



**FINAL REPORT**

# KAVHA Economic Feasibility Study



*Prepared for  
Department of Infrastructure and Regional Development  
October 2017*

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## *Executive summary*

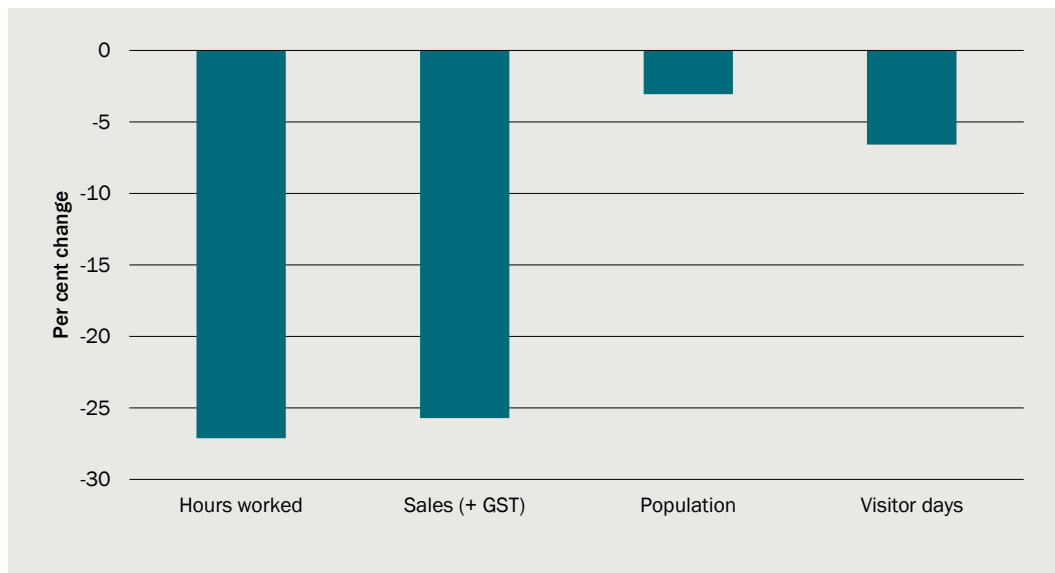
### *The Norfolk Island economy has experienced a period of prolonged decline*

Most available indicators of Norfolk Island's economic performance suggest a long term decline in the economy. Estimates of nominal gross territory product (GTP) suggest the economy has contracted by around 4 per cent since 2003-04, and with prices likely to have risen since 2003-04, the contraction in real GTP would be even larger.

In 2015-16 Norfolk Island's nominal GTP was estimated to be \$66 million, which equates to an average of \$37 781 per capita. In comparison, Australian GDP per capita was \$68 587.

Other available indicators also show a fall in economic activity. Chart 1 shows that over the 2009-10 to 2015-16 period hours worked, total sales, population and visitor days on-island have all fallen.

#### **1 Changes in the economy of Norfolk Island over 2009-10 to 2015-16**



Data source: CIE.

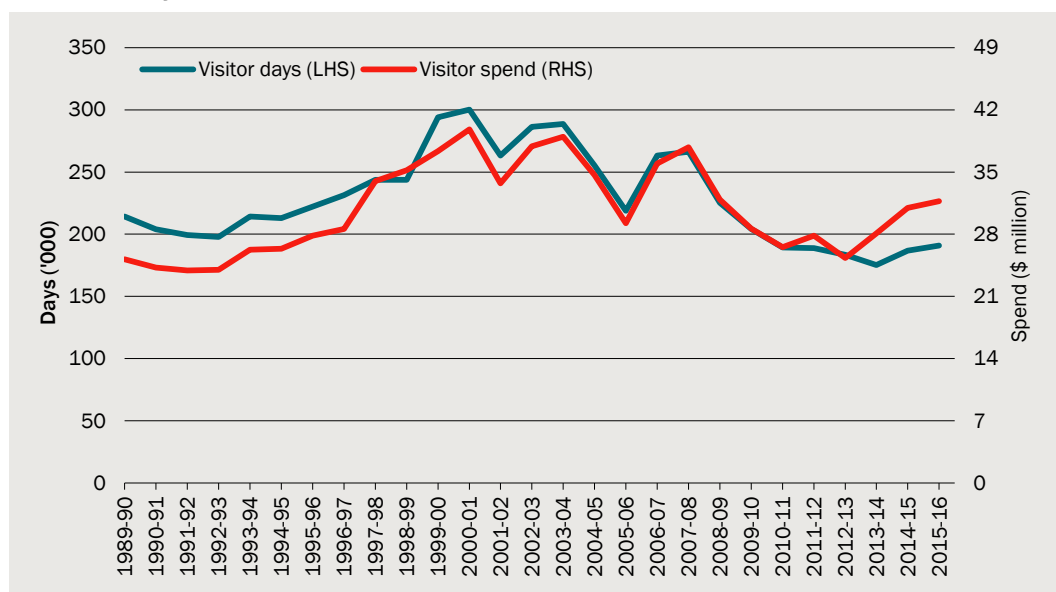
### *Tourism is Norfolk Island's main area of economic activity*

Tourism represents around 58 per cent of economic activity, which means the economy is heavily dependent on visitor numbers, the length of stay and on-island visitor spend. While tourism numbers are lower than peak visitation of around 41 000 during the early-2000s, from chart 2 it can be seen that there has been a slight increase in visitation and

tourist spend over the past 5 years. In 2015-16 over 28 500 tourists visited Norfolk Island, spending some \$31.7 million in the local economy.

Activities that lead to improved tourist numbers, length of stay or visitor spend could positively impact the Norfolk Island economy.

## 2 Visitor days and spend



Note: The estimated visitor days and spend reflects a number of factors, all of which change over time/vary between years. The factors comprise the number of visitors coming to Norfolk Island (by air and by cruise ship), the length of time spent on island, and the spend per visitor type (air passenger in public accommodation, air passenger in private accommodation and cruise passenger) whilst on island.

Data source: Norfolk Island Government Tourist Bureau, TRANSAM Argosy, stakeholder consultations, and CIE calculations.

### *KAVHA is an important part of Norfolk Island tourism*

KAVHA is an important part of Norfolk Island tourism, with more than 78 per cent of people visiting Norfolk Island going to KAVHA and with 38 per cent of tourists reporting that KAVHA was their main reason for visiting. While most visitors go to KAVHA, results from a CIE Attribution Survey suggest that 16 per cent of visitors to Norfolk Island would not have visited if KAVHA did not exist. It is therefore estimated that 16 per cent of tourism is attributable to KAVHA itself.

Applying an estimated attribution factor of 16 per cent to the estimated on-island tourism spending of \$31.7 million in 2015-16 suggests that tourism spending of approximately \$5.1 million was attributable to KAVHA, or between \$3.5–6.7 million using lower and upper bounds of 11 and 21 per cent respectively. KAVHA's contribution to Norfolk Islands GTP in 2015-16 is estimated at between \$4–8 million.

### *KAVHA's conservation funding is insufficient*

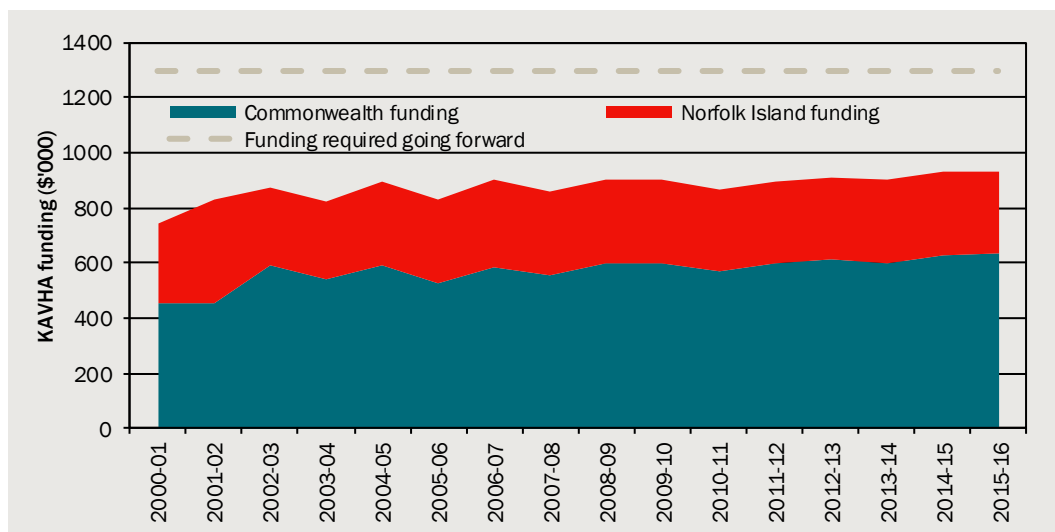
Australia has an obligation to conserve and interpret the World Heritage KAVHA site. The current level of conservation funding is not sufficient to allow this obligation to be met.

Conservation funding of KAVHA for operational expenditure has typically been in the order of \$900 000 per annum up until 2015-16. This funding covered all aspects of KAVHA operations including maintenance, the KAVHA Board and Secretariat, insurances, museum/research centre costs and the employment of a Commonwealth Heritage Manager.

In 2016-17, new funding arrangements commenced that have seen the amount of 'on the ground' funding going to KAVHA for building conservation, interpretation and maintenance activities being reduced to \$440 000 (plus in-kind services provided by the Norfolk Island Regional Council). The reduction in conservation funding has necessitated KAVHA moving from the recommended cyclic maintenance program to an 'as needed' maintenance program, which is not appropriate for a site such as KAVHA. The current level of funding is insufficient to enable adequate and best practice heritage conservation of the site. Furthermore, it is believed that conservation and interpretation at KAVHA is below the standard of other Australian Convict Sites on the World Heritage List.

Based on historical maintenance budgets, it would appear that annual conservation and interpretation funding should be in the order of (a real) \$1.3 million per annum. Chart 3 reports KAVHA funding over time and funding required going forward. It should be noted that a detailed forward looking (cyclical) maintenance budget for KAVHA has not been prepared. Preparing such a budget would seem to be of upmost priority.

### 3 Nominal KAVHA funding to 2015-16 compared to requirement going forward



Data source: DIRD, NIRC and NIA Annual Reports, Attorney-General's Governance Review (2009), CIE.

#### *There is potential to raise funds for KAVHA from a range of sources*

Required funding for KAVHA could come from a number of sources, including:

- the Australian Government (on behalf of the wider Australian population)
- visitors to/users of the site
- commercial opportunities to improve the visitor/user experience.



Government support of KAVHA will likely be required going forward. All Australian Convict Sites require some level of government support, with site generated revenue not being sufficient to recover costs at any site. In 2015-16 site generated revenue at KAVHA recovered 21 per cent of costs (versus 85 per cent at the Port Arthur Historic Site). There would seem to be potential for KAVHA to achieve a greater rate of cost recovery.

KAVHA is a working site, it also contains numerous sporting and leisure resources used by residents, and is important to the wider Norfolk Island community. As such, residents use of the site should not be seen as a revenue generating opportunity. The residents of Norfolk Island should continue to have unrestricted access to KAVHA.

### ***There are a range of options to enhance KAVHA's contribution to the economy***

Improving site conservation and interpretation would be a source of economic stimulus in itself, and it could be expected to draw additional visitors to Norfolk Island, which would be another source of economic benefit.

A study into the contribution of the Port Arthur Historic Site to the Tasmanian economy found that a 10 per cent increase in conservation spending increased visitor numbers by 1.1–1.4 per cent, with a two year lag between expenditure and increased visitor numbers. If the same findings hold true for KAVHA, then economic modelling suggests that increasing conservation expenditure to \$1.3 million, combined with the resultant increase in visitors to Norfolk Island (induced demand), could see GTP being some \$4 million higher than otherwise in 2026-27.

While visitor satisfaction with KAVHA is overall positive, there are indications that the visitor experience at KAVHA is not of the quality expected for a contemporary World Heritage tourist attraction:

- there is a lack of information to make the visit informative and engaging
- there are issues around the quality of tours delivered by external operators on the site
- museum conditions are limiting the scale and quality of displays
- uncontrolled parking detracts from the picturesque views for visitors and risks damaging heritage assets
- visitors note there is not enough to do at the site, a café is lacking and better access to buildings required.

Given these identified shortcomings, the visitor experience at KAVHA could be improved through:

- investing in KAVHA information resources such as website enhancements, interpretation panels and a site app
- tour operator licensing and accreditation
- museum infrastructure investment
- introduction of a site orientation walking tour
- better visitor facilities and experiences such as toilets, BBQs, food and beverage services and special interest experiences.

Improving the visitor experience will likely necessitate the introduction of a KAVHA entry fee for visitors (via a visitor pass) to fund the visitor experience improvements. The visitor pass could include high value/low cost inclusions to create an appealing product for tourists with opportunities for upselling and cross-promotion. The introduction of a KAVHA Visitor Pass is recommended for 2019-20, to enable a two year lead time for a seamless transition from current arrangements.

Economic modelling suggests that reinvesting revenue earned from a KAVHA Visitor Pass (estimated at \$835 000 in 2026-27) into the KAVHA site to improve the visitor experience could contribute another \$3 million to Norfolk Island's GTP in 2026-27.

The increased conservation funding and improved site visitor experience is estimated to see almost 1200 additional people visiting Norfolk Island in 2026-27.

Increasing the per person spend at KAVHA will further enhance KAVHA's economic contribution, which can be achieved through a combination of:

- improving the KAVHA visitor experience, to increase its value in the eyes of visitors and extend the length of time spent on-site and spend
- providing commercial opportunities for businesses to operate visitor experience products and services on-site that generate revenue for KAVHA and local businesses.

Potential commercial opportunities include accommodation, food and beverage outlets, new visitor experiences and special events, requiring the development of a Commercial Use Policy.

### ***Governance is impeding the realisation of KAVHA's potential***

Governance arrangements at KAVHA need to improve, however, the nature of any new governance arrangements depends on stakeholders' ambitions for KAVHA.

If only site conservation and interpretation is being contemplated, then the current governance arrangements, with a few changes, would probably suffice. At a minimum, the following broad amendments to the current governance arrangements are recommended:

- the KAVHA works crew are employed by the Australian Commonwealth and report to the Commonwealth Heritage Manager at KAVHA
- KAVHA to have responsibility for the various museum collections (noting the relationship between KAVHA and the Norfolk Island Museum Trust collection is to be decided), in effect giving rise to a 'one KAVHA' type arrangement
- approval is needed from the Commonwealth Heritage Manager for all on-site activities that have the potential to impact site conservation and interpretation, with input being sought from the Commonwealth Heritage Manager on other on-island activities that have the potential to impact KAVHA.

If KAVHA does take on responsibility for the various museum collections, then additional funding will be required from the Australian Government as the museums are currently not recovering their costs (\$95 000 shortfall in 2016-17). The museums would be funded through the KAVHA Visitor Pass if operationalised.

The required governance arrangements become more complicated if KAVHA is to generate and retain revenue for reinvesting in the site and further improve conservation and the visitor experience.

There are a number of potential governance structures that could be used, for example a state or Commonwealth GBE, or a statutory authority/corporate entity such as the Director of National Parks. Whatever governance structure is used, it is important that it meets the good governance principles of:

- a 'one-KAVHA' approach
- consultative and stakeholder participation
- utilises expert knowledge
- provides transparency in decision-making
- provides greater visibility
- is of appropriate scale to the KAVHA operation.

It is also recommended that a formal mentoring relationship be established between the governing KAVHA authority and a body such as PAHSMA or the Australian National Maritime Museum (informal mentoring is already ongoing in some areas). A formal mentoring arrangement could potentially allow for a faster transition to effective governance and greater cost recovery at KAVHA.

### ***The wider Norfolk Island tourism offer***

Improving conservation and the visitor experience at KAVHA is expected to marginally contribute to more visitors to Norfolk Island. A marginal increase in tourist numbers is expected because in isolation, KAVHA has limited influence on visitor numbers.

There are numerous other improvements needed to increase Norfolk Island's destination appeal and drive more tourists, including improved accessibility, overall tourism offer (product and services), infrastructure and marketing.

Current constraints to improving the destination appeal includes an apparent lack of will on behalf of some tourism operators, lack of capacity/skills and tourism market knowledge, and lack of capital.

A holistic approach to identifying tourism problems, root causes and solutions, is critical for any meaningful change to tourist numbers and revenues on Norfolk Island.

## *About this report*

There have been many studies on Norfolk Island over the past 10 years. While the topic of the studies has differed, they all share a common ‘first impression’ of Norfolk Island — it is a spectacularly beautiful location.

Adding to the natural landscape is a fascinating and unparalleled history centred on the Kingston and Arthur’s Vale Historic Area (KAVHA). This area of Norfolk Island, spanning some 225 hectares in size, was the site of an early Polynesian settlement, then a colonial convict settlement followed by a penal convict settlement, and in 1856, became home to the Pitcairn Islanders, decedents of the HMAV Bounty mutineers.

KAVHA is one of the 11 Australian Convict Sites that, in July 2010, were placed on the World Heritage List.<sup>1</sup> While, strictly speaking, it is the two convict settlements that are on the World Heritage List, the Pitcairn Islander story is an important part of KAVHA’s history and underlies the community’s strong cultural and spiritual ties to the area. The site is also on the Australian National Heritage List and Commonwealth Heritage List, which affords it protections under the *Environmental Protection and Biodiversity Conservation Act 1999*.<sup>2</sup>

Not only is KAVHA of historical value and central to the Norfolk Island community, but it also contributes to the Norfolk Island economy, through expenditure associated with preserving and interpreting the site, and through drawing tourists to Norfolk Island. It is this latter role — KAVHA and the Norfolk Island economy — that is the focus of this study, with the study investigating:

- the direct and indirect contribution of KAVHA to the Norfolk Island economy
- the annual base funding required to maintain KAVHA’s contribution to the Norfolk Island economy and preserve the site’s historical value
- the key factors likely to inhibit or enhance KAVHA’s future contribution to the Norfolk Island economy, and the potential costs (funding requirements) and benefits of these
- the governance arrangements that will best support KAVHA going forward.

To gain an appreciation of KAVHA and its needs and opportunities and to meet with stakeholders, a CIE team visited Norfolk Island in June 2017. The Cockatoo Island Convict Site and Port Arthur Historic Site were also visited as potential comparators to

<sup>1</sup> The other (World Heritage Listed) Australian Convict Sites include Old Government House and Domain, Hyde Park Barracks, Cockatoo Island Convict Site, Old Great North Road, Brickendon and Woolmers Estates, Darlington Probation Station, Port Arthur Historic Site, Coal Mines Historic Site, Cascade Female Factory and Fremantle Prison.

<sup>2</sup> *Environment Protection and Biodiversity Conservation Act 1999* [Cth], available at <https://www.legislation.gov.au/Details/C2016C00777>

KAVHA. Meetings were held with the Norfolk Island Regional Council, the Norfolk Island Administrator, the on-island Commonwealth Heritage Manager, private sector businesses and individuals, and the various bodies with responsibility for the other Australian Convict Sites.

The CIE would like to thank all of those stakeholders who participated in the consultation process, and who provided information and data in response to questions about the operation of KAVHA, the Norfolk Island economy, and comparator convict sites. The stakeholders consulted are identified in appendix A.

This report and the economic modelling undertaken have been generated from data made available by the Norfolk Island Regional Council and other stakeholders. It should be appreciated that only limited economic data is available for Norfolk Island.

The report is structured as follows. Chapter 1 provides an overview of the Norfolk Island economy, and the contribution of tourism to economic activity. Chapter 2 considers what share of tourism spend, and economic activity, can be attributed to KAVHA itself. In chapter 3 the baseline funding required to preserve the KAVHA site going forward is considered, while in chapter 4 the economic contribution of KAVHA under the baseline funding is estimated. Chapter 5 investigates (tourism related) options for enhancing KAVHA's contribution to the Norfolk Island economy, while chapter 6 considers the governance arrangements that will best support KAVHA going forward. Chapter 7 examines the challenges facing Norfolk Island tourism more generally. Conclusions are drawn in chapter 8.



# 1 *The Norfolk Island economy*

Understanding the contribution of KAVHA to the Norfolk Island economy first requires knowledge of the size of the Norfolk Island economy. However, as noted by numerous other studies on the Norfolk Island economy, assessing the size and performance of the economy is not a straightforward exercise due to the lack of formal economic statistics.<sup>3</sup>

## *Size of the Norfolk Island economy*

Norfolk Island is a small, isolated island community of fewer than 1 750 permanent residents. Most goods consumed on Norfolk Island are imported via Australia or New Zealand, while tourism related services are Norfolk Island's main area of economic activity and the only significant export.

Although there are no formal economic statistics compiled, there have been various attempts to estimate the size of the Norfolk Island economy, including several attempts by the Commonwealth Grants Commission (CGC). These estimates vary in the methodology used and time period to which they refer.

As can be seen from table 1.1, most estimates have Norfolk Island Gross Territory Product (GTP) in the \$80–90 million per year range.<sup>4</sup> The main outliers are the CGC's (2006) estimate that had Norfolk Island GTP much lower at around \$62 million per year, and the estimate of \$68 million developed by the CIE (in 2006 and 2014).

On a per capita basis, these estimates broadly equate to between \$40 000–50 000 per person (or around \$32 000 per person based on the CGC's 2006 estimate).

### **1.1 Estimates of Norfolk Island nominal Gross Territory Product**

Source	Year	Estimated GTP	Population	GTP per capita
		\$ million	No.	\$
CGC (1997)	1995-96	80.3	1 772	45 343
CIE (2006)	2004-05	68.4	1 985	34 461
CGC (2006)	2004-05	62.1	1 915	32 425

<sup>3</sup> See, for example, CIE (2014), Economic Impact of Norfolk Island reform scenarios, report prepared for Department of Infrastructure and Regional Development, November 2014, page 6; and CGC (2006), Review of the Financial Capacity of Norfolk Island 2006 (staff paper supporting information), Attachment C.

<sup>4</sup> GTP is a measure of the value of all of the goods and services produced in the economy and is analogous to the commonly used measures of economic activity of Gross State Product (GSP) for states and Gross Domestic Product (GDP) for the nation in aggregate.

Source	Year	Estimated GTP	Population	GTP per capita
		\$ million	No.	\$
CGC (2011) – production approach	2009-10	89.5	1 815	49 300
CGC (2011) – income approach	2009-10	82.0	1 815	45 169
ACIL Tasman (2012)	2010-11	87.9	1 795	48 969
CIE (2014)	2013-14	68.6	1 673	41 004

Note: The two CIE estimates of Norfolk Island's nominal GTP are very close at \$68.4 million (for year 2004-05) and \$68.6 million (year 2013-14). The 'closeness' of these totals is purely coincidental – the composition of the GTP estimates is different between the two time periods.

Source: Commonwealth Grants Commission (1997); Commonwealth Grants Commission (2006); CIE (2006), *Economic Impact Assessment of extending Commonwealth legislation to Norfolk Island*, prepared for the Department of Transport and Regional Services, October 2006; Commonwealth Grants Commission (2011); ACIL Tasman (2012), *Norfolk Island Economic Development Report: Reform of the Norfolk Island Economy*, report prepared for the Department of Regional Australia, Regional Development and Local Government, March 2012, p. 35; and CIE (2014), *Economic Impact of Norfolk Island reform scenarios*, report prepared for Department of Infrastructure and Regional Development, November 2014, page 7.

### *Norfolk Island's GTP in 2015-16*

The economic model of Norfolk Island developed by the CIE in 2014 used, as a starting point, data for year 2013-14. More recent data was obtained from numerous stakeholders and the model updated to 2015-16.

The economic model can be used to provide an estimate of Norfolk Island's GTP from both the income and expenditure sides. As can be seen from table 1.2, Norfolk Island's GTP (at nominal market prices) was estimated to be \$66 million in 2015-16. With 1748 permanent residents, this equates to a GTP of \$37 781 per capita.

The per capita (nominal) GTP of \$37 781 on Norfolk Island compares with \$68 587 in the case of Australia in 2015-16.<sup>5</sup>

#### **1.2 Norfolk Island GTP**

GTP from expenditure side		GTP from income side	
	\$ million		\$ million
Component		Component	
Consumption	37.9	Compensation of labour	30.0
Investment	19.9	Gross operating surplus	25.8
Government	8.3	Tax on production	2.1
Exports – tourists	31.7	Taxes on consumption	6.9
– merchandise trade	1.3	Tariff duty	1.3
Imports	(-) 33.0		
<b>Total</b>	<b>66.0</b>	<b>Total</b>	<b>66.0</b>

Source: CIE.

<sup>5</sup> Australian nominal GDP was \$1654.9 billion in 2015-16 (ABS 5206.0, Table 3), with population being 24.1 million as at June 2016 (ABS 3101.0, Table 4).



## Indicators of recent performance

Given the different methodologies and data sources used to construct the GTP estimates reported in table 1.1, they are not necessarily comparable across time. However, the three CIE estimates of Norfolk Island's GTP — spanning years 2004-05, 2013-14 and 2015-16 — employed the same methodology and types/sources of data, and hence are comparable. These three estimates suggest that the Norfolk Island economy has contracted in nominal terms over the 2004-05 to 2015-16 period. As the prices of goods and services will have increased over that time, there is likely to have been a substantial decline in real economic activity.

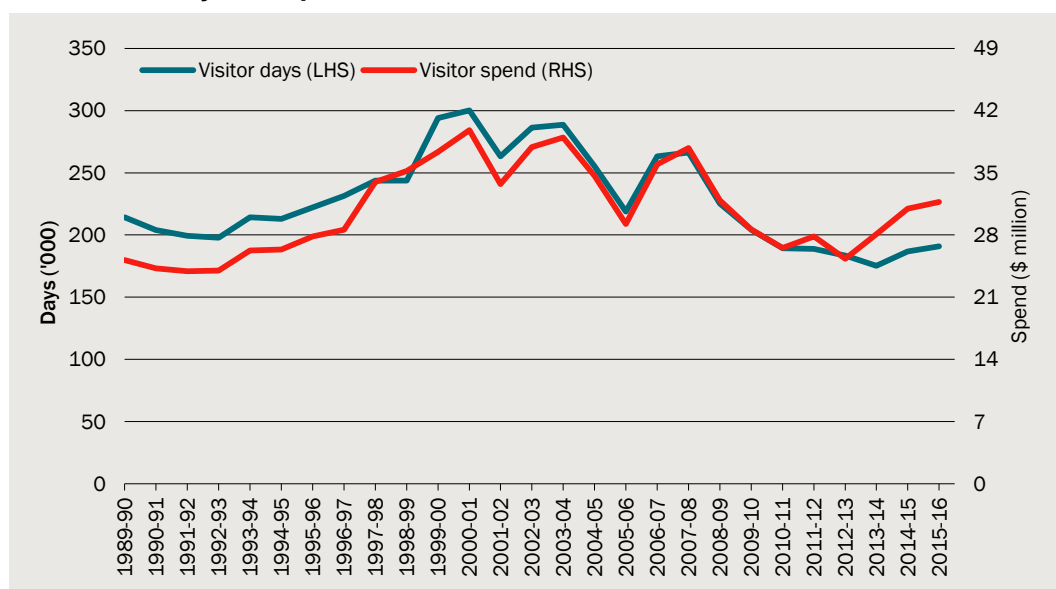
Most available indicators point to a marked and sustained deterioration in the performance of the Norfolk Island economy over recent years.

### Visitor numbers

As is discussed further below, tourism is Norfolk Island's main area of economic activity and the only significant export. As such, the economy is heavily dependent on visitor numbers, the length of stay, and the on-island visitor spend.

As can be seen from chart 1.3, the number of days visitors spend on-island peaked at 300 000 in 2000-01, before falling back to a low of 175 200 in 2013-14. There has been a slight recovery from this low to 190 800 visitor days in 2015-16. It is estimated that the 26 602 visitors arriving by air and the 1920 visitors arriving by cruise ship in 2015-16 spent \$31.7 million whilst on-island.

### 1.3 Visitor days and spend



Note: The estimated visitor days and spend reflects a number of factors, all of which change over time/vary between years. The factors comprise the number of visitors coming to Norfolk Island (by air and by cruise ship), the length of time spent on island, and the spend per visitor type (air passenger in public accommodation, air passenger in private accommodation and cruise passenger) whilst on island.

Data source: Norfolk Island Government Tourist Bureau, TRANSAM Argosy, stakeholder consultations, and CIE calculations.

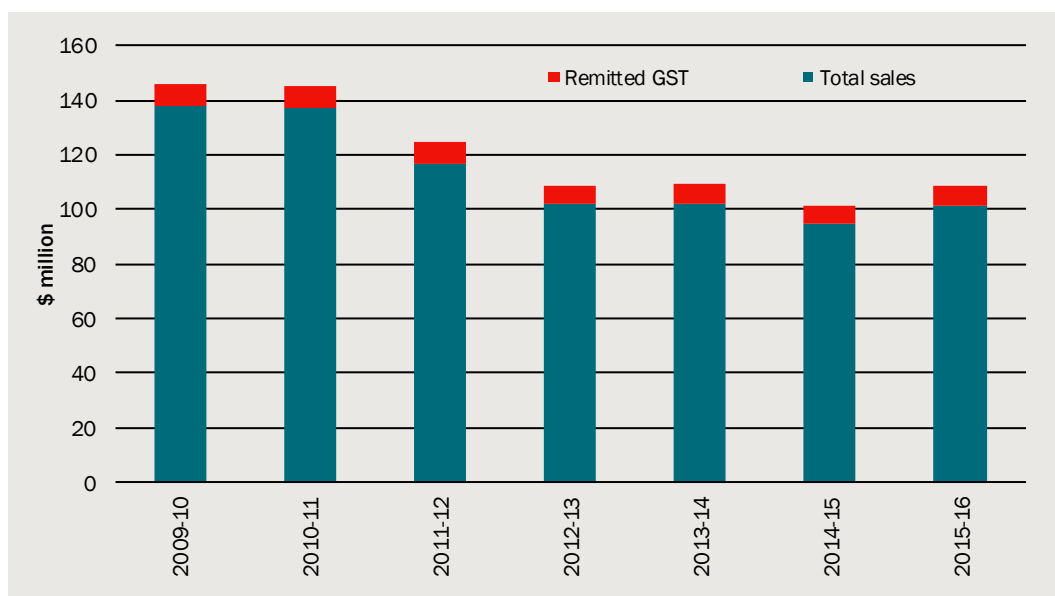
### *Norfolk Island GST receipts*

Prior to 1 July 2016, Norfolk Island levied its own Goods and Services Tax (GST) on GST-liable sales to final consumers. Over 2009-10 to 2015-16 the GST rate was set at 12 per cent, with remitted GST receipts ranging between \$6.4 million (2014-15) and \$7.9 million (2009-10).

As part of the (former) GST collection arrangements, the Norfolk Island GST Office collected data that allows total sales within the Norfolk Island economy to be calculated. Total sales can provide an indicator on the level of economic activity and consumer confidence.

It can be seen from chart 1.4 that over the 2009-10 to 2015-16 period, the value of sales (excluding GST) has fallen by around 25 per cent, or an average of 5 per cent per year. Remitted GST receipts have fallen by 14 per cent.<sup>6</sup> As prices are likely to have increased over this period, sales on Norfolk Island are likely to have fallen by even more in real terms.

#### **1.4 Value of sales**



Data source: Norfolk Island Administration, Norfolk Island Regional Council and CIE calculations.

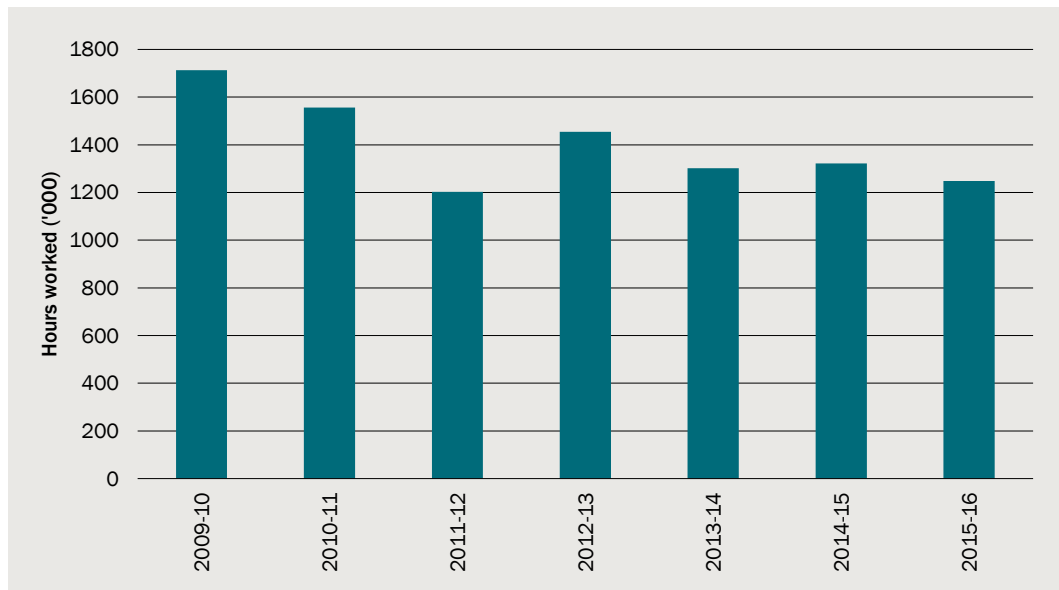
### *Hours worked*

The Norfolk Island Workers Compensation Scheme sees a \$0.30 levy being applied to every hour worked. The total levy raised can therefore be used to calculate the number of hours worked within the Norfolk Island economy. The hours worked is one measure of the demand for labour, which in turn will reflect economic activity.

<sup>6</sup> The decline in total sales (excluding GST) is larger than the decline in remitted GST receipts due to a large proportion of the \$36 million decline in total sales over the period being accounted for by a decline in GST exempt sales of \$21 million.

Workers Compensation receipts imply that the number of hours worked has been somewhat volatile over recent years, but is trending downwards. As can be seen from chart 1.5, between 2009-10 and 2015-16 hours worked are estimated to have fallen by 27 per cent, or around 5 per cent per year on average.

### 1.5 Hours worked



Note: Due to an accounting oversight, some of the Workers Compensation Scheme levy collected during 2011-12 was not accredited to the Workers Compensation Scheme Fund until 2012-13. Levy receipts will therefore be understated for 2011-12, and overstated for 2012-13. Hence, strictly speaking, some of the estimated hours worked in 2012-13 actually occurred in 2011-12. Also note that the Norfolk Island Workers Compensation Scheme levy does not apply to on-island Commonwealth employees.

Data source: Norfolk Island Administration, Norfolk Island Regional Council and CIE calculations.

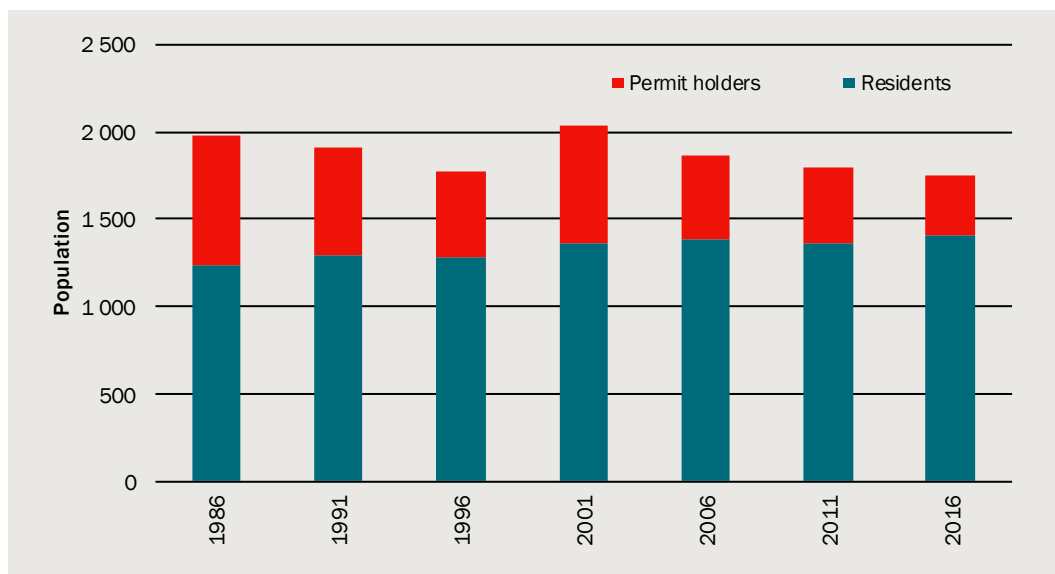
### Population

To some extent changes in population will reflect economic conditions on Norfolk Island. With a limited welfare system, for many a lack of job opportunities will necessitate them leaving Norfolk Island in search of employment opportunities elsewhere.

From chart 1.6 it can be seen that after increasing between 1996 and 2001, the Norfolk Island population has declined steadily since 2001. As at September 2016, the population has fallen by around 290 people or 14 per cent since the 2001 Census. The decline has mainly been in the number of permit holders, rather than Norfolk Island residents. Indeed, the number of residents increased by 4 per cent between 2001 and 2016. In contrast, there were only half the number of permit holders living on Norfolk Island in 2016 than there were in 2001.

Without 'ties' to Norfolk Island, it is reasonable to expect declining employment opportunities to impact more heavily on the number of permit holders rather than the number of permanent residents.

## 1.6 Population



Note: 'Permit holders' include General Entry Permit, Temporary Entry Permit holders and Unrestricted Entry Permit, and dependents of those permit holders. Also note that the population figures for years 1986–2011 were obtained from the Norfolk Island Census. The 2016 population figure was obtained from the ABS 2016 Census, which includes both Norfolk Islanders at home and elsewhere in Australia on Census night (a total of 1748 people). It is not clear if the population figures taken from the Norfolk Island Census relate to only those at home on Census night, or total population. If it is the former, then the comparable population figure from the ABS 2016 Census is 1642 people, which would mean the Norfolk Island population (at home on Census night) has fallen by 19 per cent between 2001 and 2016.

Data source: Norfolk Island Government (various) Census, ABS 2016 Census, NIRC and CIE calculations.

## *Contribution of tourism to economic activity*

As noted in chart 1.3, it is estimated that visitors to Norfolk Island in 2015-16 spent \$31.7 million in the local economy. This expenditure spanned a number of 'tourism' related sectors, including accommodation, retail trade, cafes and restaurants, and recreational services.

Table 1.7 reports the direct contribution of tourism to the Norfolk Island economy across a range of metrics. The available data suggests that tourism directly accounts for 29 per cent of on-island sales, 26 per cent of GTP, and 17 per cent of employment.

## 1.7 Contribution of tourism to the Norfolk Island economy

Sector of the economy	Sales		Contribution to GTP		Employment	
	To tourists	Total	By tourism	Total	From tourism	Total
	\$ million	\$ million	\$ million	\$ million	Number	Number
Trade	16.5	25.2	7.0	10.7	105	161
Accommodation	7.9	7.9	4.9	5.0	21	22
Cafes & rest.	2.9	4.5	2.0	3.2	59	92
Recreation	3.8	4.3	2.9	3.2	11	13
Other tourism	0.7	9.7	0.4	5.8	4	62

Sector of the economy	Sales		Contribution to GTP		Employment	
	To tourists	Total	By tourism	Total	From tourism	Total
	\$ million	\$ million	\$ million	\$ million	Number	Number
Subtotal tourism	31.7	51.7	17.2	27.8	201	350
Total all sectors	31.7	108.4	17.2	66.0	201	1195

Source: Norfolk Island Economic Model.

Tourist expenditure on the tourism related sectors will also provide an indirect contribution to the economy through economic linkages between the tourism sectors and other sectors of the economy. Table 1.8 gives an idea of the magnitude of these indirect linkages. From the table, it can be seen that a 1 per cent increase in tourism is estimated to see the tourism sectors directly contributing another \$0.3 million to island GTP, and through linkages with other sectors of the economy, indirectly contributing another \$0.4 million to island GTP. In total, a 1 per cent increase in tourism is estimated to see island GTP increasing by \$0.6 million and another 11 jobs being created.

### 1.8 Impact on the Norfolk Island economy of a 1 per cent increase in tourism<sup>a</sup>

Sector of the economy	Impact on GTP			Impact on employment		
	Direct	Indirect	Total	Direct	Indirect	Total
	\$ million	\$ million	\$ million	Number	Number	Number
Trade	0.1	0.2	0.3	1	4	5
Accommodation	0.1	0.1	0.2	0	3	3
Cafes & rest.	0.0	0.0	0.1	1	1	2
Recreation	0.0	0.0	0.1	0	1	1
Other tourism	0.0	0.0	0.0	0	0	0
Total tourism	0.3	0.4	0.6	2	9	11

<sup>a</sup> Note that numbers may not add due to rounding.

Source: Norfolk Island Economic Model.

## 2 *Importance of KAVHA to the Norfolk Island economy*

KAVHA is one of the major tourism attractions on Norfolk Island. The economic contribution of KAVHA to the Norfolk Island economy is comprised of both:

- spending within KAVHA itself, and
- spending in tourism sectors that is induced by/attribution to KAVHA.

The importance of KAVHA to the Norfolk Island economy is measured using the amount of spending that would not have occurred if the site did not exist. That is, the proportion of tourism spending on Norfolk Island attributable to KAVHA depends on the proportion of spending that occurs because KAVHA exists.

In addition to its economic contribution, KAVHA is a living and working site with an important role in the life, identity and culture of Norfolk Island. Locations such as Kingston Pier, Emily Bay, All Saints Church, the cemetery and the golf course are places for recreation, worship, work and the communal life of locals. While this analysis focusses on the economic contribution of KAVHA, the cultural, historical and spiritual significance of the site cannot be understated.

### *Norfolk Island and KAVHA*

KAVHA is a World Heritage Site on Norfolk Island spanning approximately 225 hectares. The KAVHA Heritage Management Plan defines four settlement periods on Norfolk Island, which are the:

- Polynesian Settlement between c1150–c1450 AD
- First (Colonial) Settlement between 1788–1814
- Second (Penal) Settlement between 1825–1855
- Third (Pitcairn) Settlement between 1856–present.<sup>7</sup>

KAVHA exhibits historical evidence of all four settlement periods. This is primarily through the remaining convict buildings and ruins and their contemporary uses by current inhabitants.

The KAVHA site also houses the Norfolk Island Museum, which has historical collections covering all settlement periods exhibited within a number of buildings. There are 3 museum collections housed in 4 buildings (the Pier Store, the Commissariat Store,

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<sup>7</sup> Context, Jean Rice Architect and GML Heritage, 2016, *Kingston and Arthur's Vale Historic Area: Heritage Management Plan*, available at [http://regional.gov.au/territories/norfolk\\_island/KAVHA-Heritage-Management-Plan.aspx](http://regional.gov.au/territories/norfolk_island/KAVHA-Heritage-Management-Plan.aspx)

No. 10 Quality Row, and the Sirius Museum). The KAVHA Collection and Sirius Collection are owned by the Australian Commonwealth. The remaining collection is owned by the Norfolk Island Museum Trust (on behalf of the Norfolk Island community) and comprises of artefacts from HMAS Bounty, Pitcairn Island and Norfolk Island (post 1856). The Norfolk Island Museum Trust Collection is primarily on display at the Pier Store Museum and No. 10 Quality Row.

Figure 2.1 provides an aerial photograph of the KAVHA site, and it shows the main landforms of the area. KAVHA is bordered to the south by Slaughter Bay and Emily Bay, which are important areas for community life and recreation. The Kingston Pier is used by fishers and for lighterage, whereby cargo is transferred from ships by means of a lighter and then brought onshore. A row of convict buildings is visible on the map along the road 'Quality Row'. These buildings have various uses such as being residences for Commonwealth Public Service staff, offices of the Norfolk Island Regional Council (NIRC), or other uses.

## 2.1 Aerial photograph of KAVHA



Source: Department of Infrastructure and Regional Development.

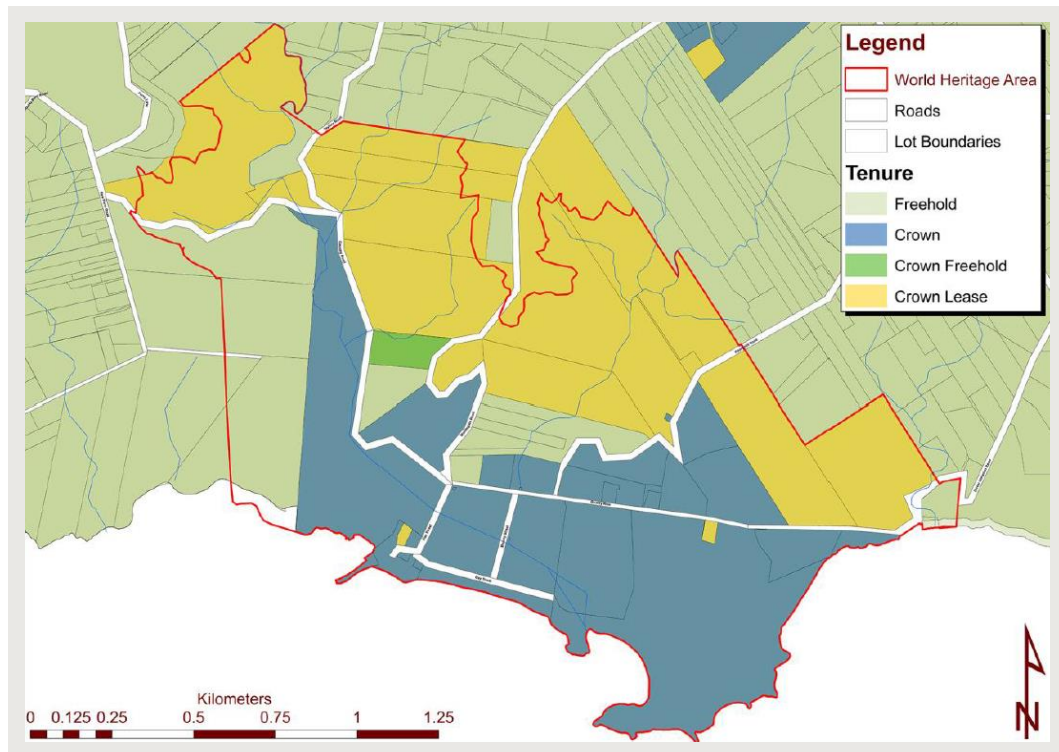


Figure 2.2 shows a map of the KAVHA boundaries, including whether each property is freehold or Crown land. There are:

- 17 properties with freehold tenure
- 15 Commonwealth Crown land properties leased to residents
- 26 Commonwealth Crown land properties either
  - declared to be public reserves, or
  - vacant and not leased or licenced.

The majority of the areas with significant convict buildings or ruins are in the lower plain of Kingston within Crown land. Additionally, all the Norfolk Island museum buildings are located on Crown land, with the exception of the museum area within All Saints Church that is freehold land owned by the Church of England.

## 2.2 Freehold and Crown land boundaries within KAVHA



Data source: Kingston and Arthur's Vale Historic Area: Heritage Management Plan (2016) p.7, available at: [http://regional.gov.au/territories/norfolk\\_island/KAVHA-Heritage-Management-Plan.aspx](http://regional.gov.au/territories/norfolk_island/KAVHA-Heritage-Management-Plan.aspx).

### *Economic value of spending at KAVHA*

A component of KAVHA's economic contribution to Norfolk Island is spending that occurs at the site. There are two components to spending that occurs on-site:

- 1 spending at Norfolk Island Museum by visitors and by the museum itself

- 2 spending by Norfolk Island Regional Council and the Commonwealth Government on preservation and conservation, such as expenditure associated with the works crew.

The Norfolk Island Museum received \$259 000 in revenue in 2015-16, which includes tickets for entry to the Museum buildings, merchandise, refreshments and tickets to the Cemetery tour. A total of 1758 tickets were sold for entry to a single museum (costing \$10 each) and 5977 Museum Passes were sold (at \$25 each) allowing entry into all Museums. In 2015-16 there were 7973 people who bought either single tickets (1996) or Museum Passes (5977) to enter a Norfolk Island Museum(s). This suggests that 28 per cent of the 28 552 visitors to Norfolk Island in 2015-16 paid to enter a Norfolk Island Museum.

The Norfolk Island Museum had approximately \$307 000 in expenditures in 2015-16, which includes employee costs, materials, contracts and other expenses. Hence museum cost recovery is running at over 84 per cent.

In 2015-16 there was \$933 000 spent on-site associated with the works crew and conservation of KAVHA.<sup>8</sup> In addition to this spending, capital expenditure of \$247 000 was undertaken in this year.<sup>9</sup> This implies a total expenditure onsite of \$1.2 million associated with the works crew, conservation and capital expenditure. The Commonwealth and NIRC budgets for KAVHA preservation and conservation are discussed further in chapter 3.

Thus, the total amount of on-site expenditure associated with KAVHA was \$1.49 million in 2015-16.

### *Economic value of tourism induced by KAVHA*

Only a proportion of tourism expenditure on Norfolk Island is attributable to KAVHA. The economic value of KAVHA arising from tourism can be estimated by two main approaches.<sup>10</sup>

<sup>8</sup> The total annual spend of \$933 000 includes \$633 000 spent by the Department of Infrastructure and Regional Development (Commonwealth of Australia, 2016, *Budget 2016-17: Portfolio Budget Statements 2016-17, Budget related paper No. 1.13 – Infrastructure and Regional Development Portfolio*, p.59, available at [https://infrastructure.gov.au/departments/statements/2016\\_2017/budget/files/2016-17\\_PBS.pdf](https://infrastructure.gov.au/departments/statements/2016_2017/budget/files/2016-17_PBS.pdf)) and \$300 000 spent by the Norfolk Island Administration (see chapter 3).

<sup>9</sup> Capital expenditure for 2015-16 is based on the KAVHA Administered Capital Budget for 2015-16 supplied by the Department of Infrastructure and Regional Development.

<sup>10</sup> See Sustainable Tourism Cooperative Research Centre (2010) for analysis of the potential approaches to estimating the economic value of tourism to natural environments: Sustainable Tourism Cooperative Research Centre, 2010, *The economic value of tourism to national parks and protected areas in Australia: technical report*, available at <http://sustain.pata.org/wp-content/uploads/2015/02/100047-Tech-Report-Econ-Value-Tourism-to-National-Parks-WEB.pdf>

### ***Consumer surplus approach***

Firstly, consumer surplus is a measure of economic welfare associated with a product. Consumer surplus is the benefit gained by consumers above the price paid for the product. In order to determine consumer surplus, it is necessary to estimate consumers' willingness to pay for the product. However, there is no price to enter KAVHA, meaning it is not possible to directly observe visitors' willingness to pay to visit the site.

An alternative approach to estimate willingness to pay is to use travel costs as a proxy. This approach is referred to as the Travel Cost Method (TCM). This approach assumes that the value of a site is reflected in how much people are willing to pay to travel there. This approach has been applied to the economic valuation of national parks, where these parks may be free to access yet have significant travel costs to access.<sup>11</sup> KAVHA's unique accessibility means that the TCM is not suitable. There are negligible travel costs to access KAVHA once already at Norfolk Island. Additionally, the travel costs to access KAVHA including the cost of accessing Norfolk Island are very high, and will represent the willingness to pay of consumers to visit Norfolk Island, rather than their willingness to pay to visit KAVHA. The TCM provides no method to determine the proportion of travel costs to Norfolk Island that would be attributable as willingness to pay to visit KAVHA specifically.

Since consumer surplus measures economic welfare, it is the appropriate measure that should be used in cost-benefit analysis and evaluation of policy proposals.<sup>12</sup>

### ***Attribution approach***

The second approach involves estimating the proportion of tourism spending that is attributable to the site, and interpreting this spending in terms of its significance to the economy.

Sustainable Tourism Cooperative Research Centre (2010) states that there has been a recent trend towards a narrow measure of attribution based on the tourists who would not have spent money in the tourism destination if the opportunity to visit a tourist site was not available.<sup>13</sup>

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<sup>11</sup> For an example of an economic evaluation of a natural resource using the travel cost method, see Limaeri, S.M., Ghestmati, H., Rashidi, R. and Yamini, N., 2014, 'Economic evaluation of natural forest park using the travel cost method (case study; Masouleh forest park, north of Iran)', *Journal of Forest Science*, 60(6), pp.254-261, available at: <http://www.agriculturejournals.cz/publicFiles/125766.pdf>

<sup>12</sup> Sustainable Tourism Cooperative Research Centre (2010), *The economic value of tourism to national parks and protected areas in Australia: technical report*, available at: <http://sustain.pata.org/wp-content/uploads/2015/02/100047-Tech-Report-Econ-Value-Tourism-to-National-Parks-WEB.pdf>

<sup>13</sup> Sustainable Tourism Cooperative Research Centre (2010), *The economic value of tourism to national parks and protected areas in Australia: technical report*, available at: <http://sustain.pata.org/wp-content/uploads/2015/02/100047-Tech-Report-Econ-Value-Tourism-to-National-Parks-WEB.pdf>

City of Perth (2008) estimated the amount of direct tourism expenditure that is attributable to heritage tourism in Perth.<sup>14</sup> Likewise, Tourism Research Services (2015)<sup>15</sup> estimated the amount of direct tourist expenditure directly attributable to heritage sites in Adelaide. These studies obtain upper and lower bound estimates of the proportion of tourism expenditure attributable to a site based on measures of visitation to the site relative to visitation to the region/city as a whole. These measures are calculated as follows:

- upper bound: how many people who visited the region (Norfolk Island) went to the site (KAVHA)
- lower bound: how many people would not have visited Norfolk Island if KAVHA did not exist?

The 'lower bound' approach is considered to produce the most appropriate estimate of the importance of KAVHA to the Norfolk Island economy. Almost everyone who goes to Norfolk Island visits KAVHA at some point of their trip, and thus the upper bound approach would find that almost all tourism expenditure on Norfolk Island is attributable to KAVHA. This finding does not align to the consistent view expressed in stakeholder consultations that KAVHA is only one part of the overall tourism package of Norfolk Island.

Therefore, the approach to determining the economic value of tourism induced by KAVHA is to estimate the proportion of visitors who would not have visited Norfolk Island if KAVHA did not exist.

A potential extension of this approach is suggested by the Sustainable Tourism Cooperative Research Centre (2010)<sup>16</sup>. They suggest exploring the possibility of accounting for the impact of the site extending the average length of stay at the destination. That is, accounting for the fact that KAVHA may both induce visitors to come to Norfolk Island as well as increase the average length of stay of those who would have to come to Norfolk Island even if KAVHA did not exist. Norfolk Island's pattern of infrequent flights likely means that average length of stay on Norfolk Island is generally unrelated to KAVHA. Furthermore, any effect of KAVHA on length of stay are likely to be small and are difficult to estimate accurately. Thus, it is assumed that KAVHA does not induce tourism spending through extending the length of stay of visitors to Norfolk Island.

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<sup>14</sup> City of Perth, 2008, *Economic Value of Heritage Tourism in the City of Perth, WA*, available at <https://www.perth.wa.gov.au/sites/default/files/documents/Heritage-Economic-Value.pdf.pdf>

<sup>15</sup> Tourism Research Services, 2015, *Economic Value of Heritage Tourism – Adelaide 2015*, available at: [http://www.cityofadelaide.com.au/assets/documents/Economic\\_Value\\_of\\_Heritage\\_Tourism\\_-\\_Adelaide\\_2015\\_v4.pdf](http://www.cityofadelaide.com.au/assets/documents/Economic_Value_of_Heritage_Tourism_-_Adelaide_2015_v4.pdf)

<sup>16</sup> Sustainable Tourism Cooperative Research Centre (2010, *The economic value of tourism to national parks and protected areas in Australia: technical report*, available at <http://sustain.pata.org/wp-content/uploads/2015/02/100047-Tech-Report-Econ-Value-Tourism-to-National-Parks-WEB.pdf>

### ***Data and information used to determine attribution of tourism spending to KAVHA***

A number of data sources were considered as there is no single data source that both has a large sample size and directly addresses the question of what proportion of visitors would not have come to Norfolk Island if KAVHA did not exist. While some data sources address related questions, for example, what proportion of visitors came to Norfolk Island for the main purpose of learning about history or their ancestors, they do not allow attribution to be determined.

There are three data/information sources available that can give an indication of the proportion of tourism spending attributable to KAVHA. These are the:

- Norfolk Island Government Tourist Bureau (NIGTB) Visitor Survey
- CIE Attribution Survey
- at stakeholder consultations conducted by CIE, tourism industry participants, Norfolk Island Museum staff and others were asked about the importance of KAVHA to Norfolk Island tourism and visitor preferences.

#### ***Norfolk Island Visitor Survey***

The Norfolk Island Visitor Survey conducted by the NIGTB is the main data source available indicating the preferences, experiences and characteristics of visitors. However, it does not ask respondents precisely whether they would have come to Norfolk Island if KAVHA did not exist.

Rather, two other relevant statistics were obtained from this survey that give an indication of KAVHA's importance to the wider tourism offering:

- 6 per cent of people stated the main purpose of their visit to Norfolk Island was to learn about history/ancestors, and
- 14 per cent of people stated their favourite thing about Norfolk Island was KAVHA.

These statistics both suggest that only a small proportion of visitors to Norfolk Island is likely to be attributable to KAVHA. A greater degree of precision than that provided by the Visitor Survey data is required to determine the proportion of spending that would have not occurred but for the existence of KAVHA.

#### ***CIE Attribution survey***

On behalf of the CIE, the NIGTB conducted a survey of visitors to Norfolk Island to precisely determine the attribution of the economic value of Norfolk Island tourism to KAVHA. Three questions were asked in a survey, which was completed by 60 visitors to the NIGTB. The survey design is shown in box 2.3 below.

### 2.3 CIE Attribution Survey conducted by NIGTB

The Kingston and Arthur's Vale Historic Area is a World Heritage Site covering 225 hectares at the southern side of Norfolk Island. It includes the convict ruins, Quality Row houses and Norfolk Island museums on the site.

- 1 If the Kingston and Arthur's Vale Heritage Historic Area (KAVHA) and related museums did not exist, would you have chosen to: *(single answer)*
  - Stay at home
  - Travel to Norfolk Island anyway
  - Travel elsewhere in Australia
  - Travel to another country
- 2 Which of the following Norfolk Island activities have you done? *(multiple choice)*
  - Go shopping for pleasure
  - Go to KAVHA
  - Go to Norfolk Island Museums at KAVHA
  - Go to the Botanic Gardens
  - Go to Norfolk Island National Park
- 3 What is your **main reason** for visiting Norfolk Island? *(single answer)*
  - Business
  - Shopping for pleasure
  - Visiting KAVHA
  - Visit natural attractions (such as National Parks)
  - Visiting friends and relatives
  - Other (please specify): \_\_\_\_\_

A few aspects of survey design may be expected to influence the results of the survey. These are described below.

- The survey was conducted at the NIGTB, which showcases a variety of promotional materials related to KAVHA. This may have positively influenced the proportion of respondents who indicated that KAVHA was important, or their main reason for visiting Norfolk Island.
- The survey did not explain that KAVHA includes the pier, the golf course, and other parts of the site that are unrelated to convict history. This may have negatively influenced the proportion of people who indicated they visited or placed high importance on the site, because some people who only visited (for example) the golf course may not have been aware that this was part of KAVHA.
- The sample size of the survey is small (60 people) which lessens the accuracy of inferences about the views of all visitors. Additionally, the survey was conducted during winter (June and July), and visitors to KAVHA may be more or less common during these months of the year.

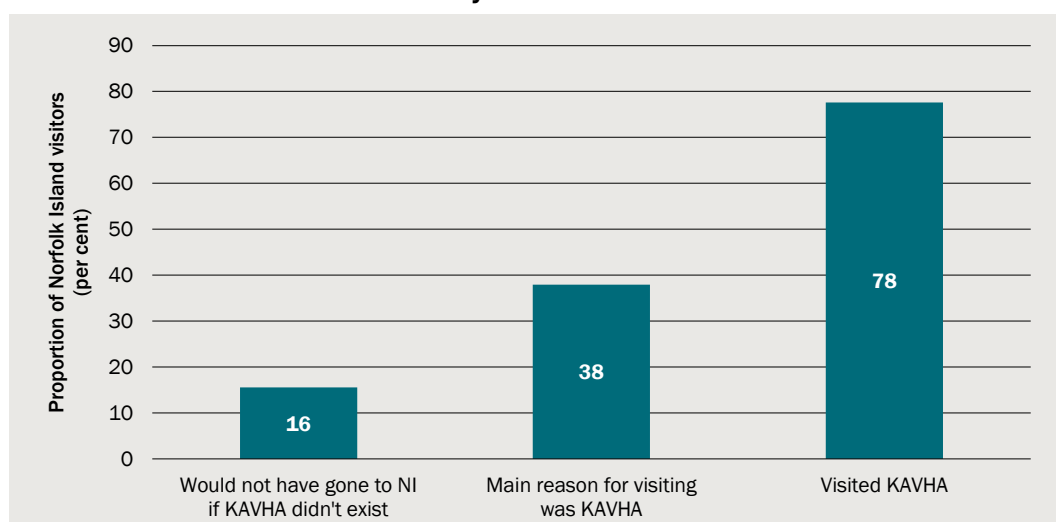
Overall, these issues related to survey design and implementation are sufficiently minor that inferences based on the survey are still believed to be robust.



Chart 2.4 presents the results of the CIE Attribution Survey. It shows that 16 per cent of respondents indicated they would not have gone to Norfolk Island if KAVHA did not exist. If 78 per cent of visitors to Norfolk Island visit KAVHA, this suggests that 22 247 people visited KAVHA in 2015-16. Another relevant finding was that for 38 per cent of visitors to Norfolk Island, their main reason for visiting was KAVHA.

While 78 per cent of respondents indicated that they visited KAVHA, stakeholder consultations indicated that a greater proportion (between 90–95 per cent) of visitors to Norfolk Island go to KAVHA at some point during the visit. If 95 per cent of visitors to Norfolk Island visit KAVHA this suggests that 27 096 people would have visited KAVHA in 2015–16. This discrepancy is likely due to respondents not being aware that areas such as the golf course and the pier are part of KAVHA. Additionally, some respondents may not have left a tour bus while they passed through KAVHA, and thus may not have indicated that they had visited KAVHA on that basis.

## 2.4 Results of CIE Attribution Survey



Data source: CIE survey of NI visitors conducted by NIGTB and CIE calculations.

Given the small sample size of the CIE Attribution Survey and lack of other robust estimates of attribution, it is considered that 11 and 21 per cent are plausible lower and upper bounds for the proportion of tourism spending attributable to KAVHA.

### Stakeholder consultations

Market insights to date suggest that the key motivation for (tourist) visitation to Norfolk Island is a *combination* of interest in the history (Pitcairn and convict-related), the attractive scenery, and/or general curiosity. The promotion of other niche experiences to target markets and special travel deals supplement destination appeal. It is this holistic proposition that drives tourism to the island, rather than any one attraction in isolation.

In terms of tourism demand being attributed in part to history, KAVHA offers some, but not all, of the island's history/cultural heritage experiences. Demonstrating this is Trip Adviser's user-generated list of 56 'things to do on Norfolk Island'. Of the 20 history-specific attractions featured on this list, 12 are located at KAVHA. Further insight to

KAVHA's relative appeal can be seen in the top 15 visitor attractions for the island overall (based on visitor scores), as only six are located on the site.<sup>17</sup> Other market research indicates that many Norfolk Island tourists are not aware of the KAVHA site by name, nor of its World Heritage status, before they arrive. Therefore, while the image of KAVHA's iconic convict ruins could be said to *represent* the history that draws people to Norfolk Island, determining the site's contribution to tourism demand for Norfolk Island (as measured by arrivals) is difficult.

Consultation with stakeholders including tourism industry members suggested that the proportion of tourism expenditure attributable to KAVHA is low. It is expected that only a very small proportion of visitors (5–10 per cent) would not come to Norfolk Island if KAVHA did not exist. Other consultations indicated that the market for convict heritage tourism is very small.

For the purpose of this report, the attribution results taken from the survey are used, even though anecdotal insights suggest the survey result might be higher than stakeholders' 'gut' feeling.

### *Estimate of indirect tourism expenditure attributable to KAVHA*

From the results of the CIE Attribution Survey it is inferred that 16 per cent of visitors to Norfolk Island would not have visited if KAVHA did not exist. From table 2.5 it can be seen that applying an estimated attribution factor of 16 per cent to the estimated on-island tourism spending of \$31.7 million in 2015–16 suggests that tourism spending of approximately \$5.1 million was attributable to KAVHA, or between \$3.5–6.7 million using lower and upper bounds of 11 and 21 per cent respectively. KAVHA's contribution to GTP in 2015-16 is estimated at between \$4–8 million.

## **2.5 KAVHA's contribution to the Norfolk Island economy in 2015-16**

	Exports (sales to tourists)	Gross Territory Product		Total
		Direct	Indirect	
	\$ million	\$ million	\$ million	\$ million
Lower bound (11%)	3.5	1.9	2.5	4.4
Survey result (16%)	5.1	2.8	3.6	6.3
Upper bound (21%)	6.7	3.7	4.7	8.3

Source: Table 1.7, table 1.8, visitor survey undertaken by Norfolk Island Government Tourist Bureau, and CIE calculations.

<sup>17</sup> TripAdvisor's list of top attractions for Norfolk Island is available at [https://www.tripadvisor.com.au/Attractions-g295119-Activities-Norfolk\\_Island.html#ATTRACTION\\_SORT\\_WRAPPER](https://www.tripadvisor.com.au/Attractions-g295119-Activities-Norfolk_Island.html#ATTRACTION_SORT_WRAPPER), accessed 27 July 2017.



### 3 *Conserving KAVHA*

Having KAVHA and the other Australian Convict Sites on the World Heritage List brings about certain obligations on the Australian Government.

#### *Australia's obligation to maintain KAVHA*

World, National and Commonwealth Heritage values of KAVHA are protected under the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC) Act. In Schedule 5 to the EPBC Regulations the World, National and Commonwealth Heritage Management Principles set out the obligations involved in managing World Heritage List sites. The Australian Government has an obligation to identify, protect, conserve, present, and transmit to future generations the World Heritage values of the site. Importantly, this extends to the interpretation that is required as part of 'presenting' the World Heritage values.

The Online Framework Guide to Best Practice World Heritage Management states that while the Australian Government has an international obligation to protect and conserve World Heritage properties, there is no impediment to existing land uses unless they threaten any of the outstanding universal values of the property.<sup>18</sup> In the case of KAVHA, the World Heritage values of the site may in fact be enhanced by maintaining the 225 hectare KAVHA site as a 'working' area, with continued use of the area by the Norfolk Island community.

However, there are some important caveats to this statement. For example, the current arrangement for open vehicle access to KAVHA is putting some yet-to-be unearthed, but known archaeological sites, at risk. Cars and buses are regularly driving and parking directly on top of buried ruins of Polynesian, convict and Pitcairn heritage significance. People using vehicles within the site are unknowingly negatively impacting on the heritage assets of the site. Similarly, the current arrangements for cows accessing the site has value that cannot be underestimated — they provide a scenic image appreciated by tourists, they represent the site's living and working heritage, and they help maintain the lawn. However, the risks this arrangement reportedly poses to buried or unearthed ruins cannot be overlooked, nor can the reported impact of the cows on the water quality at Kingston Pier and Emily Bay (due to runoff). In view of Australia's obligation to maintain KAVHA, these risks warrant further investigation.

There is no objective standard dictating how the site has to be managed, nor the standard at which buildings and the historic landscape are to be maintained.

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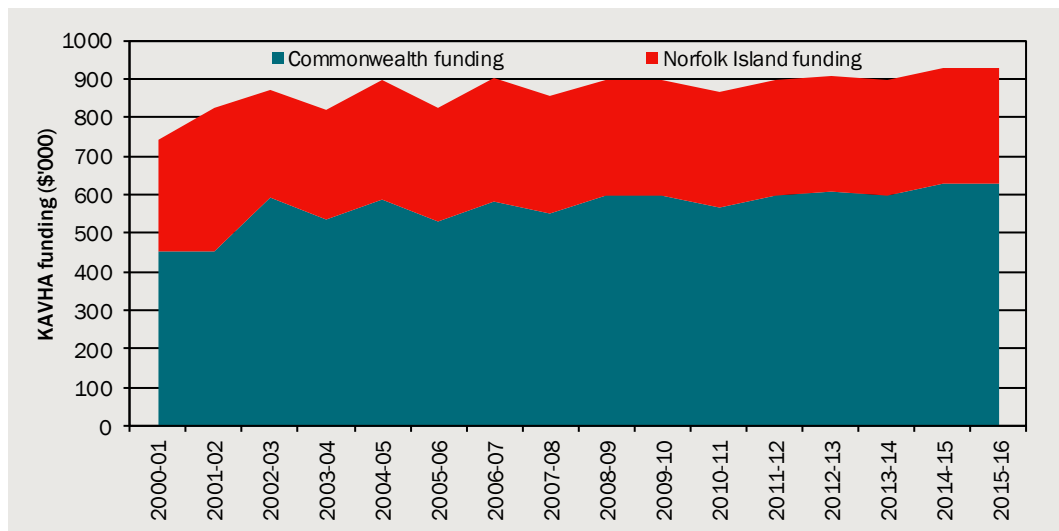
<sup>18</sup> Available at <http://www.environment.gov.au/heritage/about/world/management-australias-world-heritage-listed/managing-world-heritage-australia>, accessed 27 June 2017.

### *KAVHA's funding*

Prior to 1 July 2016, KAVHA was funded through contributions from both the Australian Government and the Norfolk Island Administration (NIA). While there was some variation between years, the previous funding arrangement saw annual contributions of approximately \$600 000 from the Australian Government and \$300 000 from the NIA over the 2000-01 to 2015-16 period. The combined funding covered all aspects of KAVHA operations including maintenance, the KAVHA Board and Secretariat, insurances, museum/research centre costs and the Commonwealth Heritage Manager. Some of the funding from the NIA was in-kind (for activities such as cleaning of the barbecues and lawnmowing).

The timeline of nominal KAVHA funding is shown in chart 3.1. This does not include funding for capital spending, for which data is not available for all years since 2000-01.

#### **3.1 Timeline to 2015–16 of nominal KAVHA funding for operational expenditure**



Data source: DIRD, NIRC and NIA Annual Reports, Attorney-General's Governance Review (2009), CIE.

From 1 July 2016, the Australian Government assumed responsibility for funding and delivering national and state level services to Norfolk Island, and the Norfolk Island Administration transitioning to an elected Norfolk Island Regional Council. With the creation of the NIRC in July 2016, the Australian Government entered into a Service Delivery Agreement (SDA) with the NIRC to maintain the KAVHA site. Under the SDA, the NIRC receives payment from the Australian Government of around \$440 000 to undertake KAVHA:

- landscape and garden maintenance
- asset maintenance
- interpretation and public programs.<sup>19</sup>

<sup>19</sup> See 2016–2019 Service Delivery Agreement between the Department of Infrastructure and Regional Development and the Norfolk Island Regional Council, page 26.

The Australian Government also funds an (on-island) Commonwealth Heritage Manager, site insurances and a 5 member KAVHA Advisory Committee, bringing the total Commonwealth KAVHA Administered funding to some \$630 000 in 2016-17. The KAVHA Secretariat is separately funded from DIRD Departmental funds. Under the new funding arrangement, the NIRC does not make a financial contribution to KAVHA but continues to meet museum/research centre funding shortfalls and provide some in-kind services.

The new funding arrangements have seen the amount of 'on the ground' funding going to KAVHA for building conservation, interpretation and maintenance activities being reduced to \$440 000 (plus in-kind services) in 2016-17 (and onwards).

In addition to funding for operational expenditure, the Commonwealth Government also funds capital expenditure at KAVHA. In 2015-16 actual capital expenditure at KAVHA was \$247 000, which increased slightly to \$253 000 in 2016-17. A significant increase in capital funding to \$848 000 is planned for 2017-18.

### *Estimated funding requirement going forward*

Going forward, there is clearly a question as to whether the current (2016-17 and beyond) funding levels are sufficient to meet the preservation and interpretation needs of the World Heritage KAVHA site.

While we do not believe a funding 'wish list' has been prepared by the Commonwealth Heritage Manager at KAVHA and/or the KAVHA Advisory Committee, it would appear that KAVHA has been substantially underfunded. For example, chart 3.2 shows snapshots from KAVHA maintenance budgets prepared in years 1959, 1980 and 2001. When expressed in 2017 terms, these earlier budgets are around the \$1.2-1.4 million-dollar mark.<sup>20</sup> Comparing a figure of \$1.2-\$1.4 million to recent funding levels of around \$0.9 million, or \$0.4 million in 2016-17, gives an indication of the scale of underfunding (assuming the earlier budgets were appropriate to start with).

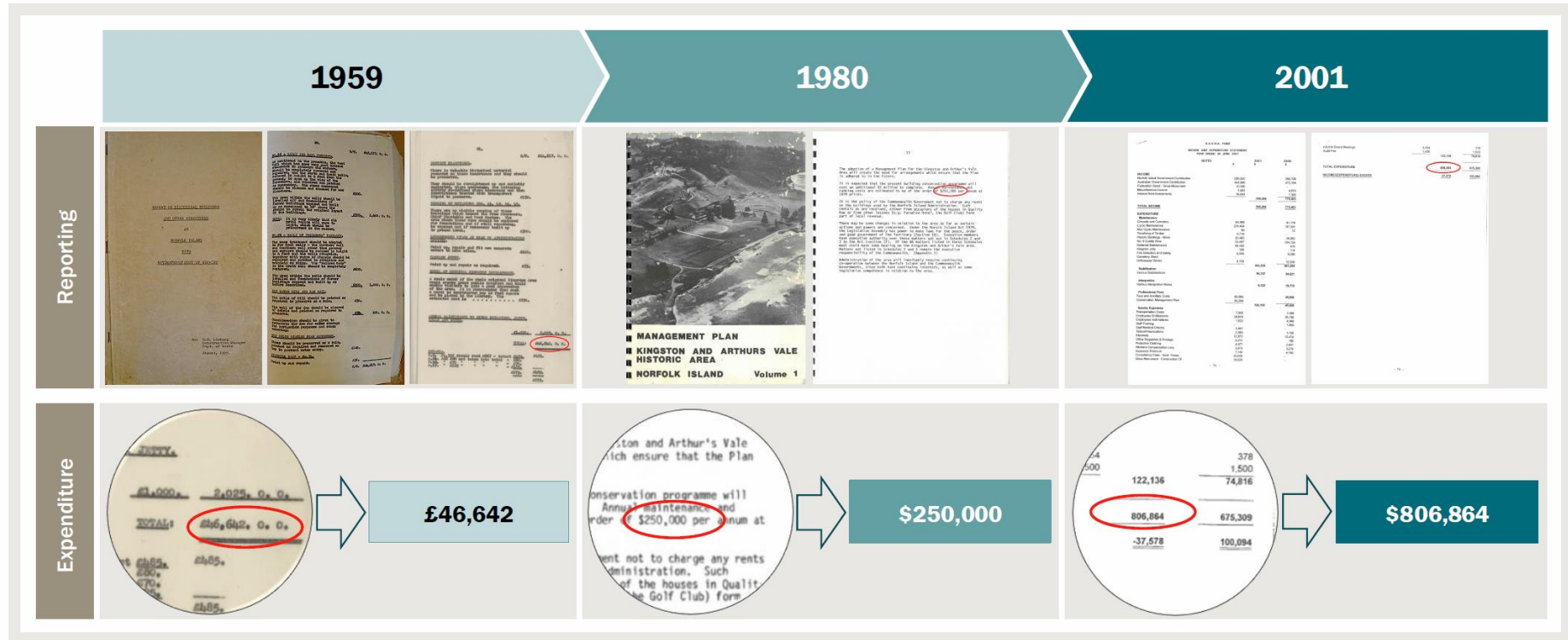
Furthermore, underfunding over the past decade and the recent cutback in KAVHA's operational funding is having an impact on the site's conservation, which is considered poor. Similarly, interpretation is very minimal, and not at the standard seen at comparable heritage sites. Budgetary shortfalls have seen KAVHA moving from a cyclic maintenance program to an 'as needed' program, under which only the most pressing maintenance needs are addressed. Heritage experts consulted during the course of this study have suggested that an as needed approach to maintenance is simply not appropriate, and indeed, unheard of when talking about conserving historic sites. By way of contrast, the Port Arthur Historic Site uses a 5-year cyclic maintenance program.

At best, (expert) stakeholders suggest that under the current approach to maintenance (and conservation), KAVHA is barely treading water.

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<sup>20</sup> Historical costs can be expressed in current day terms using a number of inflators, such as wage growth, GDP growth, changes in producer prices and so on. For simplicity, the historical maintenance budgets reported in chart 3.2 have been increased in line with inflation (as measured by the Consumer Price Index).

### 3.2 KAVHA maintenance budgets



Source: Data source: Extracts from various KAVHA Management Plans and Expenditure Statements (provided by Brian Prince, KAVHA's Commonwealth Heritage Manager.)

It is interesting to note that in the 2001 KAVHA Income and Expenditure Statement, expenditure on cyclic maintenance (\$228 404) accounted for 50 per cent of total maintenance expenditure (\$454 526), and 28 per cent of total KAVHA expenditure (\$806 864).

It should also be noted that the current SDA with the NIRC stipulates that:

...in accordance with directions issued by the Commonwealth Heritage Manager, carry out a program of cyclical and responsive maintenance to Commonwealth owned heritage buildings and structures...(Service Delivery Agreement between the Commonwealth of Australia and the Administration of Norfolk Island, 24 June 2016, page 4)

The current level of funding does not appear sufficient to allow the cyclical maintenance part of the SDA to be undertaken.

The final point to make with respect to the as needed approach to maintenance concerns costs. A needs assessment of historic buildings and landscaping was undertaken by a heritage architect. This saw all maintenance needs across the KAVHA site being prioritised on a scale of 1 to 4, with a 4 being the highest priority. The funding made available under the current SDA with the NIRC only allows Priority 4 maintenance needs to be undertaken. In the short term, addressing only the Priority 4 needs will clearly constrain (maintenance) expenditure at KAVHA. However, it is not immediately clear that the as needed approach will minimise maintenance costs over the longer term.

Given the proximity of KAVHA to the ocean and sometimes harsh climate, it is reasonable to expect that less pressing maintenance needs will escalate to a Priority 4 level. It is also reasonable to expect the cost associated with addressing a Priority 4 issue will be higher than addressing the issue when it was of a Priority 1–3 level. For example, repainting an external window architrave (Priority 1) would be lower cost than replacing that architrave and repairing any damage caused by water ingress (Priority 4). Hence by addressing only the most urgent needs today, there is the very real prospect that maintenance cost will be higher tomorrow.

### ***KAVHA museums***

It is the KAVHA buildings and landscape that are on the World Heritage List; moveable objects, such as museum collections, are not on the World Heritage List nor covered/protected by the relevant Acts. Therefore, and strictly speaking, the case could be made that the museums and their collections do not (or should not) form part of KAVHA's future funding requirements.

However, whether or not the museums form part of KAVHA's future funding requirements is open to debate. For example, Australia has an obligation to protect and present the World Heritage value of the KAVHA site. And as strongly argued by the Port Arthur Historic Site Management Authority, museum collections contribute significantly to the interpretation of a site, which in turn allows the World Heritage values to be presented. In the case of the Port Arthur Historic Site, over the last 15 years the Tasmanian Government has contributed significant funding for museum collection management and conservation.

Furthermore, signatories to the World Heritage Convention, of which Australia is, agree to protect heritage values, which extends to museum collections.

Finally, tourists are likely to view the World Heritage KAVHA site and museum collections as part of the ‘one experience’.

Given the above points, including the cost of museum collection management and conservation in KAVHA’s future funding requirements would seem appropriate.

A complexity to this arrangement arises in that not all of the KAVHA museum collections are owned by the Commonwealth. The Norfolk Island Museum Trust owns the Norfolk Island Museum Trust collection, which displays items from the Third (Pitcairn) Settlement of people on Norfolk Island. A question then arises as to how should the Norfolk Island Museum Trust collection be accommodated/treated. This is an especially important question given the various reports documenting the (current) unsuitability of the Pier Store to house a museum collection; and the likely substantial cost associated with ensuring collection conservation.

Some potential options to address the museum collection ownership issue include:

- that the Norfolk Island Museum Trust relocates its collection to another location outside of KAVHA, and to run the collection as a separate standalone entity, with potential financial assistance being required from the NIRC (on behalf of the wider Norfolk Island community)
- that the Norfolk Island Museum Trust negotiates a fee-for-service arrangement with KAVHA to house, manage and conserve its collection, with potential financial assistance being required from the NIRC (on behalf of the wider Norfolk Island community)
- that the importance of the Pitcairn Islander story to the KAVHA site be recognised by KAVHA offering to house, manage and conserve the Norfolk Island Museum Trust collection at its own expense (with ownership of the collection still residing with the Norfolk Island Museum Trust).

A case can be made for any of the above options. However, given the Pitcairn story is intertwined with KAVHA, and indeed an important part of KAVHA’s history, the third option likely provides the better outcome for KAVHA, the Norfolk Island Museum Trust collection, visitors to the site and the wider Norfolk Island community.

### ***Required funding***

The total level of funding required to conserve the KAVHA site is influenced by numerous factors, including:

- appropriate maintenance and conservation costs
- the standard to which the site is conserved
- the extent (and cost) of any interpretation services
- whether the cost of managing and conserving museum collections is included
- whether required funding is to only address the conservation and interpretation required at a World Heritage site, or to extend to improving the visitor experience



- whether capital outlays are required for a new visitor information centre and museum(s).

In some of these areas, there is no definitive answer. For example, there is debate amongst heritage experts as to whether historical sites should be conserved as they are today, or as they were when operational (to aid interpretation). There is also no guideline as to the 'standard' of conservation at a World Heritage site. The Port Arthur Historic Site Management Authority (PAHSMA) suggests that heritage management needs to be best practice.

Vagaries around things such as 'standard of conservation', what is actually meant by 'best practice' heritage management etc mean that, short of a detailed 5 (or so) year forward budget prepared by the Commonwealth Heritage Manager, it will be virtually impossible to forecast with any degree of accuracy the funding required by KAVHA.

The reality is a very large amount of money could be spent at KAVHA. As can be seen from table 3.3, expenditure during 2015-16 at the other Australian Convict Sites on the World Heritage List was sizeable, ranging between less than \$500 000 (Woolmers Estate) and \$18 million (Port Arthur Historic Site). Such funding spans both site conservation and interpretation, and measures to improve the visitor experience.

Table 3.3 shows that KAVHA is a relatively large site, however it receives comparatively few visitors and little funding. Costs are generally high at island sites such as KAVHA. For example, consultation with Cockatoo Island Convict Site indicated that costs are approximately 30 per cent higher as a result of their island location in Sydney Harbour.

### 3.3 Comparison of Australian Convict Sites 2015-16

Australian Convict Site	Number of remaining convict buildings	Size of area	Visitors	Self-generated revenue (i.e. excluding grants)	Costs (opex + capex)	Cost recovery rate
	Number	Hectares	000's/year	\$000's/year	\$000's/year	Per cent
Cockatoo Island Convict Site	18	20.0	327	3 088	6 839	45
Hyde Park Barracks	8	0.5	117	1 017 <sup>a</sup>	3 975 <sup>a</sup>	26 <sup>a</sup>
Old Great North Road	120	258.6		0		
Old Government House and Domain	50	37.3				
Kingston and Arthurs Vale Historic Area	250	225.0	21	259	1 240	21
Brickendon Estate	20	420.0				
Woolmers Estate	18	13.0	9	324	329	98
Cascades Female Factory	0.5 <sup>b</sup>	0.6	31	1	0	N/A
Coal Mines Historic Site	350 <sup>b</sup>	214.0	0	0	0	N/A
Darlington Probation Station	376	376.0	31 <sup>c</sup>	0		0

Australian Convict Site	Number of remaining convict buildings	Size of area	Visitors	Self-generated revenue (i.e. excluding grants)	Costs (opex + capex)	Cost recovery rate
	Number	Hectares	000's/year	\$000's/year	\$000's/year	Per cent
Port Arthur	30	146.0	364	15 369	18 069	85
Fremantle Prison	16	6.0	200	4 081	4 541	90

<sup>a</sup> Revenues and costs have been estimated for Hyde Park Barracks as a share of total revenues and costs for Sydney Living Museums (SLM) based on the share of 'outreach' for each SLM site. For example, since total SLM revenue is \$8.8 million and 12 per cent of SLM outreach is accounted for by Hyde Park Barracks, it is assumed that Hyde Park Barracks revenue is \$1.0 million (12 per cent of \$8.8 million). Consultation with Hyde Park Barracks indicated the site is more heavily subsidised relative to the other SLM sites, suggesting that the estimate of the cost-recovery rate is likely to be above the actual cost-recovery rate. \$1.8 million of grants funding in 2015-16 is allocated specifically to Hyde Park Barracks (See *Sydney Living Museums Annual report 2015-2016*, p.38, available at: [https://sydneylivingmuseums.com.au/sites/default/files/SydneyLivingMuseums\\_AnnualReport-2015-16\\_Web\\_LR2.pdf](https://sydneylivingmuseums.com.au/sites/default/files/SydneyLivingMuseums_AnnualReport-2015-16_Web_LR2.pdf))

<sup>b</sup> These sites contain only ruins of buildings.

<sup>c</sup> This figure refers to visitation to Maria Island for 2014-15.

Note: The number of buildings is approximate, given that some sites such as the Coal Mines Historic Site contain large numbers of ruinous buildings. Visitor, revenue and cost data were not able to be obtained for all sites, as indicated by blank spaces in the table.

Source: Stakeholder consultations, Commonwealth of Australia Gazette No. S141 *Inclusion of Eight Convict-Related Places in the National Heritage List*, Sydney Living Museums Annual report 2015-2016, PAHSM Annual Report 2015-16, Department of Primary Industries, Parks, Water and Environment Annual Report 2014-15, and CIE estimates.

Comparisons of funding requirements across sites are fraught with complications. For example, while Cockatoo Island is situated on an island much like KAVHA, it would be expected to have different costs to KAVHA because it was formerly an industrial site. Significant expenditure at Cockatoo Island was required to rehabilitate the site, and thus costs may not be an appropriate benchmark for those at Norfolk Island. The most comparable site to KAVHA is the Port Arthur Historic Site, which has a similarly large number of intact buildings.

At a minimum, the required funding by KAVHA over the next 5–10 years in order to meet Australia's obligation to identify, protect, conserve, present, and transmit to future generations the World Heritage values of the site is likely to be in the order of (a real) \$1.3 million per year. However, depending on decisions about the extent of interpretation, any historical building capital works, and whether a new visitor information centre and/or museum complex is needed, this figure could easily be many times more.

It is also important for DIRD to be fully aware that whether such expenditure would, in itself, see a large number of additional tourists coming to Norfolk Island is questionable. Even an enhanced visitor experience is unlikely to be sufficient to drive up visitor numbers in any notable way (see chapter 5). There are a range of market demand barriers that need to be overcome before the destination wide tourism offer is sufficiently compelling to grow arrivals (see chapter 7).

## ***Broad funding principles***

Whatever the funding required by the KAVHA site, there is an issue concerning from where should that funding come.

Broadly speaking, there are three sources of revenue for KAVHA:



- the Australian Government (on behalf of the wider Australian community)
- visitors to/users of the site
- commercial opportunities to improve the visitor/user experience (which, ultimately, will sell goods and services to visitors to/users of the site).

From table 3.3 it was seen that none of the Australian Convict Sites on the World Heritage List currently generate sufficient site revenue to cover their costs. Cockatoo Island is a comparable site to KAVHA because of its island location, and only recovered 45 per cent of costs. Hence, some level of government funding will likely be required by KAVHA.

It would seem logical and a common sense approach for the Australian Government, on behalf of the wider Australian community, to meet the costs associated with KAVHA's conservation and interpretation (noting the extent to which 'interpretation' costs can be separated from 'visitor experience' costs is clearly a challenge). This arrangement would essentially be a continuation of the past approach, which saw the Australian Government and the Norfolk Island Administration funding KAVHA's conservation.

In theory, and under a beneficiary (or user) pays type approach, costs attributable to visitors to/users of the KAVHA site should be recovered from those groups. At a minimum, the marginal cost from site visitation/use needs to be recovered, up to a maximum of total cost recovery. Note that once marginal costs are recovered, there is no economic principle suggesting where cost recovery should fall between marginal and total cost recovery.

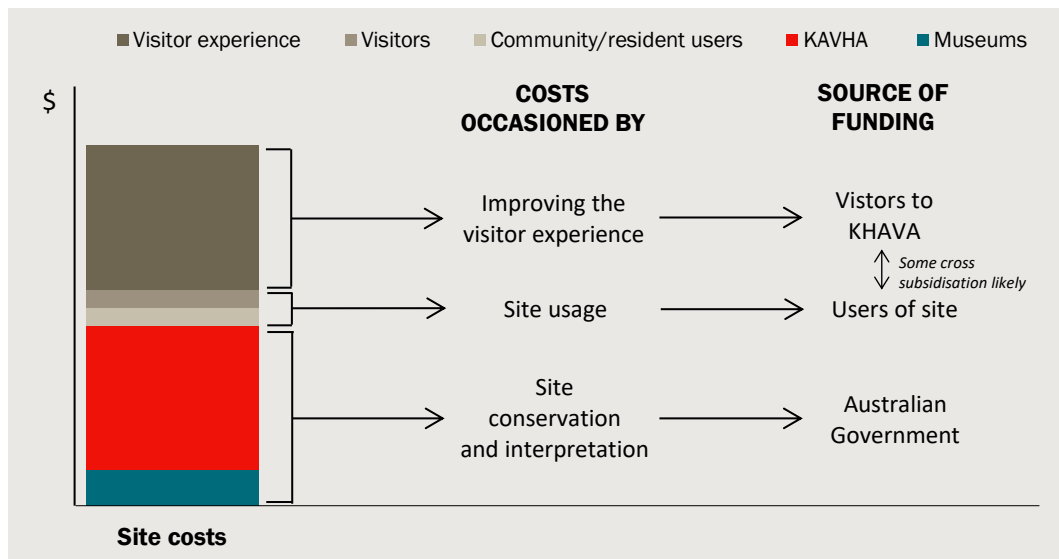
The CIE strongly believes that only (up to a maximum of total) costs be recovered. KAVHA is a working site, it includes numerous sporting and leisure resources used by residents, and is important to the wider Norfolk Island community. As such, KAVHA should not be seen as a profit generating opportunity. If, as the CIE suggests they should, the residents of Norfolk Island continue to have unrestricted access to KAVHA, then a degree of cross subsidisation between visitors to KAVHA and resident users may arise.<sup>21</sup>

Chart 3.4 provides a stylised overview of the funding principles that should underlie KAVHA. Note that the current governance arrangements would need to change in order to support this type of funding arrangement (see chapter 6).

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<sup>21</sup> Note that to the extent resident users of KAVHA are imposing costs, and to the extent that these costs are being met (versus say letting the site further deteriorate), then such costs were being covered by the NIA and Australian Government funding of KAVHA prior to 1 July 2016, and by the Australian Government through the SDA with NIRC post 1 July 2016. Hence some cross subsidisation is already likely occurring between site users, and either the Norfolk Island tax payer and/or the mainland Australia taxpayer.

### 3.4 KAVHA funding principles



Data source: CIE.

## 4 *Contribution of KAVHA to the economy going forward*

There are several routes through which KAVHA makes a contribution to the Norfolk Island economy. Firstly, expenditure associated with site conservation, interpretation and maintenance activities will be a source of economic activity. Secondly, KAVHA attracts tourists to Norfolk Island, with those tourists staying in hotels, engaging in leisure activities, eating at restaurants, and making purchases at retail outlets.

Added to these direct effects are indirect effects, which flow from linkages between the directly impacted sectors, and supporting sectors. For example, when a tourist purchases a restaurant meal, some of the payment will flow to the upstream food sector for meal ingredients, which in turn will purchase inputs from the (further) upstream agriculture sector.

The contribution of KAVHA to the Norfolk Island economy going forward will therefore depend on:

- conservation and maintenance etc expenditure at KAVHA
- the number of, and expenditure by, tourists visiting Norfolk Island because of KAVHA
- the extent of economic linkages to other supporting sectors.

### *The basecase*

The Norfolk Island economic model has been used to estimate the future economic impact of KAVHA on the local economy over the 10 year period commencing 2017-18.

Estimating the future economic contribution of KAVHA to the Norfolk Island economy requires assumptions to be made about conservation and maintenance expenditure at the site, and tourist numbers and per person spend. Two scenarios are considered. The first is the basecase scenario, which reflects a continuation of the business-as-usual situation. We then consider reforms targeting an improved visitor experience, which may see increased tourist numbers and/or increased tourist spend at KAVHA (see chapter 5).

### *Conservation and interpretation expenditure at KAVHA*

Strictly speaking, the basecase scenario should reflect a continuation of the business-as-usual scenario. However, in the case of KAVHA, business-as-usual cannot continue — the site is currently underfunded and likely not of a World Heritage List standard (or of a comparable standard to the other Australian Convict Sites on the World Heritage List), and the current governance arrangements are failing the site (see chapter 6).

In the basecase scenario it is therefore assumed that over the 10 year period commencing 2017-18, annual conservation, maintenance and interpretation expenditure at KAVHA is (a real) \$1.3 million. Apart from the increase in KAVHA funding, all else is assumed to remain the same — there is no explicit improvements to the overall KAVHA visitor experience (except that flowing from improved site conservation and interpretation), no change to the source of KAVHA's funding, and no change to governance arrangements.<sup>22</sup>

### *Visitor numbers*

There is the prospect that improved site conservation and interpretation will, in itself, see more tourists visiting Norfolk Island (induced demand). A study into the economic contribution of the Port Arthur Historic Site to the Tasmanian economy found that a 10 per cent increase in conservation spending was associated with a 1.1–1.4 per cent increase in visitor numbers, with a two year lag between expenditure and increased visitor numbers.<sup>23</sup>

If the same findings were to hold true for Norfolk Island, then the increase in conservation spending at KAVHA to \$1.3 million per year could be expected to see an increase in visitors coming to Norfolk Island because of KAVHA.<sup>24</sup> As can be seen from chart 4.1, applying the Port Arthur findings to Norfolk Island is estimated to see somewhere between around 3730 and 7130 (midpoint of 5430) additional visitors to Norfolk Island over the 2017-18 to 2026-27 period because of the improved KAVHA conservation.

The additional visitors attributed to greater conservation spending at KAVHA, combined with those visitors that could have been expected to visit Norfolk Island anyway (based on observed trends over the last 5 years), sees total visitor expenditure rising from (in real

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<sup>22</sup> Note that while KAVHA's current governance arrangements are not ideal, so long as funding arrangements do not change (in terms of funding source), then there is no need to make noteworthy changes to the current arrangements. As is discussed in chapter 6, governance arrangements will only need to change if revenue is to come from other sources, and that revenue is to be retained by KAVHA and used to improve site conservation and interpretation and the visitor experience.

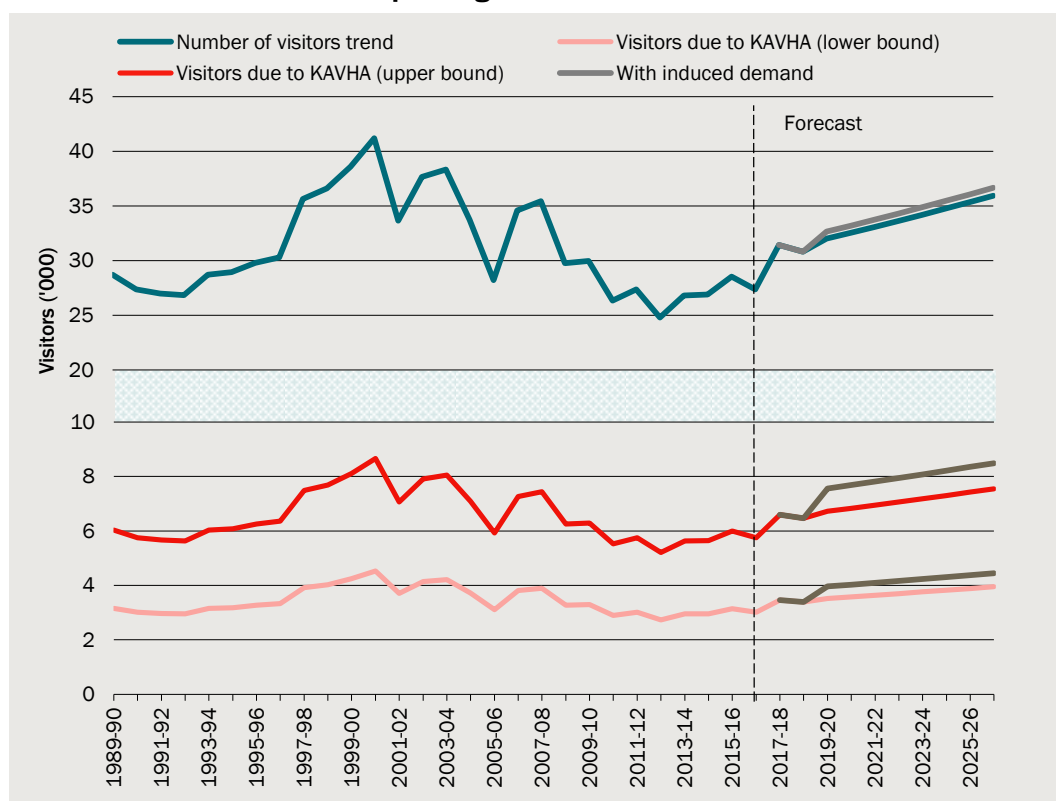
<sup>23</sup> See IMC-Link (2009), Contribution of the Port Arthur Historic Site Management Authority To Tasmanian Economic Wellbeing, page 14.

<sup>24</sup> There are two main reasons why the relationship between conservation spending (explanatory variable) and visitor numbers (dependent variable) may not be robustly estimated by IMC-Link (2009). Firstly, regression analysis involving two non-stationary trending variables can lead to spurious regression, where a relationship may be found between variables that are actually unrelated. The appropriate econometric analysis for non-stationary variables depends on the nature of non-stationarity, and OLS regression models are not robust for non-stationary variables unless the variables are co-integrated.

Secondly, there is a problem of endogeneity between conservation spending and visitor numbers in this estimation. In this case, the problem may be that changes in visitor numbers may cause changes in conservation spending, rather than the other way around. The simple OLS regression estimated by IMC-Link (2009) is not sufficient to determine causality between conservation spending and visitor numbers.

terms) an estimated \$33 million in 2017-18 to \$38.8 million in 2026-27. Of this gross tourist expenditure, between 11–21 per cent is attributable to KAVHA.

#### 4.1 Increased conservation spending at KAVHA and induced demand



Note: Total visitors to Norfolk Island includes both air passengers and cruise ship passengers.

Data source: Norfolk Island Government Tourist Bureau, TRANSAM Argosy, stakeholder consultations, and CIE calculations.

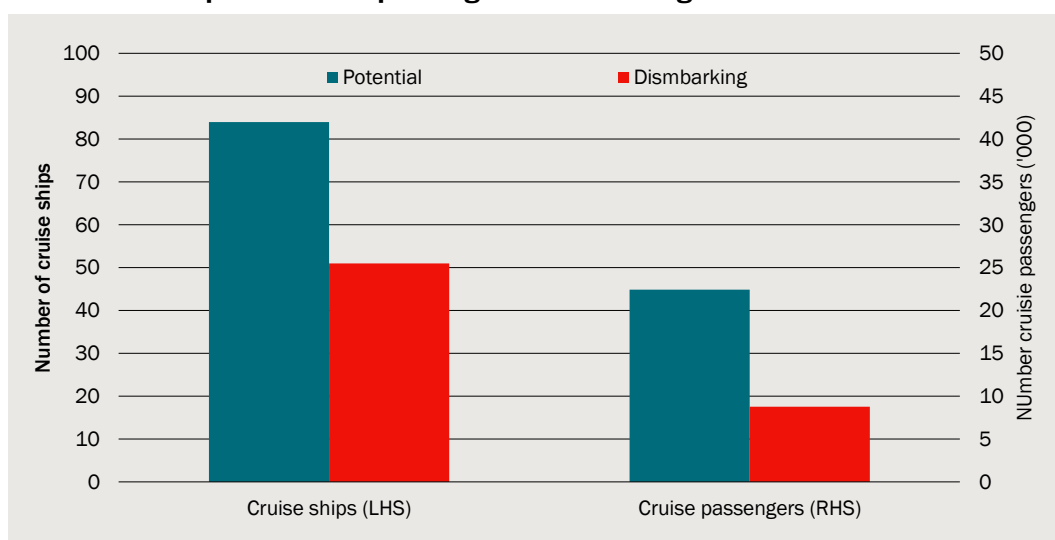
The total visitor numbers reported (and forecast) in chart 4.1 include visitors arriving by both air and cruise ship. While forecast air and cruise passenger arrivals are dependent on sufficient capacity to accommodate the forecast growth, cruise arrivals are further subject to uncertainty with respect to the ability of passengers to disembark at Norfolk Island.

The Cascade Pier upgrade is scheduled to be operational from (a planned) December 2017. As can be seen from chart 4.2, since 1991-92 some 61 per cent of cruise ships planning to stop at Norfolk Island have done so. However, the passengers disembarked by these (51 out of a possible 84) ships represent only 39 per cent of the potential passengers that could have disembarked. This indicates the cruise ships not able to disembark passengers due to adverse weather are the larger vessels, which account for the majority of potential cruise visitors.

The cruise industry reports that the 'mystery' surrounding Norfolk Island see cruises with a visit to Norfolk Island selling well and being in high demand. However, poor reliability with respect to being able to disembark passengers has seen cruise lines prefer other destinations to Norfolk Island. While the Cascade Pier upgrade and new tenders are welcomed, it has been suggested that the cruise industry will likely wait a few years post pier upgrade to gauge success, and before making a call on future schedules for Norfolk Island.

Given such uncertainty regarding cruise ship visits, it has been assumed that the number of future cruise ships and passengers replicate long run (10 year) averages, but with the probability of passengers disembarking rising from the 1991-92 to 2016-17 average of 39 per cent to (stakeholder suggested) 70 per cent.

## 4.2 Cruise ship arrivals and passengers disembarking at Norfolk Island



Data source: TRANSAM Argosy.

However, there is always the possibility that a successful pier upgrade and the new tenders will encourage other cruise providers to schedule calls to Norfolk Island or for Carnival Australia to schedule additional visits more quickly than expected, at which point the contribution of KAVHA to the Norfolk Island economy over the next 10 years will be understated.

### *The economic contribution of KAVHA over 2017-18 to 2026-27*

An economic modelling simulation has been conducted whereby expenditure at KAVHA and wider tourism expenditure increase as detailed above.

The database underlying the Norfolk Island economic model relates to year 2015-16. On 1 July 2016, various taxation and welfare reforms were introduced on Norfolk Island. As these reforms will not be reflected in the model's underlying database, the 1 July 2016 reforms have been included in the modelling exercise. Box 4.3 summarises the welfare, taxation and other changes included in the modelling simulation(s).

### 4.3 Taxation, welfare and other changes implemented on 1 July 2016

In May 2015, the *Norfolk Island Legislation Amendment Act 2015* and related acts came into effect. They provide for the Australian Government to assume responsibility for funding and delivering national and state level services, and see the extension of mainland workplace relations, taxation and welfare arrangements to Norfolk Island.<sup>25</sup>

#### *Workplace relations and minimum wages*

Norfolk Island is transitioning to the national workplace relations system and the *Fair Work Act 2009*. The transition will happen in three stages, beginning on 1 July 2016 and ending on 1 July 2018. The entitlements and obligations that will apply to Norfolk Island employees and employers in each of the three stages are described below:

#### **Stages of reform to workplace relations in Norfolk Island**

Stage	Date	Entitlements
Stage 1	1 July 2016	<ul style="list-style-type: none"> <li>■ The National Employment Standards (NES) apply, which provides 10 minimum employment entitlements such as sick leave, annual leave and public holidays</li> <li>■ Employees are entitled to 85 per cent of the national minimum wage (\$15.05 for adult employees)</li> <li>■ Casual loading of 25 per cent</li> <li>■ Record-keeping and pay-slip obligations</li> <li>■ Employers are able to negotiate enterprise agreements and other registered agreements with employees</li> </ul>
Stage 2	1 July 2017	<ul style="list-style-type: none"> <li>■ Employees will be entitled to the full minimum wage</li> </ul>
Stage 3	1 July 2018	<ul style="list-style-type: none"> <li>■ Employees will also be covered by awards, which set out wages and conditions including overtime and penalty rates for industries or occupations</li> <li>■ Contracts, agreements and determinations under the following acts will no longer apply if conditions are less favourable than those in the NES: <i>Norfolk Island Employment Act 1988</i>, <i>Norfolk Island Public Service Act 2014</i>, <i>Norfolk Island Public Sector Remuneration Tribunal Act 1992</i></li> </ul>

Source: Fair Work (available at: <https://www.fairwork.gov.au/about-us/legislation/norfolk-island>), CIE.

While public holiday entitlements in Norfolk Island are aligned to mainland Australian entitlements, members of the Norfolk Island community have sought to preserve Norfolk Island's public holidays.<sup>26</sup> This has been effected through the *Norfolk Island Continued Laws Amendment (Public Holidays) Ordinance 2016*.<sup>27</sup>

The Superannuation Guarantee Levy is being gradually introduced, commencing at 1 per cent on 1 July 2016 and rising by 1 per cent each year.<sup>28</sup>

#### *Taxation*

- Norfolk Island resident individuals, companies and trustees will be taxed (at mainland rates) on their Norfolk Island sourced income and their foreign sourced income.

<sup>25</sup> See [http://regional.gov.au/territories/norfolk\\_island/reforms/arrangements.aspx](http://regional.gov.au/territories/norfolk_island/reforms/arrangements.aspx)

- Norfolk Island residents are liable to pay the Medicare levy.
- Norfolk Island employers and employees will be brought into Australia's superannuation guarantee system. However, the system will be progressively introduced to reduce the impact on Norfolk Island and employers.
- The GST is not levied in Norfolk Island as Norfolk Island is an external territory.

#### *Medicare*

Australia's Medicare and Pharmaceutical Benefits Scheme arrangements are extended to Norfolk Island.

#### *Social security*

Australian social security system adopted in full.

#### *Customs and excise duties*

Customs and excise duties will not apply to Norfolk Island, which is consistent with the current arrangements in Australia's other external territories.

Table 4.4 reports key modelling results for the baseline scenario. For comparison, we have also reported modelling results for a continuation of current arrangements (Trend) scenario.

As was reported in chapter 2, tourism attributable to KAVHA was estimated to contribute approximately \$6 million to GTP. Over the period 2017-18 to 2026-27, it is estimated that increasing site conservation and interpretation expenditure to \$1.3 million annually, combined with the additional tourists that the improved KAVHA conservation sees coming to Norfolk Island, will see real GTP being \$4 million higher than otherwise in 2026-27. Household consumption, which is the preferred welfare measure, is some \$3 million higher in 2026-27.

#### **4.4 Baseline economic contribution of KAVHA (real 2015-16 \$ terms)**

Metric	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Continuation of current arrangements (Trend scenario)</b>										
GTP	77	78	79	81	82	84	85	87	88	90
Wages	36	37	38	38	39	40	40	41	42	42
Con.	48	49	50	51	52	52	53	54	55	56

<sup>26</sup> See [http://regional.gov.au/territories/norfolk\\_island/reforms/newsletters/issue-12.aspx](http://regional.gov.au/territories/norfolk_island/reforms/newsletters/issue-12.aspx)

<sup>27</sup> Available at: <https://www.legislation.gov.au/Details/F2016L01949>

<sup>28</sup> See <https://www.ato.gov.au/general/Norfolk-island-tax-and-super/>



Metric	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Greater conservation spending (Basecase scenario)</b>										
GTP	78	80	83	84	86	87	89	90	92	94
Wages	37	38	39	40	41	41	42	43	44	44
Con.	49	50	52	53	54	55	56	57	58	59

Source: Norfolk Economic model simulations.

### ***Could the Norfolk Island economy ‘cope’ with a large injection of funding at KAVHA?***

The Norfolk Island labour market is unique in that it is relatively isolated. This means as wages increase labour cannot (easily) enter the labour market, increase labour supply, and mitigate the wage rises. Hence there is the very real possibility that an increase in KAVHA conservation spending will be associated with higher wages, and a ‘bubble’ around KAVHA wages. The prospect of a wage bubble around KAVHA wages is heightened given the uniqueness of the skills required by the KAVHA works crew.

The small workforce and scarcity of required heritage maintenance skills reflects the past multi-year deterioration of the Norfolk Island economy, with the absence of a long term commitment to recurrent funding of KAVHA and attention to succession planning. These have combined to see mobile workers looking to mainland Australia or New Zealand (or elsewhere) for employment, rather than looking to Norfolk Island (and KAVHA) for employment.

The greater conservation and interpretation expenditure at KAVHA will improve employment prospects at KAVHA. And if the increased conservation and interpretation expenditure at KAVHA leads to more tourists visiting Norfolk Island and greater economic activity more generally, then employment opportunities elsewhere on-island can be expected to improve too. Greater employment opportunities could be expected to assist with workforce retention and social stability on Norfolk Island. By way of example, PAHSMA currently employs 200 people, and is the major employer on the Tasmanian Peninsula. The employment opportunities provided by the Port Arthur Historic Site (PAHS) have contributed to social stability on the peninsula.

Noting the potential for a KAVHA wage bubble, it may be prudent to phase in any increase in expenditure over a few years in order to allow the local labour market to adjust to the improved employment prospects.

## 5 *Options for enhancing KAVHA's contribution to the economy*

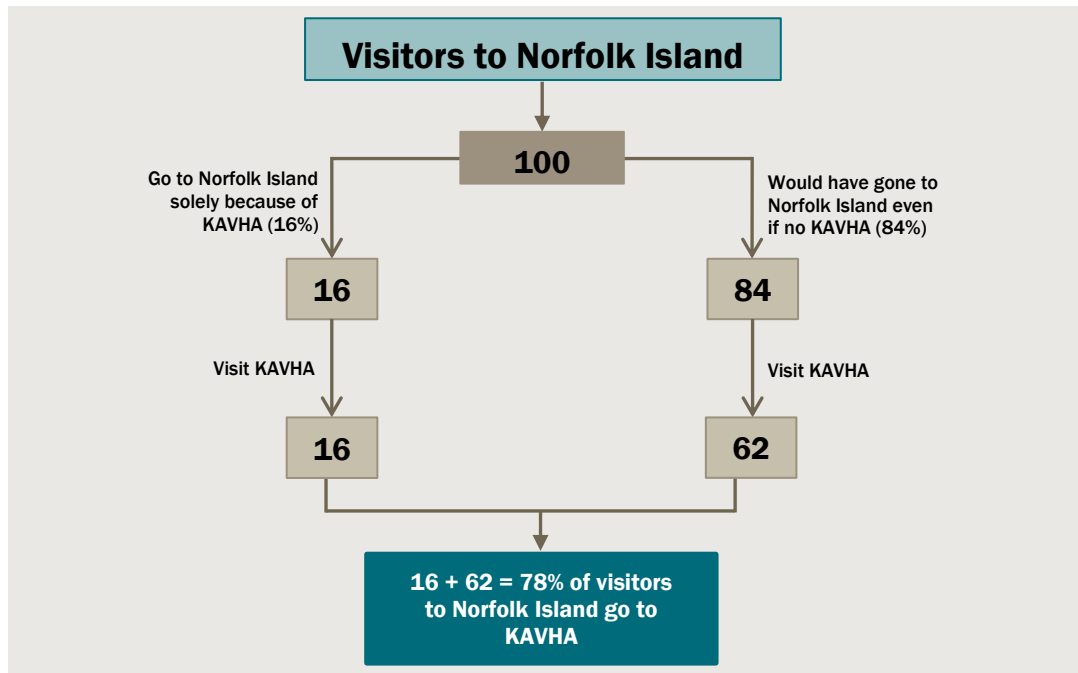
Increasing the contribution of KAVHA to the Norfolk Island economy would require increasing visitor expenditure. This could derive from a higher number of visitors to Norfolk Island due to KAVHA, and/or higher per person spend on site.

### *Increasing visitor arrivals to Norfolk Island due to KAVHA*

The objective of growing tourist arrivals to Norfolk Island is shared across the local tourism industry, but achieving this at any notable scale depends on significant destination-wide improvements to island accessibility, the overall Norfolk tourism offering and destination marketing. This finding is not new — it has been documented in tourism plans, concluded from market research and validated by visitor feedback for many years. No single investment can overcome the constraints to tourism growth facing Norfolk Island. That would require concerted public and private sector investment in integrated infrastructure and product development, alongside suitably-targeted destination marketing.

Accordingly, it would be imprudent to assume that any improvements to the KAVHA site alone will have a significant direct impact on increasing visitor numbers to Norfolk Island. While KAVHA is undoubtedly one of Norfolk Island's major tourist attractions, it is not the only reason the majority of tourists travel to the island. A survey undertaken by the Norfolk Island Government Tourist Bureau for CIE found that 84 per cent of tourists would have visited the island even if KAVHA did not exist. The survey also found that 78 per cent of tourists reported they visited KAVHA, although this is lower than claimed by tourism stakeholders who widely hold the view that 'almost all' visitors to the island visit KAVHA. Chart 5.1 shows how these survey results should be interpreted.

## 5.1 Reconciling survey results



Data source: CIE.

The lower than expected survey finding regarding number of tourists that report visiting KAVHA may reflect respondent uncertainty about how KAVHA is defined. An indication of this is an analysis of Trip Advisor user-generated reviews which shows that ‘Kingston & Arthur’s Vale Historic Area’ was nominated by visitors as #10 of 56 ‘things to do’ on Norfolk Island, *after* ‘Old Kingston Town’ at #3. A large number (17) of the other 54 ‘things to do’ are in fact on the KAVHA site, suggesting site attendance might have been recorded higher if respondents understood what attractions KAVHA hosts. Furthermore, as some of the iconic marketing images that attract visitors to Norfolk Island are viewed on/from KAVHA, it is reasonable to assume the site is at least a photo stop for the majority of tourists.

Notwithstanding the need to better understand tourist motivations for, and visitation at KAVHA, this study draws on available evidence and assumptions that:

- any improvements to the KAVHA site — in isolation — will have marginal impact on increasing visitor numbers to Norfolk Island, simply due to the limited influence of KAVHA in the decision to travel to Norfolk Island and the many variables influencing destination appeal and barriers to travel
- the marginal impact of improving the KAVHA visitor experience can however be quantified, by drawing on the insights from the Port Arthur Historic Site
- if other improvements to the Norfolk Island destination proposition are undertaken alongside improvements to KAVHA, representing a collective enhancement to the overall appeal of Norfolk Island, this ‘greater than the sum of parts’ result could positively influence growth in visitor arrivals (see chapter 7).

### *Improving the KAVHA visitor experience*

Improving the depth, integrity, consistency, comfort and overall quality of the visitor experience at KAVHA is necessary for visitors to place a high value on the site and want to visit/spend more time there. Both of these outcomes positively influence visitor spend.

Visitor satisfaction with KAVHA, and its attractions, is reportedly overall very positive. Evidencing this, the majority of Trip Advisor reviews for the 18 listed attractions located at the KAVHA site (12 of which are primarily historic attractions), show very good to excellent ratings. A visitor survey conducted by the Norfolk Island Museum in mid 2017 also had favourable responses indicating high visitor satisfaction.

However, there are also indications that the visitor experience at KAVHA is not of the quality expected for a contemporary tourist attraction with World Heritage status, and that there is a need for critical improvements.

Firstly, there is currently a lack of information available to make a visit to the site as informative, engaging and encompassing as it should be. Until recently, there had been no functioning KAVHA tourism website to enable pre-trip research and planning and the KAVHA maps/brochures were reportedly out of print.<sup>29</sup> Furthermore, interpretation panels are inadequate and inconsistent, and some sites are not marked for their heritage significance.

Secondly, there are issues around the quality of some tours being delivered by external operators on site, which negatively impact the KAVHA visitor experience. Instances of tour guides providing incorrect information, pushing political views unrelated to the tour booked by passengers, and/or demonstrating poor customer service standards are reported by concerned industry on island, by agents in source markets, and by travellers themselves (on Trip Advisor).

Thirdly, despite the Norfolk Island Museum's excellent efforts to maintain precious collections with limited resources, the quality of exhibits is arguably not up to the standard expected by visitors to a World Heritage site. Inadequate environs/settings for housing exhibits or storing collections not only jeopardises the conservation of valuable heritage assets, but also undermines the visitor experience. In addition, opportunities to extend the nature and scale of cultural heritage displays at KAVHA are being restricted by unsuitable conditions.

Fourthly, uncontrolled parking on the site detracts from the picturesque view 'promised' to visitors in marketing materials. Furthermore, in some locations it is known to risk damaging heritage assets (ruins). Although the parking arrangements are accepted by stakeholders as 'just the way it is', it is undermining the visitor experience on two levels — aesthetics and compromising heritage integrity.

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<sup>29</sup> The KAVHA website ([www.kavha.gov.au](http://www.kavha.gov.au)) became operational in early July 2017. While there are still some shortfalls with the site concerning information to assist with visitor planning, it is expected these information gaps will be addressed over time. KAVHA brochures were reprinted in June 2017 and available on-island in July 2017.

Finally, many visitors report there 'is not enough to do' at the site. Of particular note is the lack of a café and limited access to more buildings. As one reviewer on Trip Advisor noted:

Well preserved houses and building all around the area as well as the remains of the Convict era. There were restorations underway at the 'church' and we were not sure if we could go in. Other buildings seemed to be either occupied or derelict. It would have been nice to look inside some of them. (Trip Advisor reviewer, May 2017).

These findings indicate that the visitor experience at KAVHA needs improvement and enhancement in order to maximise visitor satisfaction levels, increase their perceived value of the site, and encourage more and longer visits. The following options would enable this, and allow KAVHA to achieve a visitor experience standard expected in a contemporary tourist attraction with World Heritage status.

#### *Investing in KAVHA visitor information resources*

Critical to improving the visitor experience at KAVHA will be augmenting the current KAVHA website to enable planning of a visit, installing consistent interpretation panels (as per an Interpretation Plan if endorsed by governing authority), and printing Visitor Guides with a detailed map and interpretation information. The development of a KAVHA site app with engaging visitor information and interpretation could add further value. Enabling people to see and learn as much as possible will optimise their appreciation of the site.

#### *Introducing tour operator licensing and an associated accreditation program*

A tour operator licensing system and accreditation program can be used to instil quality-control measures around the integrity of tour content and the safety and comfort of tourists, and to recognise the professional standards and expertise of high-performing tour operators and guides. A standard tour operator license would require that any such business operating on site adhered to terms and conditions around formal business registration, a code of conduct, occupational health and safety, fee structures and other matters deemed relevant by the KAVHA governing authority. Special tour operator commercial licenses can also provide for special interest tours/exclusive use experiences. Accreditation could apply to both the business (for example, demonstrating sustainable practices, employing accredited guides, committing to train staff) and tour guides (for example, undertaking a KAVHA developed/endorsed training and accreditation program). Appendix B provides sample licensing and accreditation models in Australia that apply under a commercial use policy. Further research and consultation is needed to help the KAVHA governing authority determine the preferred approach based on context-specific conditions.

While some licencing fees are a revenue source for sites, KAVHA might benefit from keeping standard tour operator licence fees at a minimal (cost recovery) level, as it will be more important to get the small number of operators to 'buy into' the commitment to accrediting their tour guides, adhering to a code of conduct, and facilitating the collection of a potential KAVHA Visitor Pass fee, rather than seek additional fees from them.

### *Investing in appropriate infrastructure to house existing museum exhibits*

This applies to the buildings housing existing collections and the provision of facilities/infrastructure for future expansion of exhibits that add to the site's visitor appeal.

### *Introducing a KAVHA managed site orientation walking tour*

As is the case at the Port Arthur Historic Site, the purpose of a site orientation walking tour would be to:

- introduce the site to visitors
- provide an overview of its history
- identify all locations including areas that can/cannot be accessed
- describe the many visitor experiences on offer.

This will serve to whet visitors' appetites to see/learn/do more. Referring people to an information board that lists other more in-depth tours/experiences available around the site would provide revenue-generating opportunities for KAVHA and commercial tour operators.

It is recognised that the current tagalong tours with vehicles serve a similar function. However, the walking option could be positioned as the *first* thing people should do, be available daily at regular intervals, and encourage more engagement through a short (for example, a 40 minute) group walk. In-situ orientation tours could be made available daily for less mobile visitors, or for during poor weather conditions.

### *Investing in more/better visitor facilities and experiences*

Key to enhancing the visitor experience for locals and tourists will be adding/upgrading facilities and products/services. Suggestions made to date include:

- adding/improving barbeques
- providing more appropriately situated toilets
- installing changing rooms/showers at Emily Bay
- opening more food and beverage outlets/cafes/restaurants
- introducing galleries/cultural attractions
- offering on-site accommodation
- developing new special interest tour experiences

Commercial opportunities relating to some of these are discussed further below.

### ***Funding visitor experience improvements — applying a KAVHA site entry fee***

If the visitor experience is to be improved, then additional funding will be required. Under a beneficiary pays type principle, those benefitting from the improved visitor experience — the visitors to KAVHA — would fund the cost of the experience.

The introduction of a site entry fee for KAVHA has been the subject of discussion for some time, most recently in the consultations undertaken to inform the *KAVHA Heritage Management Plan* (2016), the draft *Concept Plan for a Master Plan* (2017), and this study into the economic potential of the KAVHA site. There are competing views amongst stakeholders on this topic, with some indicating strong resistance to the introduction of any access fee to this long-standing community space, whilst others suggest a visitor fee is acceptable on the grounds of supporting site maintenance and improvements, and in line with accepted practice at such visitor attractions around the world. The absence of a designated entry point at KAVHA adds complexity to this matter.

#### *The case for introducing a site entry fee*

Introducing a site entry fee would achieve a number of favourable outcomes.

- Ensuring that tourist ‘users’ of the site would be making a financial contribution to:
  - the maintenance/conservation of the site (for which some costs directly relate to managing impacts of visitor traffic), and/or
  - enhancement of the visitor experience.
- Enabling data to be collected about site visitation, which could inform insights on tourism needs and opportunities for KAVHA and the broader Norfolk Island visitor economy.
- Positioning KAVHA alongside other key attractions in Australia for which a site entry fee is standard practice, and accepted by the tourist market as indication of the value of the site (such as at other popular Convict Heritage sites, and World Heritage listed parks co-managed by indigenous communities including Kakadu and Uluru-Kata Tjuta National Parks).
- Generating new revenue opportunities for local businesses through:
  - commissions (for example, presale of entry passes by tour operators, accommodation providers, tourist information centre)
  - the promotion of tour operator products to enhance the visitor experience
  - the inclusion of value adds to incentivise visitors to make other purchases on site/on island.
- Injecting money into the local economy that may otherwise not have been spent on the island.

#### *The case against introducing a site entry fee*

Introduction of a site entry fee raises concerns amongst some stakeholders, who suggest it would result in unrest in the community during a time of heightened sensitivity about the sovereignty of Norfolk Island. Imposing a cost on residents to access what has essentially been their community ‘backyard’ since the beginning of the Pitcairn settlement would face extreme resistance. This is a significant risk that requires mitigation.

Stakeholders also expressed a concern about a site entry fee limiting tourism to Norfolk Island/KAVHA due to the reported price-sensitive nature of many tourists, and concerns that tourists will be deterred from travelling by an additional cost. On its own, this concern may be overestimated because:



- the cost of a pass would represent a relatively small portion of the whole trip, so is unlikely to impact the decision to travel
- discussions with some members of the local industry and travel agents indicate people who visit the site do 'value' it, and most would understand the case for raising funds from tourism via an entry charge
- seniors tour groups (for example, Probus) are travelling to other destinations on trips that cost more than Norfolk Island, so the price-point would still compare favourably.

However, it should also be noted that by early 2018, visitors to Norfolk Island will, according to tourism industry stakeholders, reportedly be facing an around \$115 per person increase in the cost of their tour package due to increasing the landing tax in January 2018 (\$44) and the increase in operating costs resulting from economic reforms introduced on 1 July 2016 (around \$70). Such cost increases would see the on-island cost of visiting Norfolk Island for the average air passenger staying in public accommodation rising by some 9 per cent. According to a major tourism operator, this price rise is more than the market can bare at this time. This suggests the timing of an entry fee is more of a concern than the concept.

Finally, some stakeholders questioned the logistical arrangements for monitoring a pass system in a spread-out, unfenced site with multiple entry points.

#### *Introducing a site entry fee via a KAVHA Visitor Pass*

On balance, we believe there is merit in introducing an entry fee for tourists in the form of a KAVHA Visitor Pass. The Visitor Pass could be positioned as an enhancement of the current Museum Pass, and include a package of offerings (such as an introductory tour, access to museums and other value adds) that appeal to tourists and represent value for money. Perceived risks, such as monitoring a pass system, can be managed.

It is recommended that Norfolk Island residents be exempt from paying a site entry fee via such a Visitor Pass given the site is so integral to the community's heritage and everyday life, rather than an 'attraction' they want to learn about through an organised process. Although tourist-only entry fees are arguably not 'good practice' for a destination as they can be perceived as discriminatory or unfair by tourists, in this instance it may be warranted given the nature of the site and sensitivities related to it. Educating tourists about the role of the site in the everyday lives of Norfolk Islanders, and the importance of tourism revenues to preserve the site and enable future visitors to enjoy it, can build the travel market's understanding of the visitor fee arrangement. Other sites, including the Port Arthur Historic Site, have faced challenges moving from a free to fee model, but after a difficult period of change, has been able to benefit from needed revenues, as well as high levels of visitor satisfaction. With respect to the museums, it would need to be determined whether special resident museum only entry fees would apply.

Revenue generated from the Visitor Pass could be reinvested in improving the visitor experience on site. An improved visitor experience would be expected to increase visitor arrivals to the island over time. The Port Arthur Historic Site economic contribution study suggests that a 10 per cent increase in non-conservation spending is associated with



a 0.7–0.9 per cent increase in visitor numbers, with a 2 year lag between the increased expenditure and increase in visitor numbers.<sup>30</sup>

#### *Designing a Visitor Pass package of inclusions*

Bundling several low cost/high value inclusions into a Visitor Pass creates an appealing, ‘value for money’ product for tourists, while providing opportunities for upselling and cross-promotion to other tourism products and services. For example, the KAVHA Visitor Pass could include:

- access to all (identified) areas within the site, including the museums, ruins, cemetery, open buildings, and visitor facilities
- multiple-day entry (which will encourage more visitation and more opportunities for future spend)
- a KAVHA Visitor Guide with detailed map and interpretation information
- a complimentary orientation tour of the site
- value add giveaways such as complementary postcards
- discount/value add vouchers for other products/services on-site to incentivise more spend (deals would need to be negotiated with current/future providers, such as discounts on items in a gift shop, special offers for other tours, a free coffee with purchase of lunch at a future café, etc).
- onsite parking for self-drive visitors in designated areas (assuming the introduction of parking areas to protect heritage assets and enhance the site aesthetics)
- a KAVHA app (possible future inclusion to be developed if wi fi download possible and if access can be restricted to paying customers)
- free wi fi (when feasible in the future).

For cruise passengers who are limited to a maximum of several hours on island, a tailored Cruise Visitor Day Pass could be offered exclusively to cruise operators with slightly modified inclusions.

Expanding the pass to become a ‘Norfolk Island Heritage Pass’ that includes KAVHA and Norfolk Island National Park is also worth consideration. There is a marketing advantage to promoting a destination’s cultural and heritage offering together, and enabling joint access to them. However, as the National Park does not currently have an access fee, and as this would require coordination across government departments, it may be preferred to pilot the pass for the KAVHA site.

#### *Timing the launch of a Visitor Pass*

Options for the Visitor Pass span introducing it as soon as practical and increasing its price over time as the visitor experience is developed/improved, versus delaying introduction of the pass for a number of years and then introducing it at full price.

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<sup>30</sup> See IMC-Link (2009), Contribution of the Port Arthur Historic Site Management Authority To Tasmanian Economic Wellbeing, page 14.

One possibility which weighs up tourism industry best practice, stakeholder acceptance, logistical factors, and the need to start generating revenue for visitor experience enhancement as soon as possible, would be to introduce the Pass in 2019-20. This (almost) two-year lead time would allow sufficient time for the following necessary steps:

- the establishment of a revised governance arrangement with the decision-makers and resources in place to guide all decisions about the site's future
- the development of a KAVHA Commercial Use Policy that includes decisions on the Visitor Pass and prices
- communication of rates to travel industry partners in the distribution system (for example, cruise operators, inbound tour operators [ITOs], wholesalers) who require a lead time of up to two years in order for products to be included in contracts and promoted to clients via programs
- assimilation and acceptance of the concept of a new Visitor Pass, to replace and extend the Museum Pass, into the tourism market from a forward date
- enhancement of the site as a result of the commercial policy (for example, opening of a café or gallery), which would reinforce the value of the Pass
- preparation of the Visitor Pass including planning logistics and developing materials by the staff (who are yet to be appointed under a new governance arrangement).

Introducing the entry fee any sooner, even just for walk-ins, would risk putting potential industry partners offside, due to overlooking their role, lost commission opportunities, and potentially upsetting clients not prepared for the fee. Visitor dissatisfaction is a risk for those using travel agents or travel guidebooks that have yet to be updated.

Furthermore, having an overlap of pass types would complicate administration for the market and for staff. Therefore, a seamless transition from the Museum Pass to the KAVHA Visitor Pass will require an industry lead time standard of up to two years.

### *Pricing a Visitor Pass*

The price of the Visitor Pass would need to:

- adequately cover the total costs of visitor experience inclusions, operations and administration
- be perceived as reasonable compared to benchmarks such as the current KAVHA museum multiple entry pass (\$25 per person), and other similar heritage sites
- allow for commission margins/net rates for agents that pre-sell the pass (travel agents, local hotels, visitor information centre, wholesalers, inbound tour operators)
- be modest to start if introduced while site offerings are limited, and only increase after a few years when more visitor experiences come on board.

In accordance with this, an indicative pricing structure is presented in table 5.2, which supposes:

- commencing in 2019-20 with a \$25 standard Visitor Pass rate for adults, the same rate that currently applies to the Museums Pass (offering more value for the same price will help gain acceptance of the new fee by the tourism industry and visitors)
- offering discounts for seniors, children, families and cruise (day) passengers

- holding constant the 2019-20 rate for two years (to mitigate the risk of backlash from the introduction of an entry fee)
- applying annual increases thereafter, in line with improvement to the visitor experience, comparator analysis, and economic conditions (assuming a 5 per cent annual increase in use from 2019-20 onwards).

## 5.2 Indicative Visitor Pass prices in 2019-20

Pass type	Retail price	NET RATES	
		10% (for agent/hotels)	20% (for inbound tour ops)
	\$	\$	\$
<b>Standard Visitor Pass</b>			
Adult	25.00	22.50	20.00
Concession	20.00	18.00	16.00
Child	15.00	13.50	12.00
Family	75.00	67.50	60.00
<b>Cruise passenger Visitor Pass</b>			
All visiting passengers	Na	Na	20.00

Note: At least one year's notice is required by the travel industry to allow for the price to be incorporated into travel programs. Cruise companies will require longer (1.5–2 years). For any existing bookings in place at the time the fee is introduced, a complimentary pass could be provided as an act of good faith.

Source: CIE.

### *Selling a Visitor Pass*

There could be multiple possible distribution channels for the Visitor Pass including:

- at the REO and museums (as per current arrangement with the Museums Pass)
- at a future central KAVHA information centre/interpretation centre
- via the Norfolk Island Visitor Information Centre or on-island accommodation providers, which could sell a voucher to be redeemed for the physical pass on site (for this, the distributor would need to earn a retail commission/receive net rate, as factored into the pricing model)
- via local inbound tour operators who could collect passes from KAVHA for distribution to their groups/passengers, or provide a voucher for passes to be collected on site (for this, the tour operator would need to earn a commission / receive a net rate; expected to be 'best net' rate if managing inbound passengers, as factored into the pricing model)
- via travel agents/wholesalers in source markets who could sell a voucher to be redeemed for the physical pass on site (for this, the distributor would need to earn a commission/receive net rate, as factored into the pricing model).

By offering tour operators a net rate for the pass, they can choose to incorporate it into their product or sell it separately generating new revenue.

### *Operating the Visitor Pass system within an open, unfenced site*

Due to the KAVHA site having four access points, and the overwhelming opinion that the site should not be fenced, the logistics of administering a pass system at KAVHA are challenging, but possible through a number of measures.

- Developing an entry pass policy that requires any (non-resident) individual who enters the site to purchase and display on their body a Visitor Pass (for example, in the form of a lanyard with card identifier). It could be determined that occupants of cars/buses driving into the site are exempt until such time that they exit the vehicle.
- Communicating these requirements, and ways to purchase a pass, in advance through visitor information sources and travel distribution channels.
- Exempting residents from having to carry a pass, but requiring proof of residence upon entry to museums.
- Allocating car and coach parking areas nearby a designated Visitor Information Office (or satellite office in interim). This would enable passes to be collected at the beginning of a visit, and mitigate the risk of people not purchasing the pass. (Introducing a designated 'starting point' will also help visitors to better plan their visit and make the most of the whole site).
- Having staff check people are wearing passes at entries to museums and information centre, and, where feasible, around the site if tourist activity is obvious (for example, during tours). A policing approach to checking passes is neither feasible nor appropriate, but staff could politely ask people who do not have a pass if they are residents, and if not, refer them to points of sale. This arrangement will require a culture of 'honesty and respect' that can be enabled through tourist and resident education and offering local tourism industry commission on advance sales of the pass.

### *Dealing with entry fees during special events*

Special conditions for entry fees would need to be developed by the governing authority for days during which events are held. Options for consideration include:

- on the occasion of free community events the entry fee could be waived and the event promoted as sponsored by KAVHA
- on the occasion of a commercial community event (for example, ticketed concerts), the visitor pass might be waived in lieu of an event ticket price, subject to commercial arrangements between the event organiser and KAVHA
- on the occasion of private use special events, the visitor pass might be waived as replaced by commercial arrangements between the event organiser and KAVHA.

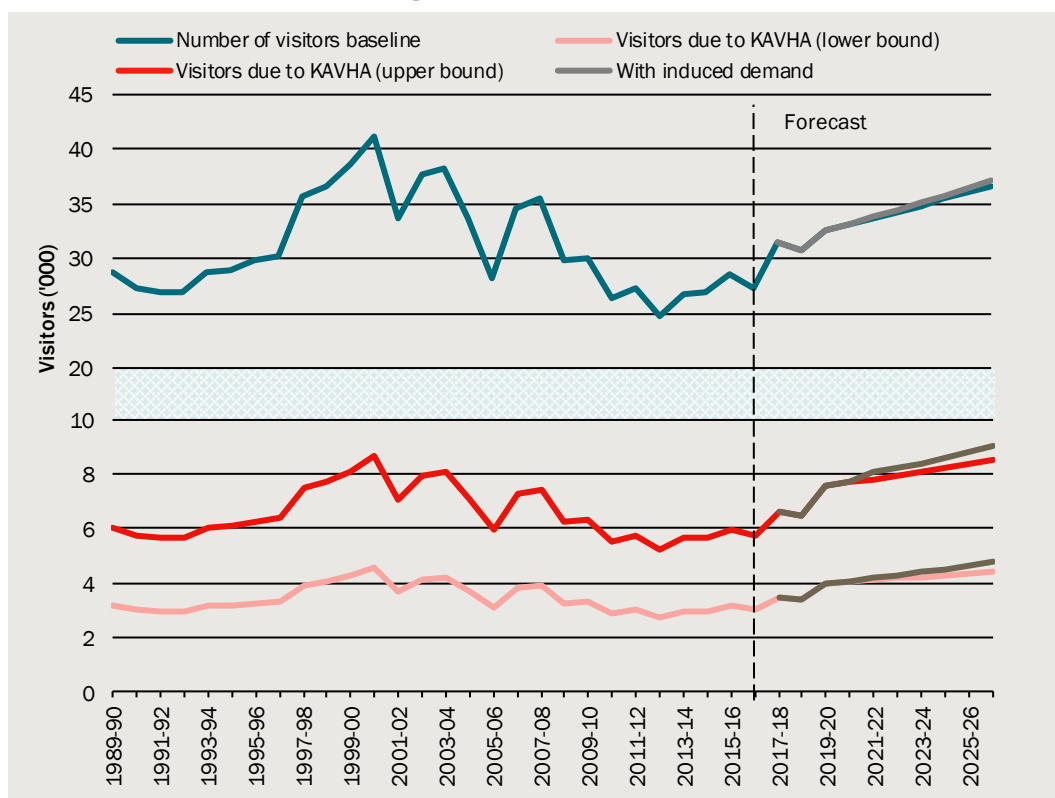
### *Determining revenue projections for the KAVHA Visitor Pass*

The revenue projections for the KAVHA Visitor Pass are largely determined by the price of the pass, and the number of visitors to Norfolk Island purchasing the pass. A complexity arises in that the reinvested pass revenue is assumed to improve the visitor experience, which will attract more visitors to Norfolk Island, which in turn will lead to greater revenue from the KAVHA Visitor Pass.

In projecting the KAVHA Visitor Pass revenue, the following assumptions were made:

- the indicative price structure (see table 5.2 and surrounding text)
- forecast visitor numbers over the 2017-18 to 2026-27 period factoring in induced demand (due to both improved conservation and visitor experience, see chart 5.3)
- the share of general pass sales reflecting 50 per cent at concession price, 40 per cent adult and 10 per cent child
- the sale of general Visitor Passes reflecting:
  - 60 per cent purchased directly from KAVHA (no commission; 100 per cent of fee retained by KAVHA)
  - 15 per cent purchased via travel agent/hotel/Visitor Information Centre (for which 10 per cent commission is payable; 90 per cent of fee to KAVHA)
  - 25 per cent purchased via inbound/wholesale tour operators (for which 20 per cent commission is payable; 80 per cent of fee to KAVHA)
- the bulk of the revenues not retained by KAVHA (reflected in a commission) is likely to be retained by local businesses on Norfolk Island, providing a new revenue source.

### 5.3 Visitor experience spending and induced demand



Note: The number of visitors to Norfolk Island in the baseline includes induced demand brought about by the increase in conservation funding/expenditure to \$1.3 million per annum in 2017-18 and following years.

Data source: CIE.

The projected revenues from the KAVHA Visitor Pass sales are shown in table 5.4.

#### 5.4 Revenue estimates for the KAVHA Visitor Pass

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Standard Visitor Pass	492	502	540	578	619	663	711	762
Cruise Visitor Pass	54	54	57	60	63	66	70	73
Total	546	556	597	638	682	730	781	835
Retained by KAVHA	514	523	562	600	642	687	734	786
Retained by distributors	32	33	35	38	40	43	46	50

Source: CIE.

#### *Economic impact of an improved visitor experience*

Table 5.5 reports the estimated economic impacts of using the revenue raised through the Visitor Pass to improve the KAVHA visitor experience. (Table 5.5 also reports the modelling results from the Trend and Basecase scenarios for comparison.) The greater expenditure at the KAVHA site in order to improve the visitor experience (funded through Visitor Pass revenue), combined with the increase in visitors to Norfolk Island due to that improved visitor experience, sees real GTP being some \$3 million higher in 2026-27 than the greater conservation funding (Basecase) scenario, and \$7 million higher than the Trend scenario.

#### 5.5 Economic contribution of an improved visitor experience (real 2015-16 \$ terms)

Metric	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Continuation of current arrangements (Trend scenario)</b>										
GTP	77	78	79	81	82	84	85	87	88	90
Wages	36	37	38	38	39	40	40	41	42	42
Con.	48	49	50	51	52	52	53	54	55	56
<b>Greater conservation spending (Basecase scenario)</b>										
GTP	78	80	83	84	86	87	89	90	92	94
Wages	37	38	39	40	41	41	42	43	44	44
Con.	49	50	52	53	54	55	56	57	58	59
<b>Visitor experience spending (Visitor Pass scenario)</b>										
GTP	78	80	84	85	87	89	91	93	95	97
Wages	37	38	40	41	42	42	43	44	45	46
Con.	49	50	52	53	55	56	57	58	59	61

Source: Norfolk Economic model simulations.

The above modelling is based on improvements resulting from increase in visitor experience spend, but it is recognised that there could be other KAVHA-specific

interventions that might help drive ‘new’ (albeit marginal) visitor traffic to Norfolk Island. For example:

- the introduction of boutique accommodation at KAVHA could generate interest from the travel industry and media, and enable Norfolk Island to tap new markets; however, the impact of this alone in attracting more overall arrivals is likely to be marginal simply because of scale
- investing in the site-specific promotion of KAVHA in source markets (for example, through cross-promotional opportunities with the Australia Convict Sites), might have a positive, but arguably minor influence in driving *additional* ‘convict heritage enthusiast’ traffic to Norfolk Island, as most will likely be familiar with Norfolk Island and have considered or made a decision to travel or not travel.

There is insufficient data to model these example scenarios, and their influence on growing visitor numbers to Norfolk Island is expected to be low, but they are noted nonetheless.

### ***Increasing per person spend at KAVHA***

The second option for enhancing KAVHA’s contribution to the Norfolk Island economy — increasing per person visitor spend on site — can be achieved through a combination of:

- 1 improving the KAVHA visitor experience, which can extend the length of time spent on site, and also, as discussed above, stimulate growth in visitor numbers (both scenarios can lead to an increase in overall expenditure if there are spending opportunities)
- 2 applying an entry fee that reflects the market value of the visitor experience, and as introduced above, as a means to fund visitor experience enhancements
- 3 providing commercial opportunities for businesses to operate visitor experience products and services on site that generate revenue for KAVHA and local businesses.

A range of revenue-generating ideas have been raised over the years, including those documented in the *KAVHA Heritage Management Plan* and draft *Concept Plan for a Master Plan*. This section draws on such previous work, as well as recent stakeholder consultations, to document key findings around commercial opportunities.

### ***Providing new commercial opportunities***

Enabling new visitor experiences — that respond to market demand — to be established at KAVHA by local businesses will stimulate visitors to spend more time and money at the site. Under commercial partnerships, this provides revenue opportunities for both KAVHA and the partner businesses, thereby supporting local economic development.

The following are a range of commercial opportunities suggested for development at the KAVHA site. Whether these products are developed and delivered by KAVHA — similar to the Port Arthur Historic Site model — or by commercial operators via a



licensing agreement — similar to some National Park models — or a combination of both options, is a matter for consideration by the governing authority.

#### *Developing accommodation in existing (but upgraded) structures*

Stakeholder-generated ideas for accommodation range from a small to medium size boutique hotel or dormitory accommodation in the Military Barracks, to bed and breakfast or self-contained accommodation in the properties along Quality Row. There are early indications of market potential to develop accommodation that appropriately reflects the site's heritage at a high-quality (but not necessarily luxury) standard, but a number of steps are required before determining whether this is a viable revenue opportunity for KAVHA.

- Undertake a detailed market demand assessment to identify the scale and type of accommodation that will best meet market gaps/opportunities. This will need to identify whether market potential lies in B&Bs, self-contained residences, a serviced boutique hotel, or dorm-style accommodation, as well as expectations about the style, standard and price-point of accommodation that would attract guests.
- Identify buildings that might meet market demand findings, and determine whether any heritage building implications or known issues preclude them from further consideration and whether their potential for development into accommodation should be explored.
- Undertake preliminary research amongst investors in similar heritage accommodation (for example, Brickendon and Woolmers Estate, Accor Hotels at Quarantine Station Sydney, Sydney Harbour Federation Trust on Cockatoo Island) to canvas insights on management and operations before taking any decision to proceed with a feasibility study.
- Undertake preliminary research on potential investors in a public private partnership for an accommodation offer in KAVHA, before taking any decision to proceed.
- Develop a shortlist of preferred options for a feasibility study and prepare a business case, including operating options.
- Determine terms and conditions of commercial use if to be managed by an external operator.

#### *Developing food and beverage outlets*

The addition of a food truck, café and/or restaurant would not only improve the overall appeal of the site and provide more reasons for visitors to stay longer/return, but would also directly generate visitor revenue for the operator, be it KAVHA or other if under a commercial arrangement. A number of existing buildings have been proposed by stakeholders as possible café/restaurant locations, including the Pier Store, REO, Quality Row houses, Surgeons Quarters and Government House. New/redeveloped sites have also been proposed (for example, the Salt House).

The nature of any food and beverage outlet at KAVHA will be driven by the financial viability of the various possible operating options. Clearly, turnover must be sufficient to cover costs and earn an appropriate return to (any) investment and entrepreneurial endeavour. In basic terms:

- turnover — will be a function of the number of people going to KAVHA and the share of those tourists who become patrons at the café, and the (average) spend per café patron
- costs — will be a function of the number of days the café is open and hours open per day, the number of staff on at any one time, cost of inputs etc, fit-out or construction costs, commercial arrangements with the KAVHA governing authority (for example, whether the café is owned and operated by KAVHA or tendered out to a private sector operator, and if the latter, percentage of turnover going to KAVHA, fixed payment to KAVHA etc).

Cafés at several other Australian Convict Sites suggest mixed results in terms of converting site visitors into café patrons. Fremantle Prison and Hyde Park Barracks report that around 10 per cent of site visitors become patrons of the café. The 10 per cent conversion rate is probably lower than could be expected at KAVHA due to the absence of other food and beverage venues in the Kingston area. The café at the PAHS, which would more closely reflect the situation at KAVHA in terms of proximity to other food and beverage providers, achieves a conversion rate of around 50 per cent.

With an estimated 24 500 tourists visiting KAVHA in 2017-18, these conversion rates would see between 7 (10 per cent conversion rate) and 35 (50 per cent conversion rate) patrons attending a KAVHA café (on the average day). There is also the potential for Norfolk Island residents and people working locally to visit the café, and for visitors to return to KAVHA numerous times (these possibilities have been overlooked).

Fremantle Prison and Hyde Park Barracks report an average spend of \$15–\$20 per café patron, and \$10–15 per patron in the case of PAHS.

Table 5.6 shows potential annual turnover at a KAVHA café under various patron number and average spend profiles.

## 5.6 Potential turnover at a KAVHA café

Café conversion rate	Number patrons	Average spend per café patron				
		\$5	\$10	\$15	\$20	\$25
Per cent	People	\$	\$	\$	\$	\$
10	2 451	12 253	24 506	36 759	49 012	61 265
25	6 126	30 632	61 265	91 897	122 530	153 162
50	12 253	61 265	122 530	183 795	245 060	306 324
75	18 379	91 897	183 795	275 692	367 589	459 487
100	24 506	122 530	245 060	367 589	490 119	612 649

Source: CIE.

The turnover required by a KAVHA café is difficult to determine, as there are numerous factors affecting the running costs and which cannot be determined beforehand.

However, some indication of required turnover can be arrived at using the ‘thirds approach’ rule of thumb, which sees one third of turnover being used to pay for labour, one third to cover production inputs, and one third being the return to investment and entrepreneurial endeavour. If labour costs \$20 per hour, and the café was open 360 days per year and 8 hours per day (with 30 minutes required before opening and after closing

for set-up/close down etc), and with only the one staff member working, then the required turnover would be around \$195 000 per year.

With an assumed average spend of \$10–\$15 per café patron (replicating the PAHS experience), around 75 per cent of visitors to KAVHA would need to go to the café for it to be financially viable.

There are obviously many uncertainties behind the turnover and required turnover calculations. Determining viable options for a café/restaurant would require a detailed feasibility study of a shortlist of venues, patronage, as well as formal commercial use terms and conditions.

#### *Encouraging new attractions/visitor experiences to establish on site*

Inviting new attractions, culture-based experiences or other tourism-related businesses (for example, art galleries, local markets, cultural centres) to establish on site under a commercial arrangement would generate revenue from visitors for both the operating business (from sales) and KAVHA (from lease arrangements). This would however require the identification of suitable venues and investment in upgrades to make them suitable for lease.

#### *Developing new tours and visitor experiences*

New tours and experiences could be developed in response to market demand by KAVHA or through another operator under a commercial arrangement. There is evidence that exclusive experiences, such as behind-the-scenes tours, archaeological tours/activities, special dining experiences etc attract a premium price. KAVHA is not currently tapping into this revenue opportunity.

#### *Optimising the special event market*

KAVHA hosts many special events; from community events (free to the public), to events that are commercially operated, and private events. The opportunities from this market could be further explored to identify revenue potential from existing/new event-related opportunities.

#### *Introducing a Commercial Use Policy*

The above commercial options require a KAVHA Commercial Use Policy.

Although stakeholder consultations have indicated significant resistance to the idea of ‘commercialising’ some activities at the KAVHA site, conversely, they highlighted strong opinions that a more commercial approach to managing the site is needed to:

- ensure businesses that benefit from the site, such as tour operators, food and beverage providers, or event organisers, pay a fair contribution and adhere to a code of conduct
- facilitate tourist contributions to the attraction that they would expect to pay elsewhere
- encourage new and better products and services on site that can be enjoyed by both locals and tourists.

There is an urgent need for an up to date Commercial Use Policy for KAVHA, which would guide decisions around all commercial activity, including tour operations, events, new business opportunities, and other activity with commercial purpose (for example, photography and filming). Once such a policy was in place, decisions could be taken by the prevailing governing authority about which opportunities amongst the many ideas raised over the years, should be explored further. Appendix B features a summary of relevant insights from other sites in Australia regarding their Commercial Use policy, with a focus on operating tours, food outlets, or special events on site.

### *Economic impact of improved commercial opportunities*

The commercial opportunities identified above have the potential to see visitors to KAVHA increasing their (per person) expenditure. The extent of any increase in expenditure is however unknown, as this will depend on the commercial opportunities availed of and how visitors respond.

Some stylised modelling simulations have been undertaken to show the economic impact of increased visitor expenditure. Table 5.7 shows the estimated economic impacts of a 5, 10 and 20 per cent increase in total visitor expenditure in year 2019-20 and onwards (above that which was estimated to occur under the Visitor Pass scenario). Broadly speaking, a 1 per cent increase in total visitor spend equates to an around 1 per cent increase in GTP.

### **5.7 Economic contribution of greater visitor expenditure (real 2015-16 \$ terms)**

Metric	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Increased visitor spend (5%)</b>										
GTP	78	80	88	89	92	93	95	97	99	101
Wages	37	38	42	43	44	44	45	46	47	48
Con.	49	50	55	56	57	59	60	61	62	63
<b>Increased visitor spend (10%)</b>										
GTP	78	80	92	94	96	98	100	102	104	106
Wages	37	38	44	45	46	47	47	48	49	50
Con.	49	50	58	59	60	61	62	64	65	66
<b>Increased visitor spend (20%)</b>										
GTP	78	80	100	102	105	106	109	111	113	115
Wages	37	38	48	49	50	51	52	53	54	55
Con.	49	50	63	64	65	67	68	69	71	72

Source: Norfolk Island Economic Model simulations.

## 6 *KAVHA governance arrangements*

KAVHA is a large site with complex issues relating to its governance. At present, there is no single body with governance authority over KAVHA. Rather, a number of bodies have responsibilities over different aspects of site management. For example, while the Department of Infrastructure and Regional Development has decision-making authority over conservation issues, the works crew is employed by the Norfolk Island Regional Council and not DIRD. The previous and current governance arrangements have not allowed for and obstructed appropriate management of the site.

There is broad consensus among stakeholders that addressing the issues faced by KAVHA necessitates a change in governance. This is partly motivated by observing the successful and effective governance arrangements for the Port Arthur Historic Site. A number of superior governance options exist. Establishing a statutory body with decision-making authority over KAVHA could enable a number of pressing issues to be addressed. However, such an authority may not be necessary if funding is provided only for conservation at KAVHA, and not for enhancements to the visitor experience.

### *Previous governance arrangements*

A non-legislative KAVHA authority was established under a Memorandum of Understanding (MOU) between the Norfolk Island Administration and the Commonwealth Government in 1989; with the MOU being revised in 1994. The MOU has no legislative basis.

These arrangements were reviewed in 2009 by the Attorney-General's Department.<sup>31</sup> The review identified significant issues with KAVHA's management, including an outdated MOU, a limited Advisory Board, and no cohesive entity managing the site.<sup>32</sup> However, since this review the governance arrangements for KAVHA have remained largely the same, and these significant issues still remain.

The 1989 MOU developed a cost-sharing formula between the Commonwealth and the Norfolk Island Administration. However, the cost sharing formula appears not to have been followed. Rather, the annual funding of around \$600 000 from the Commonwealth

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<sup>31</sup> Attorney-General's Department, 2009, *Kingston and Arthurs Vale Historic Area: Governance review*, available at:  
<https://www.ag.gov.au/Consultations/Documents/KingstonandArthur%27sValeHistoricAreaGovernanceReview/KAVHA%20Review%20report.pdf>

<sup>32</sup> Attorney-General's Department, 2009, *Kingston and Arthurs Vale Historic Area: Governance review*, p.6.

and \$300 000 from the Norfolk Island Administration appear to be based on funding estimates for the original works program (devised around 1983) and indexed over time.<sup>33</sup>

Table 6.1 below shows the KAVHA cost sharing formula agreed to under the 1989 MOU.

### 6.1 KAVHA cost-sharing formula under Memorandum of Understanding

Works in KAVHA	Commonwealth Government	Norfolk Island Government
	Per cent	Per cent
Repairs and maintenance of restored buildings and structures	100	0
New stabilisation works and Management Board costs	50	50
Interpretative works	33	67
Day-to-day maintenance of Area, maintenance costs of interpretative works and tourist facilities	0	100

Source: Attorney-General's Department 2009, *Kingston and Arthurs Vale Historic Area: Governance review*, p.97.

### *Current governance arrangements*

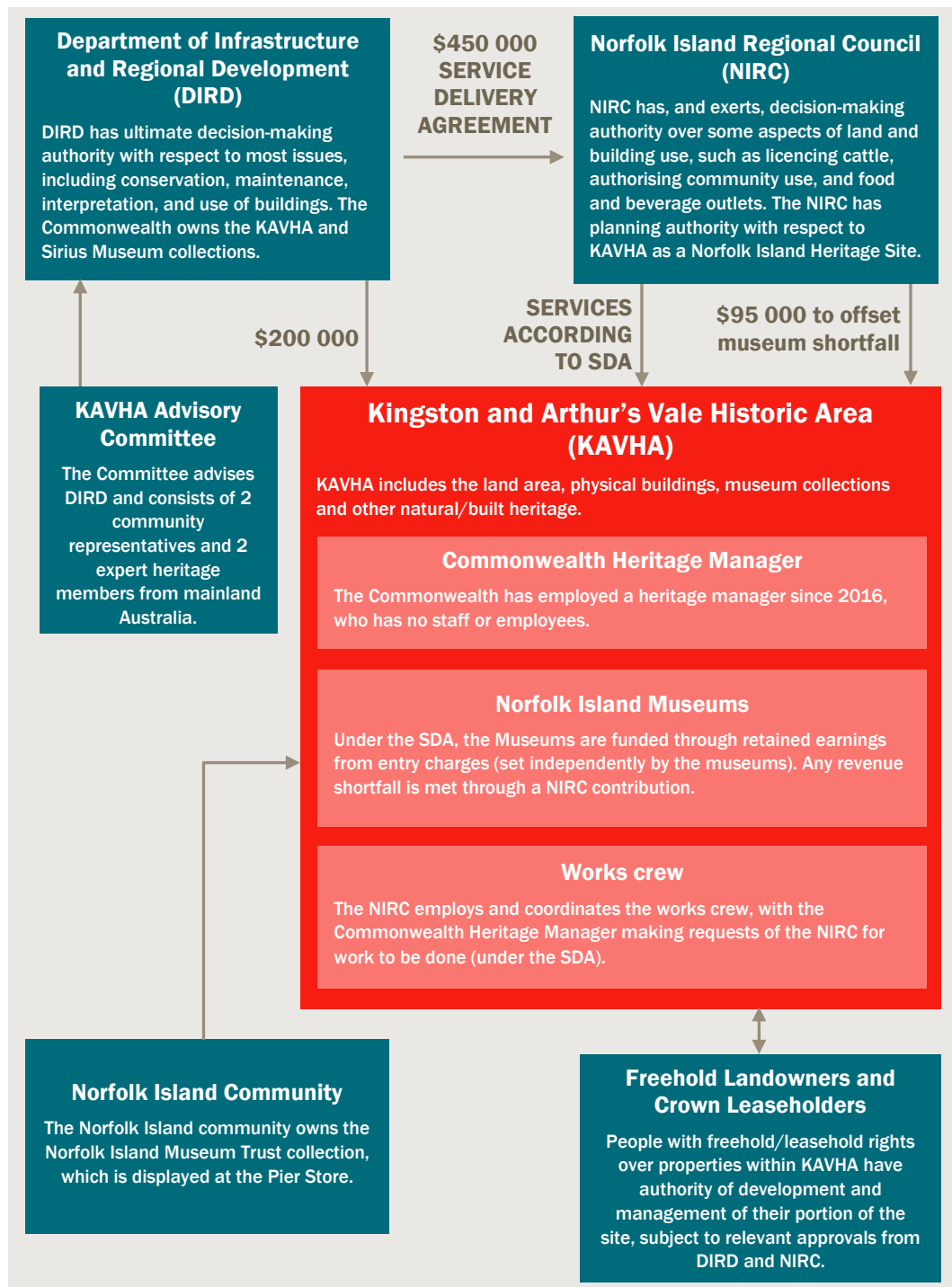
Figure 6.2 shows the different bodies that are involved in the current management of KAVHA, their respective responsibilities and funding flows between them in 2016-17.

There is no single piece of guidance or legislation that establishes these areas of authority. In some sense, the authority of the Commonwealth to make decisions about KAVHA extends to the limits of authority granted by the Australian Constitution and the Service Delivery Agreement (SDA); to the extent the SDA limits Commonwealth power over matters the SDA has regard to.

Thus, the view of authority portrayed in figure 6.2 is the outcome of consultations with various stakeholders and an evaluation of which areas of KAVHA management have been within the scope of their decisions. That is, the current arrangement has been institutionalised, rather than been defined by legal authority.

<sup>33</sup> Attorney-General's Department 2009, *Kingston and Arthurs Vale Historic Area: Governance review*, p.41.

## 6.2 Important KAVHA bodies



Source: CIE.

### *Difficulties created by the current governance arrangements*

There is no single management body with overarching responsibility for KAVHA. This creates difficulties for the use and management of the site. Box 6.3 summarises the variety of difficulties that are created by the current management environment.



### 6.3 Limitations with the current KAVHA governance structure

Area of management	Impacts caused by ineffective governance
Conservation and preservation	<p>It is hard to ensure that the site is being conserved appropriately because responsibility is not consolidated in one body. Problems that have arisen include the following.</p> <ul style="list-style-type: none"> <li>■ Reeds have been introduced to the Watermill Creek channel in an attempt to turn it into a wetland environment in order to attract birdlife. This has negative impacts for the buildings and site and historic engineering works, including causing damage to the bridge near the Sirius Museum.</li> <li>■ Buildings have humidity problems, which threatens the integrity of the museum collections.</li> <li>■ Some decisions have been made by people who may lack appropriate training. For example, the NIRC, which manages the KAVHA works crew, may need to make decisions about the relative merits of requests for work by the Commonwealth Heritage Manager and responsibilities/priorities of the works crew over other council matters.</li> <li>■ The KAVHA Advisory Committee is only advisory in nature and does not have authority nor a structure to work through, so it can sometimes take considerable time for things to flow from advice to action.</li> </ul> <p>These and other preservation issues generally arise because of a lack of funding and staff. The Commonwealth Heritage Manager has no staff or employees.</p>
Works crew	<p>The Commonwealth Heritage Manager, despite being the primary person responsible for conservation-related decision making, does not have direct control over the works crew. The Works Crew are employed by the NIRC.</p> <p>There has been a loss of skills in the works crew. The works crew was historically perceived as being highly skilled both with regard to trades and preservation skills. However, retirement of some crew members, the changes in Norfolk Island governance, and a breakdown in communication between affected works crew members and DIRD/NIRC has led to a loss of skills.</p> <p>Because the works crew is not reporting to a single KAVHA body, it is hard to ensure/achieve sufficient skills and knowledge transfer to the next generation of works crew.</p>
Visitor experience	<p>Any revenue generated on-site cannot be retained by KAVHA, and must be returned to consolidated revenue (of the Commonwealth Treasury or Norfolk Island Regional Council). This does not allow for visitor charges to be levied and revenue retained to fund spending on improving the visitor experience.</p> <p>The lack of a cohesive governance structure makes it difficult to address the following contentious management issues that can affect the visitor experience.</p> <ul style="list-style-type: none"> <li>■ The cows on-site cause some damage to the site buildings, waterway and landscape. Stakeholder consultations indicated that the number of cows on-site exceeded the carrying capacity of certain areas of KAVHA. However, the grazing cows may reduce lawn-mowing costs.</li> <li>■ Locals and visitors alike park in many locations on-site, and tour buses often park on top of First Settlement ruins near Kingston Pier. The presence of cars may interfere with tourists taking photos and their immersion in experiencing the site and history. However, locals have an ongoing expectation of unrestricted parking at the site.</li> </ul> <p>A cohesive management authority would be best placed to address these issues.</p> <p>One exception to the issue of revenue being kept within the organisation relates to Norfolk Island Museum(s). The Museum independently decides on its ticket prices and uses its revenue to fund its activities on a cost-recovery basis (per the Service Delivery Agreement). In practice, however, the Museum has not been able to fully recover costs, with the shortfall funded by NIRC (and hence the wider Norfolk Island community).</p>

Area of management	Impacts caused by ineffective governance
Approvals for commercial and other activities on-site	<p>A number of proposals regarding commercial activity on-site or other uses have been hindered, or there is a perception among stakeholders that getting uses appropriately approved is overly difficult.</p> <ul style="list-style-type: none"> <li>■ Changing the use of the buildings on Quality Row into accommodation has been considered among certain stakeholders. Many believe that doing so would be difficult both because of conservation issues and because there is not a clear governance structure with decision-making authority with regards to this issue. It appears that decision-making authority in this instance rests entirely with DIRD, however the policy for determining use of the building is not transparent.</li> <li>■ Community events held within the KAVHA area, including use of site structures, are subject to NIRC approval, which can be granted without input from the Commonwealth Heritage Manager.</li> <li>■ The NIRC Conservator of Reserves can (and does) grant approvals for activities in KAVHA without reference to the Commonwealth Heritage Manager.</li> </ul>
Dealings with freehold and leasehold land	<p>Freehold and leasehold landowners may face difficulties in getting changes to their properties approved by Norfolk Island Regional Council or DIRD. On the other hand, there may be insufficient oversight regarding these changes to properties which form part of the World Heritage Listing despite being under private control. Dealing with freehold and leasehold land are expected to become more complex as usage of the site increases over time. Given that current site visitation is low relative to other Australian Convict Sites of similar scale (such as Port Arthur Historic Site), challenges in dealings with landowners do not appear to be frequent.</p>

Source: CIE.

### *Potential governance arrangements*

Potential governance arrangements for KAVHA should be guided by principles of good governance. Some aspects of governance arrangements that would promote effective management of KAVHA are described below.

- One KAVHA — there should be a single point of authority or entity with overall responsibility for KAVHA's management and which approves all site activities and events.
- Consultative and involving participation from a wide range of stakeholders — this participation would not need to be direct (that is, with members being on a statutory board), but could be through Advisory Committees reporting to board members.
- Expert knowledge — stakeholder consultations suggested that heritage conservation, tourism promotion, financial and governance expertise would be necessary to ensure good decision-making. Stakeholders also suggested that board appointees should not be current/recently elected government officials, as this would overly politicise the governance authority and compromise the reality or perception of independence.
- Transparency — decision-making should be clearly documented and justifiable. Stakeholder consultations indicated concern at a lack of transparency under current arrangements.
- Greater visibility — the current governance structures are opaque and not visible to many stakeholders. It is often unclear from which body stakeholders require approval for commercial activities on-site, or who has decision-making and funding authority for conservation works.

- Appropriate scale — governance and administrative demands of KAVHA should be commensurate with the scale of KAVHA's operations.

If a single Commonwealth government body is to be responsible for the governance of KAVHA, then there are a number of options as to the type of body. Appendix C describes the options for governance at a high level and assesses their suitability for management of KAVHA.

### *Future governance arrangements for KAVHA*

The governance structure best suited to KAVHA going forward is largely dependent on stakeholders' ambitions for the site.

If future expenditure at KAVHA is to be limited to site conservation and interpretation, at either the (minimum) standard required under World Heritage listing obligations, or at the (higher) standard that is consistent with Australia's desired image for heritage conservation, and such funding is met solely by the Australian Government, then KAVHA could probably 'get by' with minor amendments to the current governance arrangements.

As was noted in box 6.3, the current governance arrangements have many limitations and are a long way from ideal. Perhaps the greatest limitation is that the 'success' of KAVHA is purely dependent on the personalities and interpersonal skills of the current Commonwealth Heritage Manager and key people within the NIRC. Turnover of personnel, or a change to the current working relationship, clearly poses a risk to site conservation going forward.

If only site conservation and interpretation is being contemplated, then, at a minimum, the following broad amendments to the current governance arrangements are needed:

- the KAVHA works crew are employed by the Australian Commonwealth and report to the Commonwealth Heritage Manager at KAVHA<sup>34</sup>
- KAVHA to have responsibility for the various museum collections (noting the relationship between KAVHA and the Norfolk Island Museum Trust collection is to be decided), in effect giving rise to a 'one KAVHA' type arrangement
- approval is needed from the Commonwealth Heritage Manager for all on-site activities that have the potential to impact site conservation and interpretation, with input being sought from the Commonwealth Heritage Manager on other on-island activities that have the potential to impact KAVHA.

The required governance arrangements become more complicated if KAVHA is to generate and retain revenue for reinvesting in the site and further improve conservation and the visitor experience. If the KAVHA site is to generate and retain revenue, then a

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<sup>34</sup> One source of complexity in making this change is that the current Enterprise Agreement for the Department of Infrastructure and Regional Development does not include appropriate job classifications to enable the employment of the works crew. There may be opportunities for DIRD to revise/amend the current Enterprise Agreement, which is preventing the direct employment of specialist trades staff within DIRD.

government business enterprise (GBE), statutory trust or corporate entity such as the Director of National Parks<sup>35</sup> which is able to collect, retain and invest revenue is needed.

Whatever governance structure is used — whether it is a state or Commonwealth GBE, or a statutory authority/corporate entity such as the Director of National Parks — rapid changes to visitation or cost recovery of the site are not likely. PAHSMA was created in 1987 and required over 30 years to become as successful as it is today. Stakeholder consultation suggested that opportunities exist for a formal mentoring relationship between KAVHA and PAHSMA or the Australian National Maritime Museum (informal mentoring is already ongoing in some areas). A formal mentoring arrangement could potentially allow for a faster transition to effective governance and greater cost recovery at KAVHA than was the case at the Port Arthur Historic Site.

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<sup>35</sup> See *Environment Protection and Biodiversity Conservation Act 1999 [Cth]* Part 19 s514.

## 7 *Challenges facing Norfolk Island tourism*

This study presents the view that:

- investing in the visitor experience at the KAVHA site may add to the overall appeal of Norfolk Island, but on its own will not be sufficient to drive a significant increase in overall visitor traffic to the island and economic activity
- increasing tourist arrivals to Norfolk Island will take a refocused, destination-wide, multi-stakeholder commitment to overcome or work around challenges, and achieve a shared objective of improving the wider tourism offer.

The challenges facing the Norfolk Island tourism industry have been well documented over many years, yet despite the tourism plans and continued efforts, critical barriers remain to growing destination demand. These can be summarised as follows:

- accessibility constraints
- tourism offering constraints
- local infrastructure constraints
- marketing constraints.

If all, or at least most of these constraints could be overcome, tourism demand for Norfolk Island would likely grow. Of course, removing all impediments is an idealistic notion. However it is valuable nonetheless to:

- consider all of these constraints
- investigate the root causes of them
- determine what — if any — solutions might exist to overcome those root causes
- identify which stakeholders have the mandate and will to provide required solutions
- conclude whether there is sufficient destination-wide commitment, to enough solutions, that can address demand barriers and grow the Norfolk Island visitor economy.

Table 7.1 outlines a framework for guiding this process. Whilst it is beyond the scope of this study to undertake such an analysis, the table is populated with preliminary findings about root causes of demand constraints. For example, there is limited tourism development and marketing capacity on island, simply because of the size of population. There is also anecdotal evidence that some tourism businesses simply do not have the will to change, while others do, but face constraints such as lack of access to skilled labour, or financial capital. Further research (such as via an enterprise survey and market demand study) could inform the completion of this analysis and enable stakeholders, including DIRD, to identify areas of investment/reform/support for growing the Norfolk Island visitor economy.

## 7.1 Norfolk Island and tourism growth — a framework for identifying possible root causes and feasible solutions

Barriers to Growing Tourism Demand for Norfolk Island (and degree to which they constrain overall market growth – H/M/L)			Possible Root Causes (Based on preliminary insights; yet to be validated)	Solutions (Examples only; root cause tbd first)
<b>Access</b>	<ul style="list-style-type: none"> <li>Uncompetitive air fares</li> <li>Infrequency of flights</li> </ul>	H H	<ul style="list-style-type: none"> <li>Requires discussion with airlines.</li> <li>Unprofitable route? Why?</li> </ul>	Requires discussion with airlines to identify issue/s & untapped solution/s.
<b>Tourism Offering</b>	<ul style="list-style-type: none"> <li>Uncompetitive destination offer re price, quality and depth (that is, poor value for money).</li> </ul>	H	<ul style="list-style-type: none"> <li>Lack of owner will to invest in upgrades due to:               <ul style="list-style-type: none"> <li>‘the market is the problem’ factor</li> <li>‘waiting to exit’ factor?</li> </ul> </li> <li>Lack of funds available to owners willing to invest in upgrades due to:               <ul style="list-style-type: none"> <li>lack of capital to invest? (why? low profitability? high cost of doing business?)</li> <li>lack of access to finance? (why? what is the supply of/demand for loans? Barriers?)</li> <li>lack of capacity for financial proposals?</li> </ul> </li> <li>Lack of new investment due to:               <ul style="list-style-type: none"> <li>low investment attractiveness of NI (high risk; high cost of doing business; regulatory constraints; no investment promotion; other barriers?)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>To be determined by all stakeholders after root cause analysis completed.</li> <li>Product development or marketing advice/resources support for owners?</li> <li>Regulatory reforms / incentives for investors?</li> <li>Investment promotion campaign?</li> <li>Program with commercial bank to improve financing proposals / increase tourism lending?</li> <li>Like-for-like grant program to stimulate tourism investment.</li> <li>Island-wide tourism accreditation program?</li> <li>Note some constraints (for example, will) cannot be solved by an intervention</li> </ul>
Accommodation	<ul style="list-style-type: none"> <li>Insufficient supply of accommodation to grow market base (that is, quality and size).</li> </ul>	H		
Retail Outlets	<ul style="list-style-type: none"> <li>Lack of shopping options with products that appeal to contemporary travellers</li> <li>Inconsistent and limited opening hours.</li> </ul>	L L		
Restaurants	<ul style="list-style-type: none"> <li>Lack of quality options at peak times.</li> <li>Inconsistent and limited opening hours</li> </ul>	M M	<ul style="list-style-type: none"> <li>Lack of suitably skilled labour due to:               <ul style="list-style-type: none"> <li>lack of local (skilled) labour supply</li> <li>lack of training options</li> </ul> </li> <li>Lack of quality assurance program (tours)</li> </ul>	
Tours	<ul style="list-style-type: none"> <li>Inconsistency of tour experience (isolated cases of quality issues → visitor dissatisfaction → NI brand damage)</li> </ul>	L		
Attractions/Other Experiences	<ul style="list-style-type: none"> <li>Inconsistent availability of (promoted) experiences, for example, adventure, food &amp; wine.</li> </ul>	M		
<b>Local Infrastructure</b>	<ul style="list-style-type: none"> <li>Poor roads</li> <li>Limited and expensive ICT services</li> </ul>	L L	<ul style="list-style-type: none"> <li>Insufficient budget for road maintenance</li> <li>Why? Requires discussion with provider/DIRD</li> </ul>	Requires discussion to identify issue/s & untapped solution/s?
<b>Destination Marketing</b>	<ul style="list-style-type: none"> <li>Weak and confused destination brand</li> <li>Insufficient marketing (volume, nature, consistency of activity/messaging)</li> </ul>	H H	<ul style="list-style-type: none"> <li>Insufficient budget?</li> <li>Confused / changing marketing strategy</li> <li>Limited marketing capacity</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building opportunities for NI tourism staff?</li> <li>Rebranding/new marketing strategy</li> </ul>

Source: CIE.

In the meantime, there are some obvious issues/gaps that DIRD could address or facilitate responses to, which could indirectly contribute to more favourable conditions for strengthening the Norfolk Island visitor economy. These include:

- limited on-island capacity for destination development and marketing, and tourism product development and marketing:
  - arrange for specialist tourism advice to be offered to Norfolk Island Tourism, from Tourism Australia (TA) or via state offices, in the form of a secondment/s (pending NIRC's willingness to accept such support)
  - investigate the opportunity for TA/a state tourism office to offer a tourism industry workshop/s on island for product development and marketing capacity building (pending industry's willingness to accept such support)
- limited marketing budget
  - facilitate better profiling of Norfolk Island/KAVHA on the Tourism Australia and Parks Australia websites
  - initiate cross promotional opportunities with other convict heritage sites
- lack of Norfolk Island visitor arrival statistics
  - work with Border Force and NIRC to remedy the loss of visitor arrival data collection, which is now limiting the local industry in its marketing efforts and creating animosity
- lack of understanding of the root causes of tourism demand constraints
  - consider facilitating a tourism sector assessment of constraints and opportunities via tourism enterprise surveys and market demand analysis, with a view to stakeholder-wide plan of action (pending the industry's willingness to do this, and the leadership by the organisation with the mandate to this).

Beyond these remedial suggestions, a holistic approach is critical for any meaningful change to tourist numbers and revenues on Norfolk Island. Isolated interventions that fail to address the root causes of binding constraints or interdependent barriers, could be a wasted investment. For example, the Australian Government could offer marketing support in the form of funds, but that may not generate more tourists if the marketing strategy is not strengthened or if the available product does not underpin the brand promise. Alternatively, it could offer marketing or product development support in the form of expertise, but there may not be the will to take external advice. Or, the Australian Government could offer investment promotion support, but there may be overwhelming binding constraints to investment.

Interventions need to be designed to solve problems, and those problems need better definition.



## 8 Conclusions

Tourism underpins economic activity on Norfolk Island, and while KAVHA is an important part of the wider tourism offering, KAVHA itself accounts for around 10 per cent — or some \$6.3 million — of island GTP. The low contribution of KAVHA to economic activity reflects the fact that a small proportion (16 per cent) of tourist visits to Norfolk Island occur solely because of KAVHA.

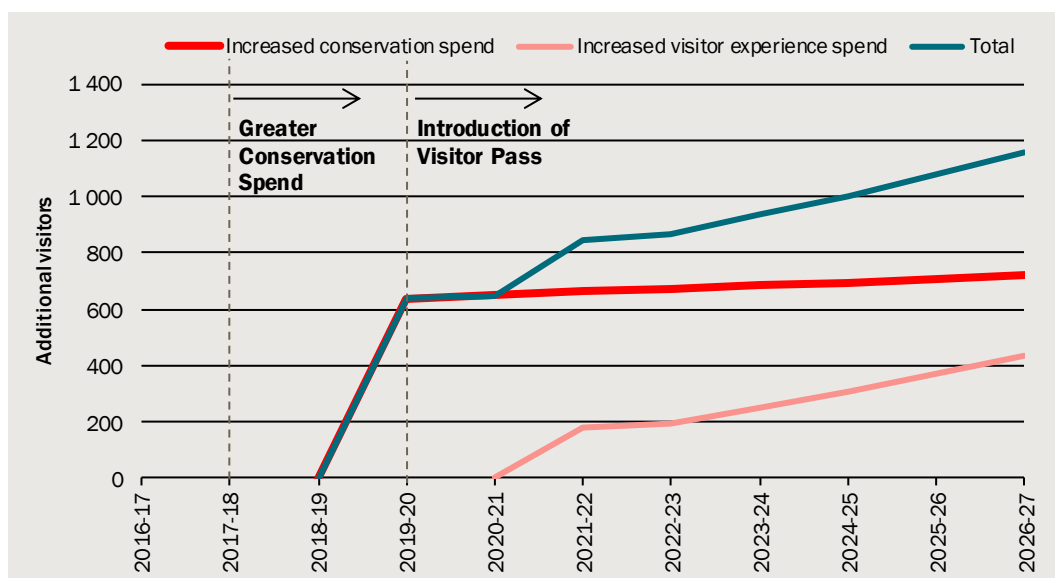
### *KAVHA as a source of economic activity*

For a number of years, KAVHA has been underfunded. This has led to a site conservation program that is only treading water, with interpretation being virtually non-existent. KAVHA is not of a comparable standard to the other Australian Convict Sites on the serial World Heritage Listing. While a detailed costing of required site maintenance and interpretation services has not been prepared, extrapolation of previous maintenance budgets suggests conservation funding in the order of \$1.3 million per year (in real terms) would be appropriate. Any required capital expenditure (capex) would be in addition to the conservation funding.

The increase in conservation and interpretation funding is expected to improve the quality/standard of the conservation effort, which in turn could be expected to see KAVHA attracting additional tourists to Norfolk Island. If the findings from a 2009 study into the relationship between conservation funding and visitor numbers at the Port Arthur Historic Site apply equally to KAVHA, then raising the conservation funding at KAVHA from the current \$650 000 to \$1.3 million could see up to another 640–720 tourists visiting Norfolk Island each year. However, this impact is highly uncertain.

Similarly, an improved visitor experience, funded through a KAVHA Visitor Pass, could see an additional 180–440 people visiting Norfolk Island each year. Chart 8.1 shows the estimated impact of greater conservation spend and visitor experience spend on visitor numbers to Norfolk Island. Improved commercial opportunities at the KAVHA site have the potential to increase spending per tourist, which would provide another source of economic stimulus.

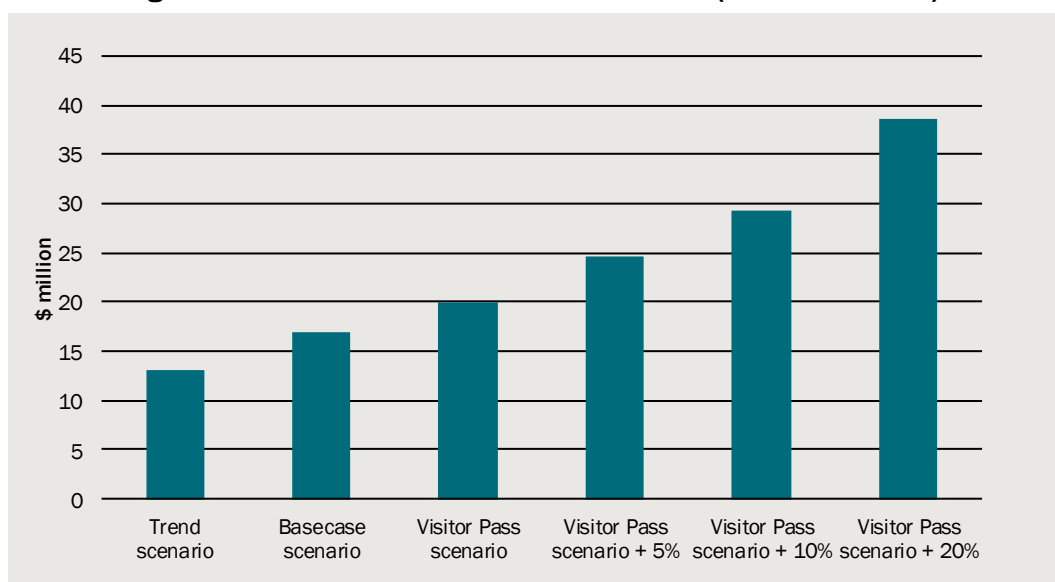
### 8.1 Visitor numbers with improved conservation and visitor experience at KAVHA



Data source: CIE.

Greater expenditure at the KAVHA site, plus an increase in tourist numbers and spend per tourist will combine to see Norfolk Island's GTP being higher than otherwise. As can be seen from chart 8.2, economic modelling suggests that GTP could be anywhere between \$13–\$39 million higher than today by 2026-27, depending on what reforms are implemented.

### 8.2 Change in real GTP between 2017-18 and 2026-27 (2015-16 \$ terms)



Data source: Norfolk Island Economic Model simulations.

### *The Norfolk Island tourism offer*

An increase in tourist numbers and visitor spend is, however, subject to some important caveats.

- There is a need to improve the ‘visitor experience’ at KAVHA for it to be positioned at the level expected from a tourist attraction with World Heritage status.
- The visitor experience can be improved through a number of measures, including:
  - better interpretation
  - better range of offerings (things to see/do, for example, tours, cafés, other attractions)
  - better quality of offerings (especially tours).
- Improving the visitor experience is expected to only marginally contribute to more visitors to Norfolk Island, because in isolation KAVHA has limited influence on visitor numbers:
  - KAVHA is only one reason most tourists travel to Norfolk Island, with 16 per cent of tourists reportedly visiting for KAVHA alone
  - the convict heritage enthusiast market is limited, and changes to KAVHA are unlikely to influence the decision to travel of those already interested in its convict heritage appeal
  - there are many other improvements needed to increase Norfolk Island’s destination appeal, and drive more tourists, including improvements to:
    - ... accessibility
    - ... overall tourism offer (product and services)
    - ... infrastructure
    - ... marketing.
- Whilst beyond the scope of this project, and indeed the mandate of DIRD, it should be noted that the Norfolk Island visitor economy/tourism industry will continue to face barriers to market demand unless all stakeholders collaborate on investing in improving the above ‘pieces of the tourism puzzle’. Current constraints to this include:
  - an apparent lack of will on behalf of some tourism operators
  - lack of capacity (tourism knowledge/skills)
  - lack of capital
  - other barriers (a holistic analysis of barriers, and the root causes, is necessary to properly define the problems and solutions).

### ***Governance arrangements***

All stakeholders consulted during the course of this study suggested that the current governance arrangements were failing KAVHA, and that the governing authority needs to be structured along the lines of a statutory authority or GBE.

The current governance arrangements have numerous limitations. However, whether a complete overhaul of the governance arrangements is needed is largely dependent on stakeholders’ ambitions for the site.

If future expenditure at KAVHA is to be limited to site conservation and interpretation, and such funding is met solely by the Australian Government, then the current governance arrangements would probably suffice with some minor amendments. For

example, having the KAVHA works crew reporting directly to the Commonwealth Heritage Manager, combining KAVHA and the museums under the one umbrella, and having the Commonwealth Heritage Manager being the final decision maker with respect to all activities that have the potential to impact site conservation and interpretation.

However, if KAVHA is to generate, retain, and independently decide where to invest revenue in order to improve conservation and interpretation, then a change of governance arrangements will be required.

### *Timing*

Given the current conservation and interpretation needs at KAVHA, it is suggested that conservation funding be increased as soon as practical. The economic modelling assumed that the conservation spend was increased to \$1.3 million in 2017-18, with the resulting increase in visitor numbers due to the improved conservation occurring two years later.

The timing of the KAVHA Visitor Pass, and the price at which the pass is introduced, is subject to numerous considerations, most notably the tourism industry lead time standard of up to two years between announcement and introduction of new fees/charges. Hence at best, the KAVHA Visitor Pass could not be introduced prior to 2019-20.

This timing would give DIRD two years to establish the revised governance arrangements, develop a Commercial Use Policy for KAVHA, prepare the Visitor Pass (including setting the price, planning logistics and developing materials), identify (costed) options for improving the visitor experience, and communicate the changed arrangements to industry on-island and off-island stakeholders.

## A Stakeholders consulted

The table below identifies the stakeholders consulted during the course of the study.

### A.1 Stakeholders consulted

Name	Position
<b>Australian Convict Sites Steering Committee (AC SSC)</b>	
Brian Prince	Kingston and Arthur's Vale Historic Area
Ian Innes	Hyde Park Barracks
Jane Harrington	Port Arthur Historic Site
Libby Bennett (and staff on-site)	Cockatoo Island Convict Site
Luke Donegan	Fremantle Prison
Richard Archer	Chair, Australian Convict Sites Steering Committee & Woolmers Estate
Roxanne Fea	Old Government House and Domain
Leanne Burrows	Department of Environment and Energy, Assistant Director, Historic Heritage Section
<b>Department of Infrastructure and Regional Development (DIRD)</b>	
Brian Prince	Commonwealth Heritage Manager
Glenda Kidman	General Manager, NI Branch
Simon Pellatt	Flight and visitor information
Vicki Middleton	Executive Director, LGT Division
<b>KAVHA Advisory Committee</b>	
David 'Dids' Evans	Community Member
Duncan Evans	Community Member
Eric Hutchinson	Chair (and NI Administrator)
Kevin Sumption	Expert Member, Director and CEO, Australian National Maritime Museum
Kristal Buckley	Expert member, Lecturer in Cultural Heritage, Deakin University; PAHSMA Board Member
<b>Norfolk Island Regional Council (NIRC)</b>	
Bruce Taylor	Group Manager Services
Janelle Blucher	Heritage Team Leader
Lotta Jackson	General Manager
Robin Adams	Mayor
<b>Other</b>	
Cherri Buffet	President, Norfolk Island Chamber of Commerce
Melissa Ward	(Former) Member of the Norfolk Island Legislative Assembly

Name	Position
Pus Anderson	(Former) KAVHA Works Crew Manager
Various members	Norfolk Island Council of Elders
<b>Port Arthur Historic Site Management Authority</b>	
Anne McVilly	Director, Tourism Operations
Carol Armstrong	Human Resources
Jane Harrington	Director, Conservation and Infrastructure
Jennifer Fitzpatrick	Marketing
Jody Steele	Museums and Collections
Maria Stacey	Visitor Service Manager
Nicky Roberts	Chief Financial Officer
<b>Tourism Sector</b>	
Glen Buffet	General Manager, Norfolk Islands Airlines
Juliette Grant	Burnt Pine Travel
Kerri-Anne and Steve	Governors Lodge, Norfolk Island
Les Quintal	Bauntie Escapes and TradeTravel
Mat Christian	Omniche Holidays
Margaret Christian	Natural History Tours
Michael Mihajlov	Director, Destination Management, Carnival Australia
Rachel Neubauer-Borg	KAVHA Tour Guide
Rael Donde	Accommodation and Tourism Association
Rhys Waldon	Golf Club
Scotty Greenwood	Food truck at Kingston
Jeremy McKessar	Oxley Travel
Tanya Anderson	Norfolk Island Government Tourist Bureau
Trina Shepherd	Account Director, Unique Tourism Collection

Source: CIE.

## *B Considerations for KAVHA policy for commercial use*

### *Background*

KAVHA does not currently have a commercial use policy, although the site is used by tour operators and other entities to deliver products, services and events that generate business revenue. There is a strong sense amongst stakeholders of the need to introduce a commercial policy in the future encompassing, for example, the licensing of tour operators, leasing conditions for business occupiers, and hiring terms for event organisers, as is common practice for other heritage sites. During consultations, several reasons were raised for why a commercial use policy should be introduced to KAVHA, as outlined below.

### *Rationale for Introducing a KAVHA Policy for Commercial Use*

- *Require that businesses utilising KAVHA conduct themselves in a way that upholds the integrity of the site, and the comfort and safety of visitors under their care.* The absence of any ‘code of conduct’ for commercial operators on site means that they can operate in a way that undermines the heritage values, puts the site at risk, or causes discomfort to customers, with no recourse. This is exemplified below in relation to tours. Self-regulation is reportedly not working, calling for the introduction of a formal system.
- *Ensure consistent and high-quality tours of the KAVHA site.* There have been numerous accounts of visitor dissatisfaction with the quality of (some) commercial tours being conducted on site. Complaints relating to tour guide delivery of false/unsubstantiated information under the guise of historical fact, inappropriate expression of political views, and/or poor customer service, have been shared with/by museum staff, tour operators, the information centre, travel agents, and on Trip Advisor. Although this issue is reportedly limited to a small number of guides, it indicates there is insufficient quality control around the integrity of tour information and customer service, resulting in inconsistent, and sometimes disappointing, tours at KAVHA. This indicates the need for quality controls such as tour operator licensing and accreditation.
- *Contribute to the overall market appeal of Norfolk Island through positive KAVHA visitor experiences.* Further to the above point, negative market perceptions about Norfolk Island overall are shaped by poor reviews of individual attractions/experiences. At a time when the local tourism industry is struggling, it is critical to address any sources of visitor dissatisfaction, including the KAVHA tour experience noted above.
- *Ensure that businesses benefiting financially from the KAVHA site make a fair contribution for the privilege.* In the case of venue hire, this contribution may be a fair market price to cover operational costs and share profit. In the case of tour operators, this contribution may be by way of meeting licensing requirements, promoting the



attraction, collecting proposed KAVHA Visitor Pass fees from customers, and agreeing to invest in tour guide training.

- *Ensure that businesses wanting to utilise the KAVHA site operate on a level playing field.* The lack of a commercial policy is reportedly giving unfair advantage to some businesses over others.
- *Adhere to best practice in the use of commercial policies for heritage / protected sites.* Commercial policies, including tour operator permits/licenses, accreditation requirements, and venue hire/lease agreements are now common practices for heritage sites and national parks, for reasons related to protecting site values and assets, safety and security, and fair distribution of revenue generated by the site.

### ***Going forward***

It is recommended that a commercial policy be developed by the KAVHA governing body, with detailed terms and conditions, including fees where appropriate, for:

- licensing tour operators to operate tours onsite
- accrediting tour guides (as a condition of licensing)
- licensing tour operators to deliver special/exclusive visitor experiences
- leasing venues on site for commercial operations (for example, food carts, cafes, accommodation)
- leasing venues/spaces on site for special events (community or private)
- issuing permits for commercial filming and photography.

Designing such a policy is a detailed task that warrants development by the authority/ies that will be responsible for implementing it. Some relevant considerations are noted below.

### ***Considerations***

Drawing on relevant commercial policy models for heritage sites/national parks in Australia, there are a range of approaches that could be considered before determining the preferred approach for KAVHA. For example:

- Port Arthur Historic Site:
  - PAHSMA operates all tours, retail stores, and food and beverage outlets internally, rather than outsourcing or licensing others to operate. However, unlike KAVHA, Port Arthur has the critical mass of tourists to justify a tour program staffed by a pool of 20–30 highly-trained guides, which ensures high quality of the tour product
  - the decision to manage food and beverage outlets was reportedly taken at a challenging time in the site's history when it was difficult to attract commercial operators, but the café and restaurant are reportedly a financial burden to PAHSMA

- PAHSMA publishes venue hire fees and Filming and Photography requirements/fees<sup>36</sup>
- Commonwealth National Parks (for example, Kakadu, Uluru-Kata Tjuta, Norfolk Island): The Parks Australia model includes:
  - requirement of a ‘permit’ for tour operators running routine tours, 1 or 3 year permits available for between \$100 and \$1500 respectively in the Northern Territory (Norfolk Island is free)
  - after 1 year, business accreditation required to obtain permit. This must adhere to Australian Tourism Accreditation Program (ATAP) or recognised bodies such as Eco Tourism Australia. A range of business management quality standards must be met. Cost varies from \$200 to \$2000 per annum depending on business size and program
  - In Kakadu and Uluru-Kata Tjuta, permits require that all guides have undertaken a park-specific knowledge course. This is offered by Charles Darwin University (~18 days at \$300 for Northern Territory residents/\$400 non-residents)
  - requirement of a ‘license’ for operators running non-routine ‘limited or exclusive’ tours, in park dining/food carts, activities at limited access site, after hours tours, use of facilities, camping/accommodation, etc. License agreements/fees are negotiated on a case by case basis and valid for 5 years (more if significant investment by operator). As activities may be limited to one operator, licenses open to a competitive tender process, unless proposed by an ‘early mover’. Terms for fee payment negotiable, and could be based on: percentage of turnover; per head fee; fixed fee; or combination
  - other policies available for commercial photography, research, events, etc.<sup>37</sup>
- NSW National Parks. The NPSW commercial licensing model includes:
  - requirement of a license — called an ‘Eco Pass’ — for commercial recreation and tour operators, which provides access to all (225) National Parks in NSW. Available for: 1 year (\$250); 3 years (\$350 subject to accreditation); 10 years (premium license subject to accreditation and type of activity). There are also competitively allocated licenses for exclusive activities. Licensees do not pay park entry fees, rather a per head amount (\$4.20 day use adults/\$2.10 short stay or concession). Reporting and payments processed quarterly<sup>38</sup>
  - requirement of leasing agreements and fees for private sector to operate businesses (for example, café, accommodation) in parks. Leases are offered via (i) competitive selection process or (ii) direct negotiations for special circumstances. Generally, the

<sup>36</sup> See <http://portarthur.org.au/pahsma/venue-hire/> and <http://portarthur.org.au/pahsma/filming-and-photography/>

<sup>37</sup> More information can be found at <http://www.environment.gov.au/topics/national-parks/parks-australia/permits-licences-and-leases>

<sup>38</sup> More information can be found at <http://www.environment.nsw.gov.au/parksecopass/prospective.htm>

rent on NPWS leases may comprise a base rent plus percentage of turnover. All rents will reflect current market rates<sup>39</sup>

- other policies available for commercial photography, events, other activities.

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<sup>39</sup> Leasing guidelines can be found at <http://www.environment.nsw.gov.au/resources/commercial/150762-property-leasing-guidelines.pdf>

## *C Options for governance of KAVHA*

If a single Commonwealth government body is to be responsible for the governance of KAVHA, then there are a number of options as to the type of body. This appendix describes the characteristics of these options at a high level, and assesses their potential suitability for management of KAVHA.

There are three high-level groupings of bodies, and their functions are described below.

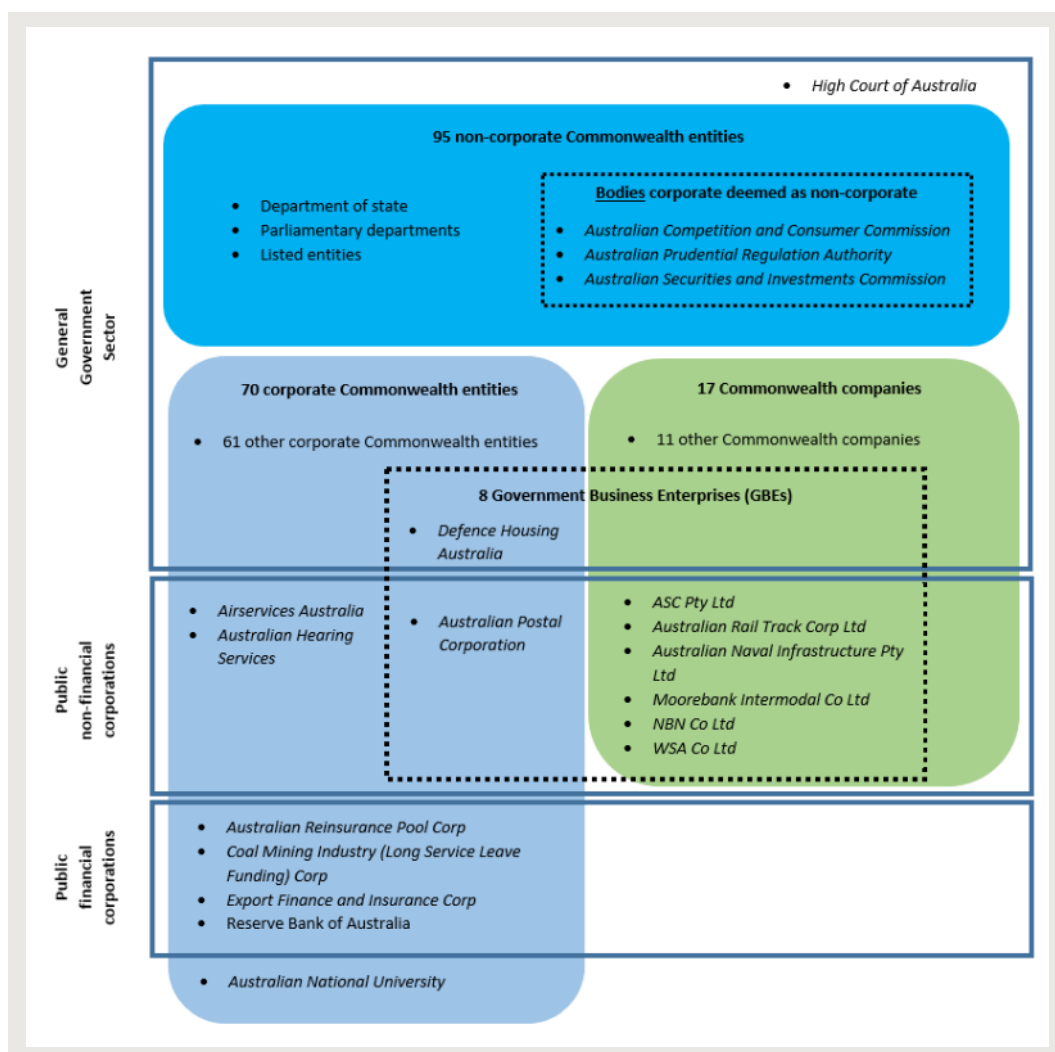
- Non-corporate Commonwealth entities — legally and financially part of the Commonwealth (for example, the Department of Infrastructure and Regional Development).
- Corporate Commonwealth entities — a body corporate with a separate legal personality from the Commonwealth, which can exercise certain rights such as entering into contracts and owning property (for example, The Reserve Bank of Australia).
- Commonwealth companies — companies established by the Commonwealth under the *Corporations Act 2001*, wholly controlled by the Commonwealth (for example, NBN Co. Limited).

There are three additional classifications of these bodies, with Commonwealth public sector being classified as follows:

- General government sector — all government units and non-profit institutions, and mainly financed by government.
- Public financial corporations sector — government-controlled corporations engaged in financial intermediation or provision of auxiliary financial services.
- Public non-financial corporations sector — government-controlled corporations engaged in production of market goods and/or non-financial services.

A GBE may be a corporate Commonwealth entity or a Commonwealth company, whether within the general government sector or the public non-financial corporations sector. Figure C.1 shows the possible Commonwealth governance structures.

## C.1 Governance structures in the Commonwealth public sector



Note: The count of entities shown in the figure is indicative. See [www.finance.gov.au/flipchart](http://www.finance.gov.au/flipchart) for the latest listing of Commonwealth entities and companies.

Data source: Department of Finance (<https://www.finance.gov.au/resource-management/governance/overview/>)

Commonwealth GBEs are generally much larger than KAVHA. Table C.2 shows the annual revenue of Commonwealth GBEs in 2015-16. These are substantially higher than the annual funding of KAVHA, which is currently around \$650 000. This suggests that it may be unsuitable as a governance structure, especially if the administration costs of this structure are higher than the benefits to KAVHA's management that governance structure would provide.

## C.2 Annual revenue of Commonwealth GBEs

Name of GBE	Revenue (2015-16)
	\$million
ASC Pty Ltd (formerly Australian Submarine Corporation)	797
Australia Post	6 562
Defence Housing Australia	1 333

Name of GBE	Revenue (2015-16)
	\$million
Australian Rail Track Corporation	842
Moorebank Intermodal Co	0
NBN Co	421

Source: Annual reports of GBEs, CIE.

GBEs are required to pay out dividends, however, this is by agreement with the relevant Minister.<sup>40</sup> The Port Arthur Historic Site generally does not pay dividends, presumably this is by agreement with the Minister.<sup>41</sup> Only three Tasmanian GBEs (electricity businesses and the Motor Accident Insurance Board) paid a dividend in 2015-16.

Stakeholder consultation suggested that there are a few options which are considered as potential models for governance of KAVHA. The governance options discussed below have the potential to provide significant benefits for the management of KAVHA, however further exploration of the relative strengths of each possible governance structure is needed in order to inform the choice of arrangements going forward.

- Consolidation of management within the Department of the Environment and Energy — governance of KAVHA has moved between government departments a number of times. For example, responsibility for KAVHA previously rested with the Attorney General's Department. Further changes in jurisdiction risk loss of expertise and contextual knowledge, and should only be pursued if they offer significant benefits to management. There do not appear to be such benefits associated with shifting jurisdiction to the Department of the Environment and Energy.
- Cockatoo Island model of the Sydney Harbour Trust — a statutory trust offers a self-contained governance body that appears to be effective in managing Cockatoo Island (within the Sydney Harbour Trust). Such a body is also used for the governance of Hyde Park Barracks under the Historic Houses Trust. These bodies are created by legislation, which allows for a clear specification of responsibilities. Unlike GBEs these bodies do not have to pay dividends. The *Sydney Harbour Federation Trust Act 2001 [Commonwealth]* enables the Trust to borrow money or invest funds that are not required for immediate payment of expenses.
- Indian Ocean Territories model — DIRD has an organisation known as the Indian Ocean Territories Authority, which could be set up on Norfolk Island without legislation. However, this would mean that the site is Commonwealth Government owned, which is not the case for KAVHA, which has freehold and Crown leased land.
- Director of National Parks model — the Director of National Parks is a Commonwealth corporate entity established under the *Environment Protection and Biodiversity Conservation Act 1999* s514 ('EPBC Act'). The corporation is constituted by

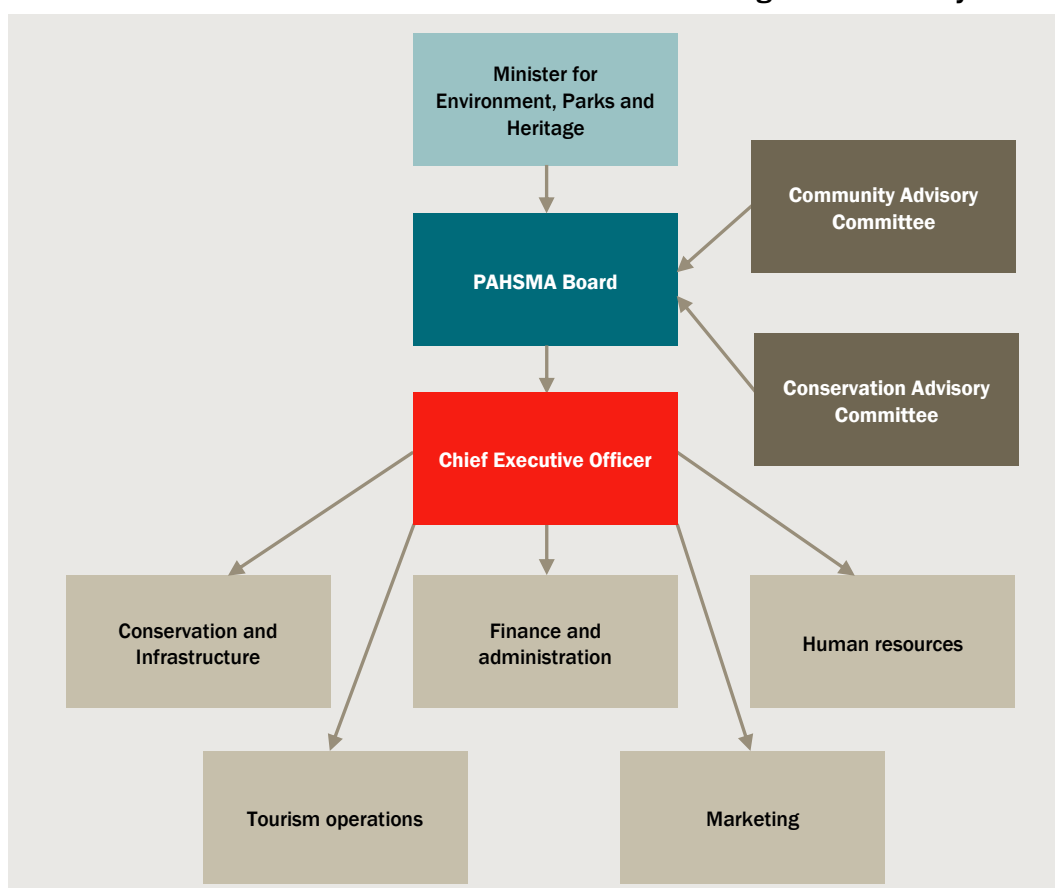
<sup>40</sup> Department of Finance, 2015, *Resource Management Guide No.126: Commonwealth Government Business Enterprise Governance and Oversight Guidelines*, available at: <http://www.finance.gov.au/sites/default/files/RMG-126%20GBE%20Guidelines.pdf>

<sup>41</sup> See *2011-12 Heads of Treasuries Competitive Neutrality Matrix Report*, available at: [www.federalfinancialrelations.gov.au/content/...reporting/CNMR\\_2011-12.rtf](http://www.federalfinancialrelations.gov.au/content/...reporting/CNMR_2011-12.rtf)

the person appointed to the office named the Director of National Parks. The *EPBC Act* also establishes the Australian National Parks Fund, into which revenue received by the Director of National Parks and from other sources is put, and from which funds are drawn for the purposes of spending in accordance with the responsibilities of the Director. Such a governance structure could be applicable to KAVHA, particularly in light of the low administrative costs required to have one statutory officer. Additionally, it may enable the employees and other resources of DIRD to be used in support of the statutory officer.

- Statutory authority/GBE in the style of PAHSMA — key to this approach being successful is the composition of the governance body. Figure C.3 presents PAHSMA's management structure, and shows that PAHSMA contains both a Board and CEO. The CEO is directly accountable to the Board, which is responsible for governing PAHSMA.<sup>42</sup> Stakeholder consultation suggests that expertise and independence are both key ingredients to the successful management of KAVHA under this type of governance structure.

### C.3 Governance structure of Port Arthur Historic Site Management Authority



Data source: PAHSMA.

<sup>42</sup> Department of Finance, 2015, *Resource Management Guide No.126: Commonwealth Government Business Enterprise Governance and Oversight Guidelines*, available at: <http://www.finance.gov.au/sites/default/files/RMG-126%20GBE%20Guidelines.pdf>



While PAHSMA functions effectively as a Tasmanian GBE, there are two main distinguishing factors between the Port Arthur Historic Site and KAVHA.

Firstly, the Port Arthur Historic Site receives a significantly greater number of visitors and is much closer to cost-recovery. This warrants a greater amount of spending to promote the visitor experience, which relies on PAHSMA's ability to retain revenue for the purpose of spending. KAVHA receives a lower amount of visitors, and thus this ability to retain revenue is less important.

Secondly, because Norfolk Island is an external territory of Australia and not part of a state, a GBE for KAVHA would likely be a Commonwealth GBE. While some state GBEs are small (such as PAHSMA), Australian GBEs are all large companies, and therefore a statutory authority may be more appropriate for KAVHA than a GBE.

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