve "a strong, diverse and vibrant business environment". The Plan states that it will achieve this by a "reduction in business costs". Do you agree that the proposed Operational Plan may achieve this objective?**



3. Bad timing: The perfect storm.

The increased council fees and charges across the board are being introduced at a time when:

3.1 The community has reduced capacity to pay due to a massive economic contraction from March 2020 and to January 2022, resulting from the Government imposed Covid-19 travel ban. The Norfolk Island tourism industry losses from March 2021 to January 2022 are estimated at approximately $38 million and will take years to recover.

3.2 The accommodation occupancy rate for the year ending June 2022 is at 28%.

3.3 Average visitor numbers over the 3-year period of the pandemic years 2019-20, 2020-21 and 2021-22 are down by 27% from the 3-year pre-pandemic average.

3.4 After a disastrous 22-month period of record low visitor numbers, these massive council charges will deter businesses from reinvesting in their products and services.

3.5 Tourism businesses will struggle to fund upgrades and invest in marketing activities.

3.6 The tourism industry is currently facing new market challenges. The latent demand caused by the border closures is dissipating, and new destinations in the South Pacific are re-opening to Norfolk Island's traditional market.

3.7 The tourism industry is facing increasing financial challenges in several other areas: Increased charges for fuel, gas, food, freight (more than 3 times King Island), wages (due to acute shortages) and virtually everything else, as well as increasing interest rates with the cash rate expected to be 2% within the 2022/23 year.

3.8 Federal Government's imposition of additional costs on the private sector through Income Tax, Increased Employment Costs dictated by the Fair Work Act, Superannuation contribution guarantee cumulative annual percentage increases, Compliance Costs, increased costs through the extension of NSW laws such as Water Quality, etc.

4. **Inconsistent with Community Strategic Plan**

The council's approach to raising revenue from a small tax base directly conflicts with the Council's stated objective 6 of the Community Strategic Plan to ensure a "strong, diverse and vibrant business environment".

A successful and innovative community

We work to make our economy grow

- OBJECTIVE 6 - Strong, diverse and vibrant business environment
- OBJECTIVE 7 - A skilled and competitive workforce
- OBJECTIVE 8 - Successful public private partnerships

'Strategic Objective' from Community Strategic Plan	'How will we get there' taken from the Community Strategic Plan and Delivery Program	Target from Delivery Program including Target Year	Operational Plan Actions	Operational Plan Targets	Responsible Division / Officer
	6.3 Reduction in business costs – greater efficiencies in business costs	Council has investigated and identified barriers to economic growth and diversity, including 'red tape' barriers. Within the areas of Council's control, Council has reduced these barriers.	6.3.1 Systematic identification of barriers to business development reported to the Commonwealth for attention and removal where possible	Council has reported to the Commonwealth identified barriers to economic growth and diversity, Including 'red tape' barriers	General Manager Manager Economic Development

4.1 **No Consideration of Economic Impact**

Despite the obvious financial difficulties experienced by the community due to the travels bans from March 2020 to January 2022, it is reasonable to conclude that the council did not even consider the impact on the economy in the determination of the fees and charges. In a meeting on 3 June 2022, the appointed Council Administrator stated to the ATA that the council did not assess the community's capacity to pay the proposed increases.

4.2 **The community cannot be taxed into prosperity.** It is the private sector that creates prosperity and value not the public sector – these proposed fees and charges take even more money out of the community, much of it having been spent on superfluous highly paid council managers, overheads, relocation of council functions and personnel to Burnt Pine, and funding items that are Federal Government responsibilities not sufficiently covered in the Service Delivery Agreement - and not properly invested towards economic stimulus.

5. Poor Current State of the Economy

5.1 Tourism Sector Losses

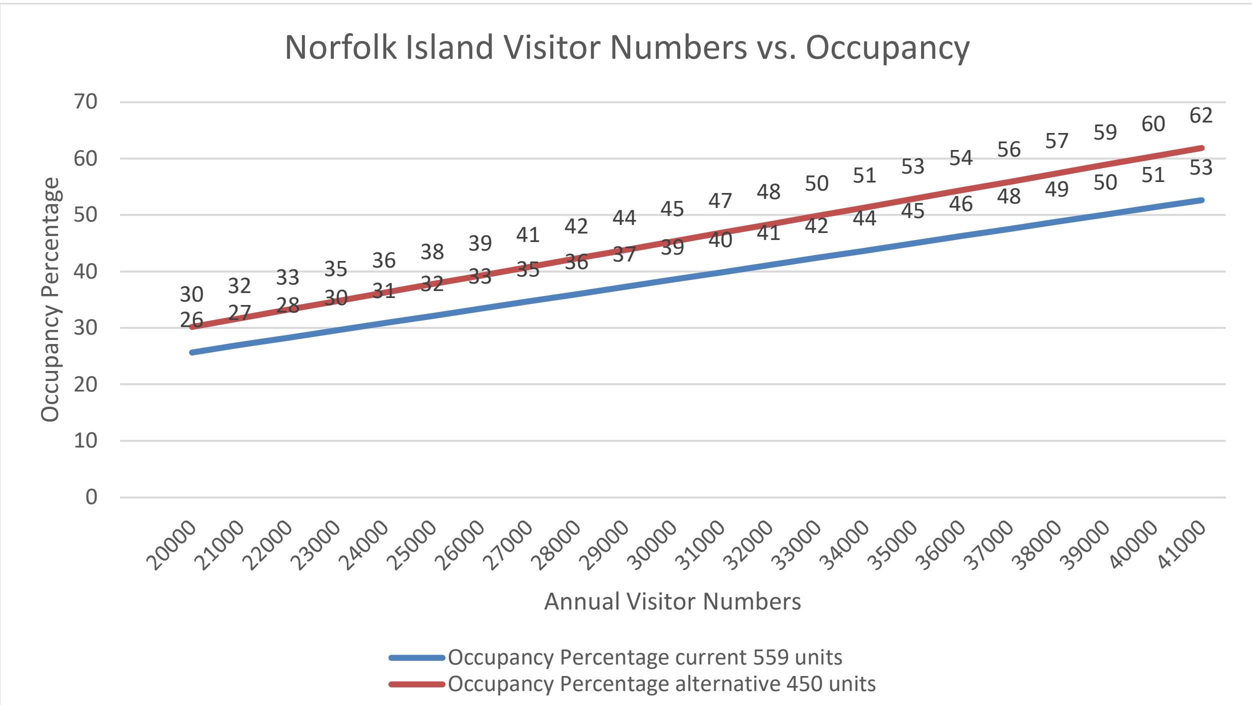
The economy is in a poor position, **exacerbated by the 2020-21-22 travel ban due to the Coronavirus pandemic, and the many border closures**. Many businesses, including most within the accommodation sector, earned zero income for approximately 6 months during 2020, and were teetering on the edge. The year 2021 was not much better with reduced flights and intermittent border closures, including a 3-week Norfolk Island border closure in January 2022, during the peak season. **It is estimated that the tourism sector has lost approximately $38 mil during the border closures**.

5.2 Tourist Accommodation Occupancy

The year-end **occupancy rate** in the tourism accommodation sector **for each of the previous three financial years**:

Financial Year	**Occupancy**
2019/20	26%.
2020/21	24%.
2021/22	28%.

2022-23: Even if the visitor numbers increase in 2022-23 by another 38.33% from 21,686 to 30,000 visitors, the average occupancy based on 529 accommodation units would be just 39%.



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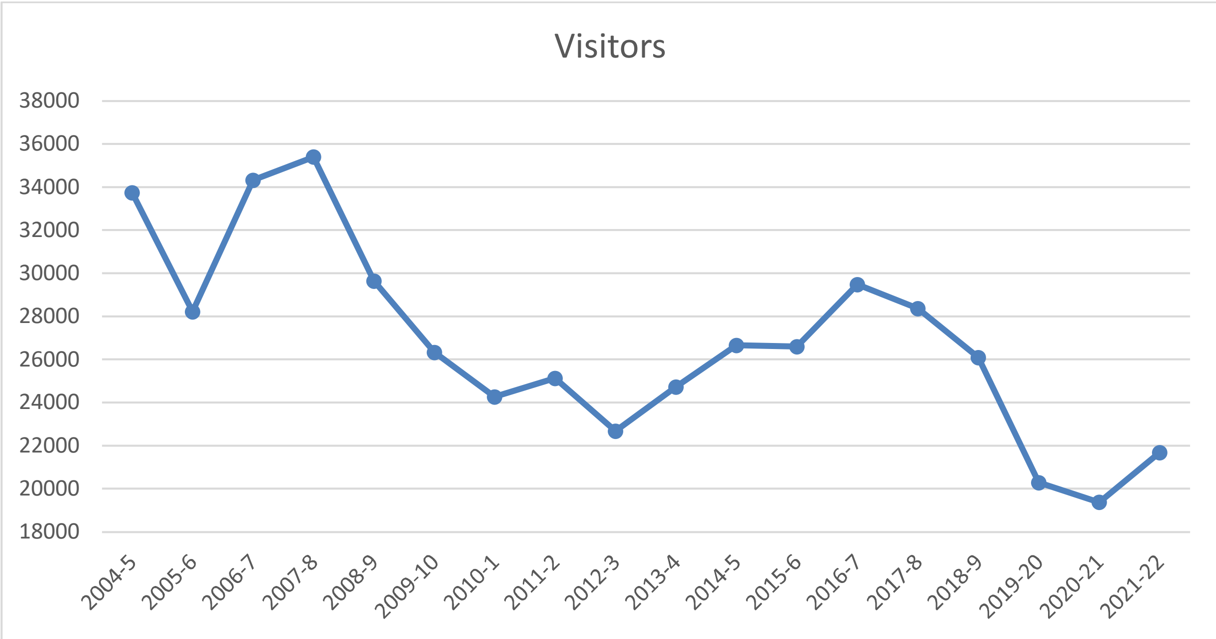
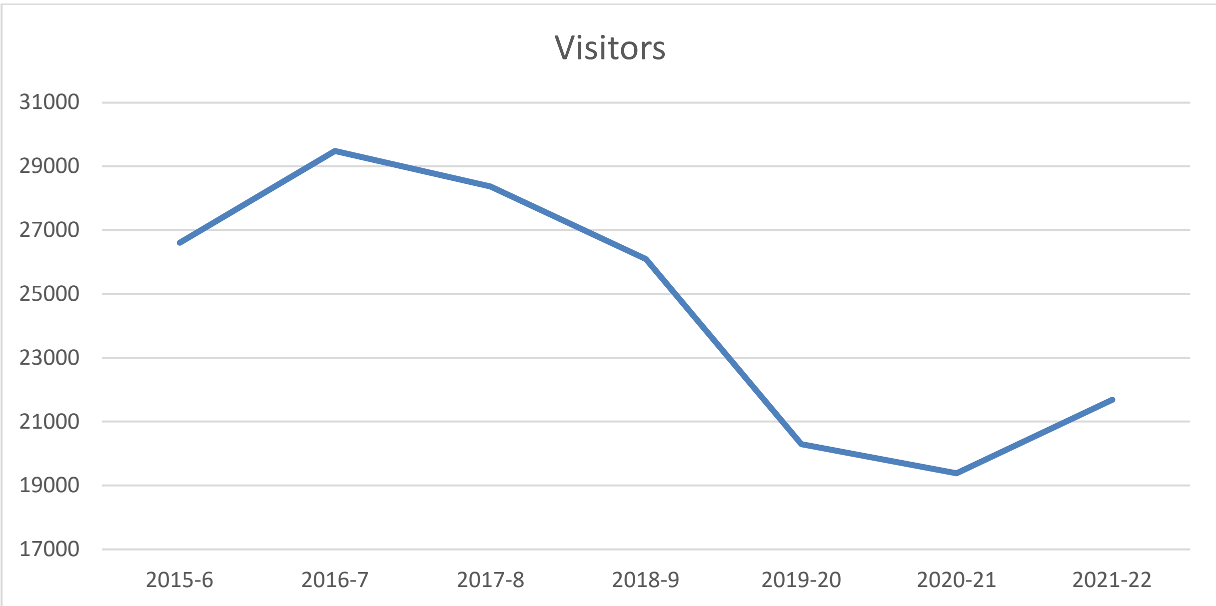
5.3 Visitor Numbers

Average visitor numbers over the 3-year period of the pandemic years 2019-20, 2020-21 and 2021-22 are **down by 27% from the 3-year pre-pandemic average.**



Pandemic 27% visitor decline



Year					
2016-7	2017-8	2018-9	2019-20	2020-21	2021-22
Visitors					
29482	28363	26096	20295	19382	21686

- June 2022 visitor numbers estimated based on long term average for June.

Average Annual Visitor Numbers Pre-pandemic 2015-6 to 2017-8: 27,980
Average Annual Visitor Numbers during pandemic 2019-20 to 2021-22: 20,454

Percentage Decline in Visitor Numbers from 3-year Pre-Pandemic Average

2019-20: 26.8% decline
2020-21: 30.7% decline
2021-22: 22.5% decline

6.0 Waste Management Charges

6.1 Waste Management Fee increase to Accommodation Houses of 247% is unaffordable
From July 2022, the council is proposing to increase the tourist bed waste management cold bed tax even further from $75 per bed to $260.49 per bed ($746.16 per unit), which is a massive 247% increase to accommodation houses! With the allowance for discontinuance of the disposal tickets, this still represents an approximate 221% increase in WM fees.

The ATA conducted a survey comparing the proposed WM Fee increases for Accommodation Houses with the WM during 2021-22. The survey compared A with B, as defined below:

A. Costs from 1 July 2021 through 30 June 2022: Waste Mgt Fee ($75 per bed x number of beds) plus cost of waste disposal tickets.

Compare this with B:

B. Proposed Waste Mgt Fee for 2022-23: $746.16 x number of units

Below are examples from the survey of the net increase in WM fees for the three defined categories of accommodation houses. This comparison has made allowance for the discontinuance of the WM disposal tickets.

Accommodation category A (1-10 units)

2021-22	2022-23	% increase
920	3730	305%
40	3730	9225%
840	2238	166%
2833	6715	137%
2850	7461	162%

Accommodation category B (11-20 units)

2021-22	2022-23	% increase
2700	11192	315%

Accommodation category C (more than 20 units)

2021-2 2022-3

2021-22	2022-23	% increase
7200	25369	252%
4125	41039	895%

Accommodation categories D and E are not adequately defined in the draft Operational Plan. They appear to be superfluous at this stage.

FY 2022-3 WM Fee $394,718.64

With a total of 529 units, the WM fee contribution in 2022-23 from all tourist accommodation units will be 394,718.64 (529 units x $746.16/unit).

FY 2021-22 WM Fee $123,000

The WM fee contribution in 2021-22 from all tourist accommodation units was budgeted at $123,000 (1,642 beds x $75 per bed), plus the purchase of tickets.

This represents a massive increase in WM contribution by the accommodation sector of approximately 221%.

Using the current ratio 2.86 beds/unit, the increase in WM contribution per bed is **247%** (from $75 per bed to $260.55 per bed).

6.2 Inequitable distribution of the imposed Waste Management revenue burden
Besides the incredible magnitude of the increase, this is also an inequitable distribution of the imposed revenue burden. With 30,000 visitors per annum and 529 tourist accommodation units, these units will be vacant for more than 60% of the year, generating no waste nor income. it is estimated that visitors in an occupied unit generate less than 30% of waste than an average household. Visitors mostly eat out and never dispose of many household items, such bicycles, and nappies. The WM fee imposed on accommodation houses is not aligned with usage or cost to council.

6.3. The revenue model is patently unfair and **provides no financial incentive for waste conservation.** The objective to showcase Norfolk Island as the best small island in the world should include a strategy to conserve waste. Businesses and residents will pay the same for waste irrespective of the volume of waste that they generate.

7.0 Land Rates

7.1 Land Rates increase is excessive

The Council is proposing to increase its revenue from land rates by 38% with the lion's share of the business sector contribution being incurred by the Accommodation A sub-category ($281,426), with a total of $407,629 from all accommodation categories.

Individual accommodation businesses will be hit with land rate **increases of more than 318%.**

Business - Accommodation A	2,187.61	0.00956094	281,426
Business - Accommodation B	2,904.22	0.00956094	57,975
Business - Accommodation C	2,926.81	0.00956094	9,802
Business - Accommodation D	2,926.81	0.00956094	58,426

2021-22 Land Rating Model:
Businesses: Base Rate of $758 plus Ad Valorem % 0.006125609

2022-23 Land Rating Model:
Accommodation (weighted average A to D) Base: $2,413.25 plus Ad Valorem % 0.00956094

Percentage Increase:
Base: 318% **Ad Valorem %: 56%**

7.2 Operators will exit the industry

Raising the base rate by 318% and the Ad Valorem Rate by 56% is unsustainable for the accommodation sector. This is not just a once-off expense, but a recurring expense for business that is simply unaffordable. Imposing such an incredibly large increase, particularly so soon after a severe financial crisis and the one of the largest economic contractions of over $38 million on Norfolk Island is irresponsible and reckless, as it reduces the financial capacity of business even further. . It will accelerate the downward economic spiral, as operators will be forced to exit the tourism industry.

Accommodation businesses cannot simply increase nightly rates sufficiently to cover these additional expenses. Many forward bookings are already sold for travel over the next 12 months, and accommodation wholesale contract rates are fixed until 31 March 2023

7.3 **Shrinking Tax Base will lead to downward economic spiral**

Operators will continue to exit the industry with accommodation units down in the last few years from 600 to 529 units. The council will be required to impose even higher fees on a shrinking tax base, further accelerating this downward spiral. Investors will be deterred.

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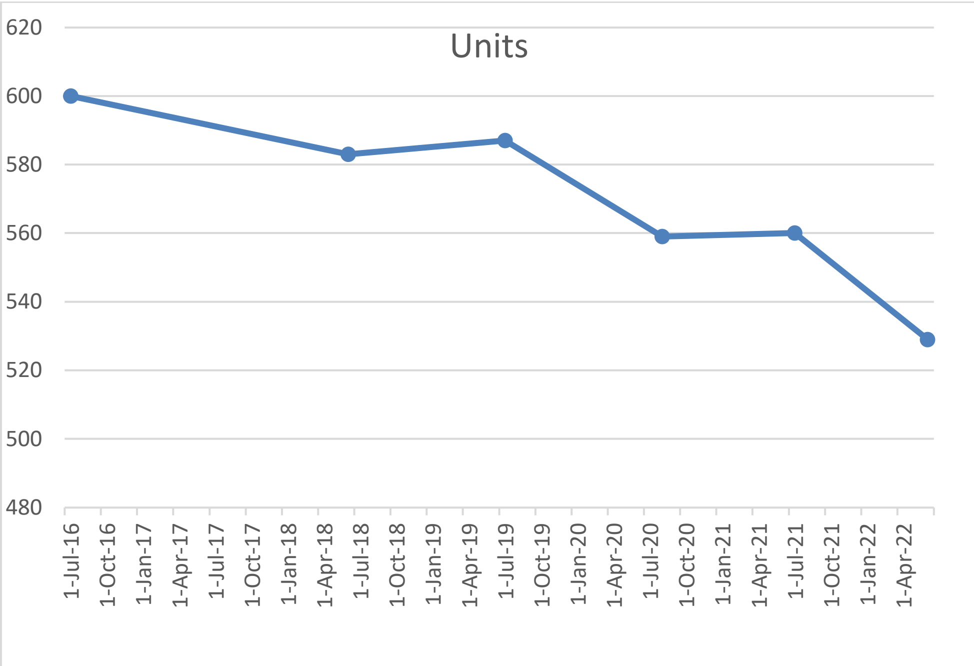

7.4 Council Rates Increases – Rate Peg protections

Rate Pegging protects communities from excessive increases. Other jurisdictions on the mainland, such as NSW, have legislative protections in place to constrain councils from imposing rate increases beyond a maximum limit, such as 0.7% per year. The rate peg determines the maximum percentage amount by which a council may increase its general income for the year. The NSW independent government authority, IPART, has set a 2022-23 rate peg for each council, ranging from 0.7% to 5.0%.

The NSW rate peg takes into account the annual change in the Local Government Cost Index (LGCI), which measures the average costs faced by NSW councils, in addition to a population factor based on each council's population growth.

From ATA discussions on 3 June 2022 with the Council Administrator, it appears that such protections do not exist for Norfolk Island, and that the Norfolk Island Regional Council is free to impose any level of increase that it deems fit, without any requirement to assess the financial capacity of the community to afford such increases, and without any regard to current economic circumstances of the economy. The current increase is irresponsible. Good governance requires these considerations and protections.

8.0 Council lacks Economic Stimulus Plan

8.1 The draft Delivery Program 2022-2026 lacks specific actions to stimulate the economy. The Council has presumably been evaluating a new tourism marketing representation organisation, but there has been no local industry involvement, and the evaluation committee is unknown. It appears from the budget that $500,000 has been allocated for consultants, but there is no transparency. There is no meaningful attempt by the Economic Development team to engage with the ATA, despite repeated invitations by the ATA to do so. Their only direct engagement appears to be limited to the quarterly BITAC Committee meetings. The ATA is concerned that there are no meaningful operational plans to promote economic development, and no accommodation industry involvement.

8.2 Several Delivery Plan actions are inadequate and may indicate a misuse of public funds for tourism.

The delivery Plan includes KPI's for a new website (despite recently been developed), develop Eco Tourism benefits, Eco Tourism Accreditation Program, present Eco experiences to the cruise companies, advertise in the Air Chatham's magazine, etc. These actions are low level and not strategic in nature.

The delivery program should more strategic objectives such as including participation in the Australian Tourism Data Warehouse (ATDW), as the council is standing in the way of local businesses being able to list their product and services through this important distribution channel. All businesses throughout Australia can participate in the ATDW, and therefore also Tourism Australia, except for Norfolk Island businesses, due to the Council's decision in 2019 to withdraw from ATDW. All attempts by the ATA to assist, including financially, have been rebuffed by the council.

Grow and Diversify the Economy, including niche markets. The ATA supports this objective, but the delivery plan lacks any detail or action items.

9.0 **Governance Framework is unstainable.**

The current government structure of a council with heavy financial burdens with a small revenue base is not aligned with the needs of the community. A **budget which meets the real needs of the Norfolk Island community will never be balanced without** significant ongoing funding from the Federal Government, which is currently not assured, or by excessively taxing the community with destructive results. The council does not have a state partner or access to state grants and programs. It is imperative that the Council focus seriously and urgently on developing and expanding the economy in a substantial way, otherwise these proposed fees and charges will deal an unacceptable blow to the economy and community.

The council appears to be caught "between a rock and hard place". However, it is irresponsible for the Council to continue to simply raise fees and charges to balance certain key functions without appropriate consideration given to the adverse impact on the economy and community and taking adequate measures to mitigate these risks. The council hasn't even performed a risk assessment.

10. Questions arising from Draft Operational Plan document

10.1 Page 52 of the draft Operational Plan indicates that Accommodation Houses will be paying $410 ***per room*** in 2022/23 under the Water Assurance Act 1981, and in 2021/22 paid zero.

Accommodation houses on the sewer system did not pay zero.
The definition of *room* is missing.
The definition of Business – Accommodation D and E is unclear.