

3/24/2023

Joint Standing Committee Inquiry into Norfolk Island Local Government Revenue Sources

Submission of the Accommodation and Tourism Association (ATA)

Rael Donde

President - Accommodation and Tourism Association, Inc. Norfolk Island

Table of Contents

Section	Page
1. Introduction	2
2. Terms of Reference	3
3. Executive Summary	4
4. Land Rates	11
5. Alternative Revenue Sources	14
6. Divest Government Business Enterprises	19
7. Diversify the Economy	19
8. Cut Wasteful Expenditure	20
9. Governance	20
○ Appendix A – Overstatement of Norfolk Island Revenue Raising Capacity	
○ Appendix B – Rates and Waste Management Fees are Excessive	
○ Appendix C – Business Survey Results	

1. Introduction

Businesses are willing to pay their way, but it needs to be within their financial means, sustainable, equitable, predictable, and culturally appropriate. The excessively high cost of living on Norfolk Island, together with increasing government charges, has placed a huge financial burden on local businesses and the community. Norfolk Island does not have legislative protections, such as rate pegging, to limit any increases in local government charges, which exist in other states and territories.

A large percentage of rural and remote councils on the mainland are considered financially unstable. According to a report by the NSW Auditor-General, 31 out of 128 councils (24%) in NSW were financially unsustainable in 2019-20. The report also found that 41 councils did not meet their own benchmarks for operating performance. Major factors include the impact of COVID-19 pandemic on revenue and expenditure, insufficient grant funding from the state and federal governments, and the inability to generate sufficient income from rates, fees, and charges.

Due to the nature of Norfolk Island as a remote island with a tiny population base and a single industry (Tourism), the services provided by the Norfolk Island Regional Council (NIRC) extend beyond the traditional role of a typical council, and in some instances, it is a provider of last resort (eg. Telecom, Electricity, Airport, etc.). The island businesses and residents are all faced with a huge cost structure and soaring inflation. This significantly reduces the capacity of the island to raise revenue.

This impacts the long-term financial sustainability of NIRC if it continues under the current governance structure and level of funding to provide the same level and type of services to meet community expectations.

The NIRC does not have the required revenue resources to cover the cost of increasing expenditure costs, including depreciating infrastructure, and will remain significantly and increasingly dependent on the Federal Government. The private sector is already beyond its capacity to fund the NIRC.

The council's transition to sustainability under the current governance arrangements requires a strong and diversified local economy to be successful.

The ATA submission seeks to provide the JSC with an understanding of the huge costs incurred by Norfolk Island businesses and individuals, and a perspective on a more sustainable way forward.

2. Terms of Reference

The Joint Standing Committee will inquire into and report on equitable revenue sources to support the economic viability of the Norfolk Island Regional Council and the operation and governance of local government, with specific reference to:

1. alternative approaches to property-based taxation revenue collection ('land rates') that are appropriate and equitable for the Norfolk Island community;
2. whether the categorisation of the Norfolk Island Regional Council as a 'Rural Council', for the purposes of the Local Government Act 1993 (NSW)(NI) results in an appropriate quantum of funding given the geographic remoteness and population density of Norfolk Island;
3. the impact of limiting access to state-partner grants on the financial sustainability of the Norfolk Island Regional Council;
4. the resilience and sustainability of current and alternative revenue approaches, noting the impact of COVID-19 on Norfolk Island's economy;
5. the current governance model that supports the Norfolk Island Regional Council under the Local Government Act 1993 (NSW)(NI);
6. alternative approaches to local government and local representation utilised across Australia;
7. whether alternative approaches sustainably achieve the key outcomes of local government;
8. whether alternative approaches equitably increase local representation and decision-making; and
9. whether alternative approaches would appropriately support the additional functions the Norfolk Island Regional Council provide on behalf of the Commonwealth.

3. Executive Summary

3.1 Lack of Confidence in recent JSCNCET inquiries.

The terms of reference of the 2014 JSC Inquiry into Economic Development excluded governance matters, yet the entire thrust of its recommendations related to a change in governance not economic development. Inaccurate information was submitted by the Department of Infrastructure, and ex-Administrator Neil Pope's submission related to his recommendations around governance changes. The JSC never bothered to substantiate important information and selectively allowed a submission that was clearly outside the scope of its terms of reference but denied others the same opportunity.

The 2020 JSC Inquiry into availability and access to enabling communications infrastructure in Australia's external territories received submissions from Norfolk Island, as well as the Indian Ocean Territories, and Antarctica. Unfortunately, the Committee could not complete the inquiry as planned due to a combination of factors that included *"evolving domestic border restrictions related to COVID-19, quarantine requirements, a high demand for accommodation and a need to work around parliamentary sitting days in Canberra"*.

The results of the inquiry would have been very important to Norfolk Island businesses, community, and visitors who currently endure sub-standard internet. Instead of conducting oral submissions using online services such as Zoom, Teams, or Skype, the Committee recommended that this inquiry be referred again after the commencement of the 47th Parliament. The Inquiry was simply allowed to lapse. Evidence received during this inquiry can be used when the inquiry is restarted. The JSC recommended that early in the 47th Parliament, a new inquiry be referred to the JSC Committee with terms of reference that are similar or comparable to the original inquiry.

3.2 Narrow Terms of Reference – a missed opportunity.

The narrow terms of reference of the Joint Standing Committee inquiry around the revenue sources to support the operation and governance of local government is a missed opportunity to also examine revenue sources that may be available within other governance models. As Norfolk Island officially remains an External Territory, it would appear logical to also examine revenue sources applicable to an External Territory governance model, Federal-type revenue sources, and the revenue sources of other territories and islands around the world.

3.3 Re-Assess the Capacity of Norfolk Island to raise revenue. The 2019 CGC Report is deficient in several important areas. Refer to Appendix A of this submission – Description and Commentary on the Commonwealth Grants Commission 2019 Norfolk Island Inquiry.

The 2019 Commonwealth Grants Commission report into the capacity of Norfolk Island to raise revenue significantly overestimates the capacity of the island to raise revenue. This is of considerable concern for the Norfolk Island community and businesses, as the Department of Infrastructure appears to naively rely on the flawed conclusions of this report to justify imposing further government charges.

3.4 The JSC and Department should not rely on the flawed conclusions in the 2019 CGC Report.

On 13 February 2023, during the Senate Estimates Committee hearing into Norfolk Island matters, a senior official of the Department of Infrastructure with responsibility for Norfolk Island cited this report. In response to a question from Senator Canavan asking if Norfolk Island pays rates, Ms. Vanderbroek responded: *“Yes, but it is a very low base of rates”*. In response to a subsequent question from Senator Canavan regarding Commonwealth funding arrangements to Norfolk Island to help offset different cost bases, Ms. Vanderbroek responded: *“The Commonwealth last did an assessment in 2019 and assessed that the revenue raising capacity of the island was significantly higher than what was being realized, which is why rates needed to be looked at. They are very low compared to mainland council rates”*.

This ATA JSC Submission contains detailed information to help the committee to understand that **the 2019 CGC Report significantly overstates the capacity of Norfolk Island to raise revenue** and should be carefully studied by the Department and the JSC. Please refer to Appendix A of this submission for more detail.

3.5 Address the deficiencies in the 2019 Commonwealth Grants Commission into the capacity of Norfolk Island to raise revenue report.

The CGC Report uses outdated statistics from 2016 to compare Norfolk Island with Brewarrina Shire and King Island, despite the significant cost increases on Norfolk Island since 2016. However, even with the 2016 data, it is clear from the CGC Report that costs on Norfolk Island are significantly higher for every single cost metric compared to King Island, including sea and air freight, energy,

transport, and food. Norfolk Island median income levels are much lower, and median rent and mortgage payments much higher.

The massive higher costs on Norfolk Island and reduced income **significantly reduces the capacity of the island to raise revenue**. The methodology employed by the CGC assumes that Norfolk Island costs are roughly comparable with King Island, which is clearly not the case.

3.6 Address the events since 2019 that have impacted the capacity of Norfolk Island to pay rates, fees and charges. Below are some examples of more recent events.

- Tourism Industry losses exceeding \$38-mil due to the pandemic border closures.
- Census 2021 data showing even greater financial stress on Norfolk Island vs. King Island.
- Raging Inflation of annualized rate of 11.09% on Norfolk Island for Dec 2022 quarter.
- Interest Rates increases (official cash rate expected to exceed 4%).
- Massive Land Rate Increase on 1 July 2022 (218% increase in base rate for Tourist Accommodation businesses).
- Massive Waste Management Charges from \$800K to \$1.8 mil.
- Electricity remains at 71 cents/ Kwh despite battery storage and reduced diesel demand.
- Superannuation at 8% and increasing annually (from 1% in 2016).
- Wages doubling from 2016 to 2023 (ATA Survey).
- Contractor Rates doubling since 2019 (ATA Survey).
- Building material at levels multiple times greater than mainland prices.
- Limited opportunities for bank loans due to changed bank policy (high default rate?).
- Massive increases in NIRC monopoly alcohol prices.
- High insurance premiums to due to monopoly insurer (no longer any choice of insurers).

3.7 Measure the state of the Norfolk Island economy.

3.7.1 Implement the recommendations of the KPMG 2019 Report commissioned by DIRDC: Monitoring the Norfolk Island Economy.

The KPMG Report “Monitoring the Norfolk Island Economy” dated 26 August 2019, which was commissioned by the Department of Infrastructure, made several important recommendations. The council recently addressed the renewed implementation of a Retail Price Index (RPI), which was one of the key recommendations. The RPI has been

published since Feb 2022, with extrapolated data for some missing previous years.

However, some other important recommendations, such as conducting a Household Income and Expenditure (HIES) survey, have not been implemented by the Department or Council. Addressing the challenges in measuring the local economy would assist in making informed decisions around raising revenue.

3.7.2 Conduct a formal Norfolk Island Household Income and Expenditure survey (HIES) before imposing any additional costs on businesses or the community. An HIES has been recommended by KPMG and Delta Pearl Partners, but no action has been taken. The last survey was conducted in 2014 by the Norfolk Island Government.

The KPMG Report “Monitoring the Norfolk Island Economy” dated 26 August 2019, which was commissioned by the Department of Infrastructure, recommended that “*undertaking a survey now [in 2019] would be timely, as a number of changes to the economy have been introduced since 2016, which will have had an impact on income and expenditure. For example, taxation and superannuation reforms were applied on Norfolk Island from 1 July 2016, while the Australian minimum wage was fully implemented on 1 July 2018*”.

The Report from Delta Pearl Partners “Updating the Quarterly Retail Price Index for Norfolk Island - December Quarter, 2022 – Results Prepared for the Norfolk Island Regional Council” was published on 23 January 2023.

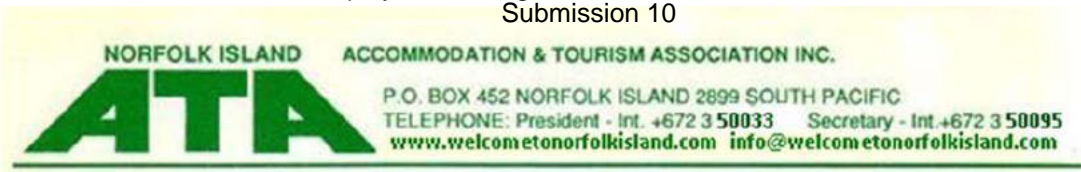
This Report and their previous reports recommended a new Household Expenditure Survey. The report states:

“As noted in earlier reports, the process that we followed to measure inflation is designed to enable development of an interim inflation measure without (and prior to) the possible development of a new household expenditure survey (HES) to update the basket and associated expenditure weightings. We have suggested to NIRC that a new updated HES is required for the future and NIRC is assessing this”.

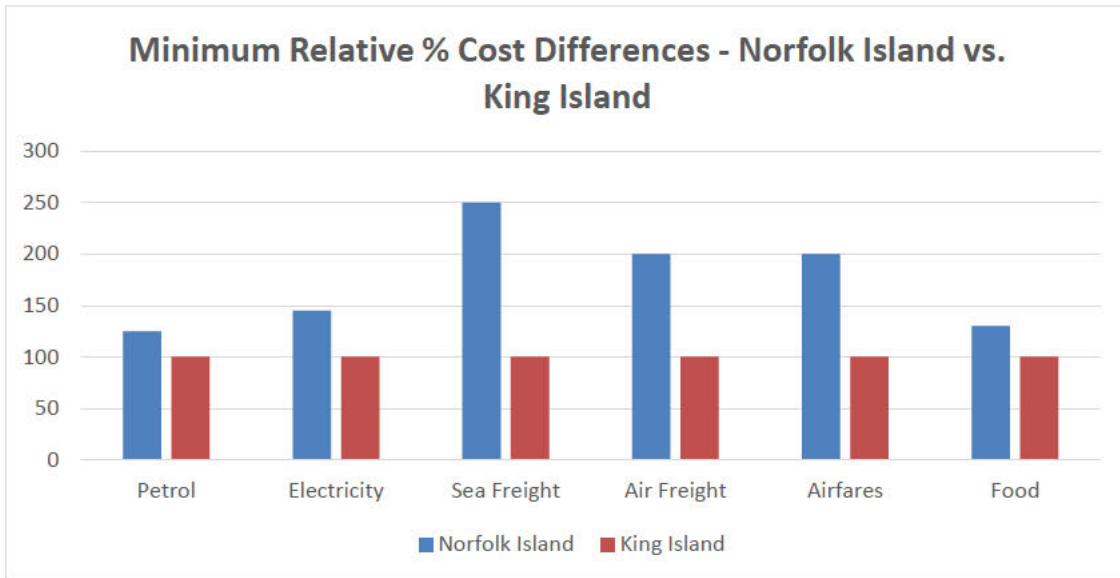
3.8 Consider the significant cost of living on Norfolk Island, including costs related to energy, food, freight, insurance, etc.

Every single economic indicator on Norfolk Island is less favourable than King Island, with a minimum difference in costs for Norfolk Island relative to King Island, approximately as follows:

- Petrol: 25% higher
- Electricity: 145% higher

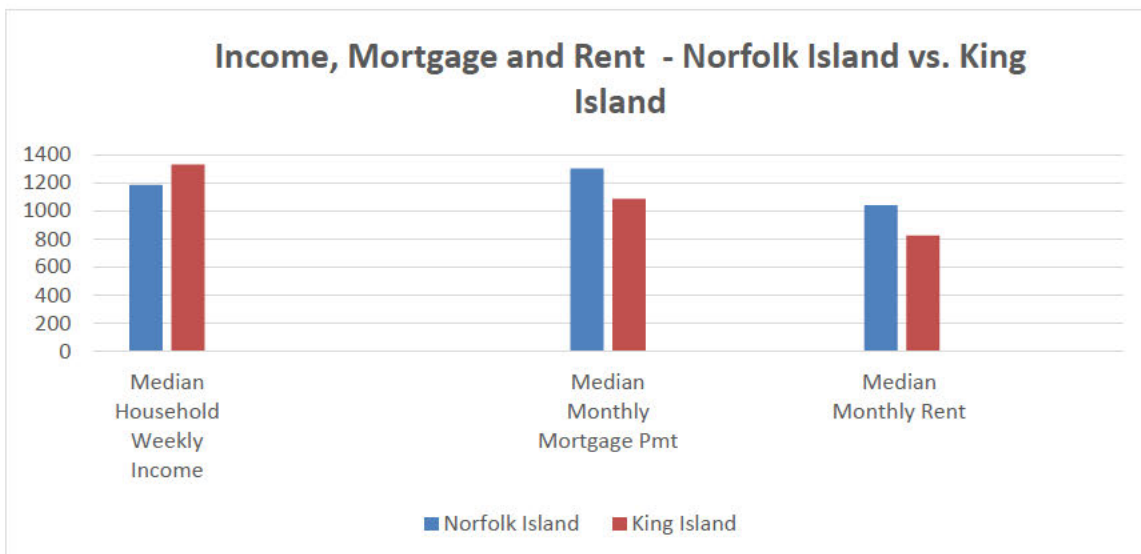


- Sea Freight: >250% higher
- Airline Freight: >100%
- Airfares to Metropolises: 50 to 70% higher (NI-Syd), 85 to 125% higher (NI to Bne)
- Food: >30% higher



3.9 Consider the 2021 Census Results for Norfolk Island relative to King Island with respect to Income, Rent and Mortgage costs:

- Median household weekly income NI: \$1,184, King Island: \$1,330
- Median monthly mortgage payment NI: \$1,300, King Island: \$1,083
- Median weekly rent NI: \$240, King Island: \$190





3.10 Consider the difference in Gross Territory Product (GTP) per capita.

Norfolk Island estimated GTP is **50% lower** than King Island.

3.11 Consider the raging inflation on Norfolk Island (11.09% in Q4 2022):

Delta Pearl Partners has reported Norfolk Island Prices and inflation, Fourth Quarter 2022 (for Q4-December quarter): Annualised inflation is **11.09%** (compared with a Retail Price Index of 9.50% in Q3, and 5.85% in Q2). This high level of inflation represents the increase in prices on an already high cost base.

The cost base is several times higher than that of King Island, so applying an inflation rate of over 11% to the Norfolk Island cost base has a significant adverse impact on the economy and reduces the capacity of the community to pay the existing level of taxes to the Government.

3.12 Roll back current Government rates, fees and charges that are hindering economic development and diversification on Norfolk Island. Implement an economic stimulus plan.

Rates, fees and charges are already beyond the capacity of island businesses and residents.

An economic stimulus is required to reduce the current financial stress, and hopefully also enable a thriving community that is more resilient. The NIRC does not appear to have an Economic Development Strategy. The recommendations from the SGS Economic Development Strategy Report 2015, commissioned by the Federal Government, have largely been ignored. The actions in the SGS report are predicated on the assumption that a Regional Council will focus on basic infrastructure and reducing the cost to business and households of electricity, internet and freight services. These costs remain at unaffordable levels. The Tourism Norfolk Island Tourism Strategic Plan 2013-2023 is about to expire without a replacement strategic plan or meaningful collaboration with the tourism industry.

3.13 Examine the results of the 2022 business survey conducted by the ATA, Chamber of Commerce and Business Council of Norfolk Island.

The Norfolk Island Business Survey was conducted in June 2022. Respondents included members of the ATA, Chamber of Commerce, Business Council of Norfolk Island, as well as a cross section of local businesses who are not members of these organisations. The results show an overwhelming majority of businesses



would struggle to pay the excessive charges proposed by the council in June 2022, and view the distribution of Waste Management charges as inequitable.

Please refer to Appendix C for detailed Survey Results.

Businesses are willing to pay their way, but it needs to be within their financial means, sustainable and equitable. They need to be provided with sufficient notice to adequately prepare for extraordinary increases such as the increases proposed by NIRC in June 2022, or take measures to exit the industry.

The results of this Business Survey point to a devastating economic and social impact that would have resulted from the Norfolk Island Regional Council (NIRC) plan in June 2022 to impose the largest increase on record in rates, fees, and charges for FY 2022-3.

3.14 Recognise the cultural inappropriateness of Council Rates on the Norfolk Island Community.

The former democratically elected Norfolk Island Government voted not to implement property rates of Norfolk Island as it was considered culturally inappropriate. In the 2021 Census, 39.7% of island residents identified themselves with Norfolk or Pitcairn ancestry. Norfolk Island is their homeland and they have a strong cultural attachment to the land, similar to residents of other South Pacific Islands (eg. Samoa). They consider their land to be a cultural possession to be passed on to their descendants as part of their island identity.

3.15 Carefully assess any new type of government charges in terms of its impact on Norfolk Island tourism, which is the dominant driver of the local economy.

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

Tourism is a very competitive industry. Increases in costs to visitors will often lead to a decline in demand, so any new charges such as a tourism or environmental levy, or passenger movement charges, need to be carefully assessed before any implementation. A clear prior understanding of the price elasticity of demand for tourism on Norfolk Island is required.

4. Land Rates

As the accommodation sector is the largest employer on Norfolk Island, and the primary driver of the Norfolk Island economy, it is important to have a clear understanding of the impact of Council Rate increases on this economic sector.

4.1 NIRC Rate Increase 2022-23

In June 2022, without any prior risk analysis, and presumably without a clear understanding of, or regard to, the local state of the economy or capacity of the business sector to pay increased government charges, NIRC proposed to increase the base component of the land rates for 2022-23 for tourist accommodation businesses by 318% and the ad valorem rate by 56%. Other businesses faced similar increases.

Unlike NSW and other mainland States and Territories, there is no rate pegging on Norfolk Island nor any independent authority to protect the community by regulating council rate increases.

After the Federal Government stepped in with an additional \$1mil in funding (\$200K Rates, \$800K Waste Management), the resultant Land Rate Increase for registered Tourist Accommodation businesses was as follows: Base Rate Increase: 218%. Ad Valorem: 39.3%. This represented a huge increase on a fragile industry in recovery.

4.2 Rate Pegging or Capping is an important protection.

The maximum percentage limit of council rate increases in NSW is 0.7%. Exceptions are made to some NSW councils to increase this percentage up to 5% based on population growth or a local government cost index. The independent body IPART regulates rate increases in NSW. In Victoria, the rate cap is 3.5%.

As these safeguards are important for good governance and to avoid an adverse impact to the economy, the ATA strongly encouraged the NIRC to pass a resolution urgently limiting the increases in rates and charges. No action in this regard appears to have been taken to implement similar safeguards for Norfolk Island.

In the interests of good governance, rate increases should ideally be regulated by an independent body and require a prior risk assessment.



4.3 Land Rates are culturally inappropriate on Norfolk Island

Norfolk Island families of Pitcairn origin consider land to be a cultural possession to be passed on to descendants as part of their island identity. These families have been substantially disadvantaged by land rates, often being land rich but cash poor. The imposition of land rates by the Federal Government against their will continues to be a constant source of distress.

4.4 Relationship between property-based taxation and the delivery of commensurate local government services.

There is no direct relationship between council rates and services. On the mainland, however, the relationship appears more visible as many councils provide street lights, garbage collection and other services not provided by NIRC.

4.5 Waste Management fee

In July 2022, NIRC included a line item on the Rates Notice for a fixed Waste Management fee. In June 2022, NIRC proposed to increase Waste Management fees by 247% for the tourist accommodation sector, and many times higher for some entities, but provided no incentive for waste conservation. This was being proposed before the local economy had been able to recover, and in the face of skyrocketing inflation.

4.6 Tourist Accommodation Sector – challenges to adapt to NIRC rate increase cycle

The accommodation sector is the largest employer on Norfolk Island, and the primary driver of the Norfolk Island economy. Nightly rates cannot be increased sufficiently to adequately absorb astronomical increases, due to competitive and contractual reasons.

With NIRC increased charges being proposed in June every year and implemented just a month later in July, this is insufficient notice for accommodation businesses to adapt and budget for the increase. Many tourist accommodation forward bookings are already in place for the year at nightly rates that cannot be changed retrospectively. Also, wholesale nightly rates are fixed until 31 March every year. There is a limit to the level of nightly rates, as visitors have many other choices of travel destinations. Norfolk Island will be at risk of outpricing itself from the market, causing a further decline in visitor numbers. When this happens, wholesalers will also abandon the Norfolk Island market, and the tourism industry and council tax base will quickly unravel.

4.7 Impact of NIRC Land Rate and Waste Management Fee increases

The council's proposed exponential increase in charges was short sighted, and clearly not a realistic path to sustainability for the private sector nor the council.



If the NIRC continues with its current strategy to increase taxes, it will recklessly be contributing to an economic environment where businesses are unable to upgrade their products and services, or market Norfolk Island as a tourist destination. This is directly contrary to the published council strategic objective to ensure a “strong, diverse and vibrant business environment”.

Norfolk Island has just endured a severe financial crisis with one of the largest economic contractions on Norfolk Island, when visitor numbers were down 27% compared to pre-pandemic levels and tourist accommodation occupancy at 28% for the year ending June 2022. The local tourism industry losses exceeded \$38-mil from March 2020 to January 2022.

4.8 Future increases in NIRC charges

The tourism industry is extremely concerned that future increases in NIRC charges will be proposed with just one month notice for the industry to adapt, and that the NIRC will again fail to take some important steps before proposing future increases.

In the interests of good governance, the ATA suggest that the NIRC consider implementing the following steps before proposing any future increase in rates, fees or charges:

- 4.8.1 Engage meaningfully with the industry to assess the impact of any planned tax increases.
- 4.8.2 Assess the limited capacity of the tourism sector to pay additional fees and charges.
- 4.8.3 Conduct a Household Income and Expenditure Survey (HIES).
- 4.8.4 Recognise the current economic context of a vulnerable economy in an early recovery phase, faced with rapidly increasing financial challenges (inflation, interest rates, etc.).
- 4.8.5 Conduct an economic and social impact assessment or risk analysis.
- 4.8.6 Ensure consistency with the objective 6 of the Community Strategic Plan to ensure a “strong, diverse and vibrant business environment”.
- 4.8.7 Recognise that increases on top of prior cumulative increases have become unaffordable.
- 4.8.8 Recognise that the industry will need years to recover from losses exceeding \$38-mil from March 2020 until January 2022.
- 4.8.9 Assess the occupancy of the accommodation sector.
- 4.8.10 Align Waste Management Fees with average occupancy and with the average consumption levels, and type of waste, generated by tourists to ensure an equitable distribution of fees.
- 4.8.11 Recognise that a shrinking Tax Base will lead to a downward economic spiral.
- 4.8.12 Establish an independent body to regulate rate increases.
- 4.8.13 Conduct a public meeting before formally proposing any rate increases.
- 4.8.14 Inform the industry well in advance of any proposed changes in rates to allow for effective planning.



4.9 Tourism Accommodation Occupancy is an important metric.

Occupancy was at 28% for the year ending June 2022. Even if the visitor numbers increase in 2022-23 by another 38.04% from 21,732 to 30,000 visitors, the average occupancy based on 529 accommodation units would be just 39%.

Occupancy of 39% means that units on average would be vacant for 61% of the year, not generating any income and not generating any waste or consuming NIRC services such as sewerage. This needs to be factored into the waste management fees and rates for the accommodation sector.

Operators continue to exit the industry. The council will be required to impose even higher fees on a shrinking tax base, further accelerating this downward spiral. Investors will be deterred from investing in the sector.

5. Alternative Revenue Sources

NIRC did not conduct any financial impact assessment or risk analysis before publishing its proposed rates and waste management increases. The ATA welcomed the Federal Government's intervention by subsidizing the rate increase by \$200K and the waste management increase by \$800K.

These massive increases on a small tax base would have had a devastating impact, which ultimately would render the council itself financially unsustainable under the current governance model. NIRC had not seriously explored other sources of revenue with a larger tax base nor considered a phased approach.

NIRC's proposed revenue model directly conflicts with the Council's stated objective 6 of the Community Strategic Plan to ensure a "strong, diverse and vibrant business environment". The NIRC approach would result in precisely the opposite. The NIRC's so-called "transition to sustainability" requires a strong local economy to be successful.

5.1 Explore other Revenue Models.

The Federal Government and NIRC are strongly encouraged to demonstrate good governance by engaging with the community to explore other revenue models that lead to economic sustainability for everyone and restore business confidence.

5.2 Expand the tax base.

The ATA has strongly encouraged the NIRC to engage with the business community to explore ways to broaden the tax base by seeking a greater direct contribution from the visitor. This may include revenue opportunities such as Passenger Movement Charges, Norfolk Island Sustainability Levy, etc. Revenue sources need to be economically and culturally appropriate.



5.3 Revenue Contribution

If NIRC uses some of the new government revenue to re-invest in the tourism sector through increased targeted marketing, tourism infrastructure, event funding, and tourism industry training, this may contribute to growth in the industry and enhance the products and services available to tourists. This, in turn, should increase government revenues.

5.4 Economic, Social, and Environmental impact

It is important to carefully assess any new type of government charges in terms of whether it has a positive or negative impact on Norfolk Island tourism, which is the dominant driver of the local economy.

The tourism industry is a possible revenue source. However, tax hikes on tourist accommodation businesses, tour companies, restaurants, car rental companies or airline tickets will potentially make Norfolk Island a more expensive destination and less competitive. This may cause a decline in tourist numbers and/or demand for tourism services, and consequently negatively impact jobs and livelihoods. It is highly recommended that any government funds generated by the tourism sector are reinvested back into tourism marketing to prop up demand.

It is imperative that a study is first conducted to assess the price elasticity of demand for Norfolk Island tourism.

5.5 Price elasticity of demand for Norfolk Island tourism.

Price elasticity of demand for tourism measures how sensitive tourists are to changes in prices of tourism-related goods and services. It is calculated by dividing the percentage change in demand by the percentage change in price.

Some examples of price elasticity of demand for tourism are:

- The price elasticity of demand for international tourism is estimated to be around -0.6 to -0.8 on average, meaning that a 10% increase in price would lead to a 6% to 8% decrease in demand (journals.sagepub.com).
- The price elasticity of demand for outbound tourism from Australia to various destinations ranges from -0.2 for New Zealand to -1.5 for Japan, meaning that Australian tourists are more responsive to price changes when traveling to Japan than to New Zealand (sciencedirect.com).

5.6 Alternative Revenue Sources for consideration

5.6.1 Tourism or Environmental Levy on Airline tickets

A 10% Airline Ticket Levy means \$3-mil in tax revenue with Industry Economic Opportunity Loss of \$2.25 mil (price elasticity of -0.5) .

Based on a price elasticity of demand for outbound tourism from mainland Australia to Norfolk Island of -0.5, this would mean that a 10% increase in airline tickets would lead to a 5% decline in tourists. This translates to a decline of 1,500 tourists based on 30,000 tourists per annum. Based on an average tourist spend of \$1,500 (Accommodation: \$750, Food, Tours & Retail: \$750), this means an industry economic opportunity loss of approximately \$2.25 million.

Based on an average roundtrip ticket price of \$850 and 35,294 passengers (85% of these passengers are tourists), a 10% levy would yield an extra \$3-mil in tax revenue to NIRC.

Benefits:

Extremely cost-efficient tax collection method.

Enhances the nexus between NIRC and tourism, as increased tourism leads to increased government revenues.

Costs and Risks:

If there are no safeguards in place, it would be too appealing for NIRC to raise the Levy percentage when it requires additional revenue. The price elasticity of demand is not constant. As the price increases further, demand will decline by a greater percentage. There will be diminishing marginal returns, with the risk of destabilising the tourism industry. Some of the government revenue will need to be reinvested in targeted tourism marketing to generate demand.

5.6.2 Norfolk Island Sustainability Levy (NSL)

Based on a Gross Territory Product of \$82 mil, an NSL of 0.5% on all goods and services would yield \$4.1-mil in NIRC revenue. A simplified version would not allow for any deductions or exemptions.

Benefits:

Broad based consumption tax which also captures a portion of the tourist spend.

Costs and Risks:

Higher collection and compliance costs.



Higher collection and overhead costs on Industry.
Regressive, unrelated to income levels.
Inflationary as it raises the cost of all goods and services.
Inconsistent with Local Government Act 1993 (NSW) (NI).
If there are no safeguards in place, it would be too appealing for NIRC to raise the Levy percentage when it requires additional revenue, leading to the risk of destabilising the tourism industry.

5.6.3 Federal GST

A 10% Federal GST on Norfolk Island would require NIRC to have a seat at COAG. Based on an equalization formula for revenue raising and sharing arrangements, GST dollars collected by other states and territories would flow back to Norfolk Island at levels multiple times the level of GST collected by Norfolk Island.

Benefits:

Increased Revenue based on the COAG horizontal fiscal equalisation model by transferring GST dollars from other states to Norfolk Island with the aim of equalising Norfolk Island's fiscal capacity to deliver public services.

Costs and Risks:

Higher compliance and overhead costs on Industry.
Financial burden on industry already dealing with income tax, super and other Federal obligations.
Regressive, unrelated to income levels.
Inflationary as it raises the price of all local and imported goods and services.
Norfolk Island could become an even more expensive destination negatively impacting tourism.

5.6.4 Property Transfer Tax (Stamp Duty)

Until 2015, tax charged on real estate property ownership transfer transactions (4%) used to flow to the Norfolk Island Territory Government. However, the Federal Government considers this type of tax to be a state or territory tax which doesn't align with the local government model. Consequently, the revenue raised by this tax from the purchasers of local real estate flows to the Federal Government rather than the local government. This tax could potentially be a revenue source for Norfolk Island with a change in governance model. It would also provide an incentive for the local government to provide an environment conducive to investment.

5.6.5 Capital Gains Tax

The Federal Government introduced Capital Gains Tax on Norfolk Island effective since 24 October 2015. This is another area where precious funds on the sale of capital items,



such as local real estate, are flowing from the local community to the Federal Government. Repealing this tax may encourage more investment and economic activity.

5.6.6 Fishing licences, oil/gas, mineral exploration rights

The ATA does not have an estimate of the current or potential value of fishing licences in the Norfolk Island Exclusive Economic Zone (EEZ). As an example, the Falkland Islands, a territory of the UK, derives approximately 50% of its revenue from fishing licences, and its people are some of the wealthiest per capita worldwide. The Falklands have a GDP of US\$164.5 million, and a per capita GDP of US\$70,800 (2015 estimate) compared with the United Kingdom GDP per capita of US\$35,200 (2009 estimate). Mineral Exploration licences and royalties may be another potential source of revenue. Norfolk Island currently earns zero from its EEZ.

5.6.7 Port Fees

The establishment of a small harbour may be sufficient to encourage cruise ships and other marine vessels to dock. Port and other related fees could be a good source of revenue to the local government, as well as stimulate the economy.

5.6.8 Defence Force Base

The 1998-99 Australian Cabinet documents revealed that the Federal Government recognised the strategic value of Norfolk Island in its sphere of influence in the South Pacific Ocean. Establishing an Australian defence force base on Norfolk Island would bring economic value to the island and reinforce Australia's strategic interest.

The national interest of Australia was addressed in the Australian Cabinet Minute JH98/0020:

The Island is significantly important to Australia's national interests. In the national security and regional Defence contexts, the Island has obvious strategic significance. It is conveniently situated Australian sovereign territory deep within Australia's sphere of influence in the Pacific. The Island is used as an aircraft staging point for operations in the South Pacific, but this is constrained because of airstrip limitations. It has also shown utility for Australian Defence Force special operations, particularly as a forward support base as it did following the 1987 Fiji coup d'etat, and as a support base for patrol boats and Coastwatch aircraft conducting surveillance of Australia's Exclusive Economic Zone (EEZ). The Island generates its own EEZ for Australia as well as significantly increasing Australia's Legal Continental Shelf, as defined under the United Nations Convention on the Law of the Sea. These areas include fisheries and potential oil/mineral resources. Moreover, the rich convict history and heritage of the Island is an important part of Australia's national heritage and culture.

6.0 Divest Council Government Business Enterprises and functions.

Due to the remote isolated nature of Norfolk Island and its tiny population, there are some functions that government will need to perform to underpin the viability of the community. However, careful consideration should nevertheless be given to the divestment of various GBE's and functions or amending the governance framework to include participation from private sector stakeholders.

Electricity, Telecommunications, and the Liquor Bond are obvious candidates. Other functions, such as tourism, should involve greater private sector decision making within a new governance structure. The 2015 Morrison Low Report commissioned by the Federal Government recommended that there would be greater business benefits and effectiveness if tourism was not integrated within the council.

7.0 Diversify the Economy

The Norfolk Island economy is fragile and vulnerable, especially since there is just a single dominant industry, Tourism, that drives the economy. Norfolk Island's economy is also closely tied to the cost of imports, dependent on reliable airfreight and sea freight where costs are extremely high. This constrains the capacity of the island to raise revenue or reinvest in its assets.

Although there is room for tourism to be diversified further into new markets such as MICE (especially the meetings and conferences market) and visitation from new countries, it is important that new Industries be developed that are not as dependent on tourism. Seed funding, low interest loans, capacity building and mentoring may be required to develop products and services for export.

Some cottage industries, such as coffee, tea, honey, essential oils, sea salt and cheese may have the potential to expand by exporting to niche markets. Other agricultural products besides palm seeds may also have export potential. Several years ago, the Norfolk Island Government and community were extremely supportive in establishing a local medicinal marijuana industry, but this was shut down by the Federal Government before it started. Other opportunities may present themselves in rural medicine training, astronomy (due to the dark skies), niche fishing industries, recycled and repurposed waste products, genetic research, tertiary education, etc.

SGS Report 2015: Market to other remote islands and set up 'student swaps' or 'student positions' from other islands and/or other institutions across the world. Encourage research projects and partnerships in areas such as island biogeography, conservation, deep sea research, fisheries, climate change, remote island living, sustainable agriculture, island cultures. Consider the potential use Norfolk Island's remote location as a venue for trials of new products.

8.0 Cut Wasteful Expenditure

It is imperative that NIRC focus their expenditure on areas that are essential to the well-being of the island and avoid expenditures that are discretionary or wasteful. The construction of a new library and the associated the relocation of the previous library did not appear to be a priority of the community nor an essential expenditure.

It is easy for some to dismiss the business class airline tickets that are included in the employment contracts for the general manager and council administrator as minimal costs in the big scheme of things, but these are not considered essential costs for a two-hour flight, and they undermine community confidence that public money is being spent wisely.

9.0 Governance

The current government structure of a council with heavy financial burdens with a small revenue base is not aligned with the needs of the community. **A budget which meets the real needs of the Norfolk Island community will never be balanced** without significant ongoing funding from the Federal Government, which is currently not assured, or by excessively taxing the community with destructive results. The council does not have a state partner or access to state grants and programs.

The private sector also does not have access to state grants which are enjoyed by businesses and individuals everywhere else on the mainland. During the Covid-19 pandemic, NSW provided financial relief to NSW businesses (eg. \$10K grants), as well as vouchers to residents to stimulate the tourism industry. The assistance provided by the Federal Government was not a substitute for the types of assistance provided by State Governments. There are State tourism grants available to businesses in NSW, but not available for Norfolk Island.

It is imperative that the Council focus seriously and urgently on developing and expanding the economy in a substantial way, otherwise the current fees and charges will deal an unacceptable blow to the economy and community without any scope to increase charges in the future.

The current absence of democracy on Norfolk Island is unacceptable. It is important that the community have as much representation as possible and have a say in the areas that impact their lives and livelihoods. Laws are being extended to Norfolk Island without any meaningful assessment of their impact on businesses and the community. Bureaucrats in Canberra are formulating policy positions with respect to Norfolk Island without consultation or accountability. The current member for the seat of Bean highlighted the fact that Norfolk Island and Bean have virtually nothing in common. It feels as if the Federal Government is trying to fit a square peg in a round hole. The current governance framework is clearly not working.



There may be better outcomes if decisions that directly impact the lives of Norfolk Islanders are made by people who, at a minimum, actually live on the island, who drive the pot holed roads, who purchase the overpriced foods, who face the constant shortages, who struggle with the substandard telecommunications, who pay the high sea- and air-freight charges, who pay the high electricity charges, who struggle to obtain loans, who defer costly renovations and repairs, and who pay the excessive council taxes particularly on businesses and vacant land.

The council is caught “between a rock and hard place”. However, it is irresponsible for the Council to continue to simply raise fees and charges to balance certain key functions without appropriate consideration given to the adverse impact on the economy and community and taking adequate measures to mitigate these risks. The council didn’t even perform any formal risk assessment before the latest round of proposed increases in charges for 2022-23.

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

It is recommended that the Federal Government establish a task force comprising political, economic, social and legal specialists to evaluate different governance models that lead to greater financial sustainability and deliver services that meet the community’s needs and expectations. It should also look to governance models outside Australia that may contain elements favourable to a new governance arrangement. The community should be given a say in any future model, as expressed by a significant majority in the 2015 Norfolk Island Referendum.

Maiden Parliamentary Speech by David Smith, Member for Bean.

Below is an excerpt from David Smith’s maiden speech to the House of Representatives on August 1, 2019.

I also learnt that territory rights issues are not just about the ACT and NT. An unusual part of the electorate of Bean, in addition to southern ACT, is the external territory of Norfolk Island. You can imagine that being part of an electorate that is largely urban and landlocked and is 1,900 kilometres away is not the most obvious fit for effective representation. This is exacerbated by the lack of representation at a territory level of a kind similar to that which exists in the ACT or NT. Indeed, there is an absence of any democratically elected territory-level representation.

Just like the rest of Bean, Norfolk Island has a rich history. The Kingston and Arthur's Vale Historic Area is one of the best surviving examples of large-scale convict transportation and colonial expansion of European powers. The descendants of the HMAV Bounty mutineers and Tahitians from the Pitcairn Islands gives the island a unique culture and language. It has unique flora and fauna, and is one of the most beautiful



places on earth. Its history presents challenges that have vexed this place since its incorporation into the Commonwealth early in the 20th century. Many of those challenges are a result of its remoteness and topography. It has no natural harbour, no place for ships to shelter. To this day, sea freight is still unloaded at sea and lightered into the port.

However, many of the issues the people of Norfolk Island face are of our making, and we certainly have the power to solve them together. We need to promote Norfolk Island as a place for Australian and international visitors and investors, whilst preserving its unspoilt beauty and world heritage areas. We need to ensure it has modern and fast communications facilities so its beauty can be shared, and to overcome the tyranny of distance so residents and visitors can work, play and integrate with the broader Australian economy.

Most importantly, however, I want to reflect on what I said a year ago when I stood in the other place and spoke in favour of the repeal of the Andrews act. I quoted from the Hon. Clyde Holding whilst introducing the Australian Capital Territory (Self-Government) Bill:

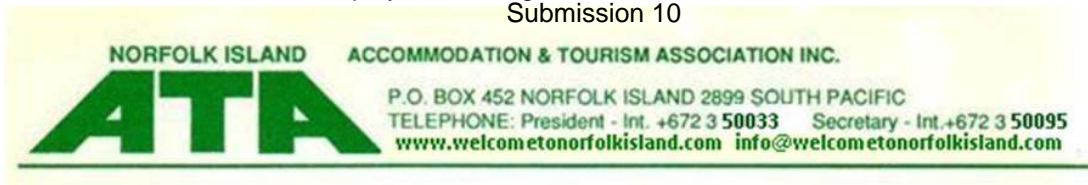
However, unlike every other person in this country, where a fair go is the creed by which we live, they cannot elect a member of their own community to their own government. They have no say in the decisions which affect their everyday lives. What an extraordinary admission in a country so committed to democratic ideals, and why? Are these people somehow different from other Australians? Are they second-class citizens in some way? Do they not understand, or have opinions on, the issues that confront them daily? Can they not be trusted with their own destiny? The answer to all these questions is very simple. The only difference between these people and the rest of Australia is that they live in the Australian Capital Territory.

These words hold true today for Norfolk Island. We should not abridge the basic right of all Australians for self-determination in the delivery of services that affect them in their daily lives. At the moment, there is significant doubt over the delivery of education services to Norfolk Island once the New South Wales government withdraws its services in 2021. My commitment to my constituents on the island is to work with them and the government over the next three years to tackle these challenges and issues and work on a path towards ensuring the people of Norfolk have a genuine voice and influence over matters that we take for granted. A good start would be providing external territories a voice at COAG.

Appendix A - Significant Overstatement of Norfolk Island revenue raising capacity.

The Capacity of Norfolk Island to Raise Revenue –
Description of and Commentary on the
Commonwealth Grants Commission
2019 Norfolk Island Inquiry

by
Chris Nobbs



Norfolk Island
May 2020

Table of Contents

<i>Title</i>	<i>Page</i>
1. Preface	3
2. The CGC Report	
2.1 Introduction	3
2.2 Report's approach	4
2.3 Key terms	4
2.4 Estimation of costs of service provision	6
(i) state-type services	6
(ii) local government services	7
2.5 Estimation of Norfolk Island revenue raising capacity	7
2.6 Assessed overall expenses and revenues	8
3. A Norfolk Island perspective	
3.1 The main issue	9
3.2 Norfolk Island, King Island and Brewarrina	9
3.3 Norfolk Island prices	10
(i) freight rates	10
(ii) energy prices	12
(iii) food prices	12
(iv) wages and superannuation	12
(v) fares to major cities	13
3.4 Some additional issues	14
3.5 Summary and analysis	15
3.6 Conclusion: unresolved issues	16
References	17
Appendix I. Detail of Shipping costs Sydney to Norfolk Island	18
Appendix II. DIRDC Terms of Reference for CGC Inquiry	19
Appendix III. Initial Circulation of this Paper	20

1. Preface

In 2019 the Department of Infrastructure, Regional Development and Cities (DIRDC) engaged the Commonwealth Grants Commission (CGC) to inquire into the provision of, and funding for, state-type and local government-type services for Norfolk Island. The Terms of Reference for the Inquiry are reproduced as Appendix II to the present paper. In responding to this brief the CGC described its task as seeking:

"credible costing-related information to:

- ❖ *support its [DIRDC's] consideration of options for the provision of State-type and local government services, and for State-type government business enterprises;*
- ❖ *provide estimates of the annual expenditure, including infrastructure costs, required to provide these services, by reference to the services available in comparable [Australian] communities;*
- ❖ *identify the capacity of Norfolk Island to raise revenue from a range of taxes and charges comparable to those levied by State and local governments, assuming it makes the average Australian revenue raising effort." (p. ix)*

The CGC published its final report in November 2019. (CGC, 2019) In considering the CGC Report here, the focus will be on determining whether it fairly represents the capacity of Norfolk Island businesses and families to finance these state- and local-government type services. The evidence to be presented here suggests that the CGC Report overstates this capacity by a considerable margin.

2. The CGC Report

2.1 Introduction

The provision of services on Norfolk Island is complex for a number of reasons, not least on account of the island's recent governmental and economic history. Australian Government agencies on the island are responsible on their own account for some functions on the island (e.g. KAVHA, Norfolk Island National Park). However because Norfolk Island is directly subject to Commonwealth laws – albeit modelled on a NSW state government template – the Commonwealth is also responsible for providing some state-type services on the island (e.g. education, health, justice). The Norfolk Island Regional Council (NIRC) is responsible for providing local-government-type services (e.g. town planning, roads, rubbish processing).

Provision of the various services are often in fact multi-layered e.g. where the NIRC has a service delivery contract with the Commonwealth for the provision of one of their services. Furthermore the Norfolk Island Regional Council (NIRC) is unique amongst Australian local authorities in being responsible for the provision of a wide range of commercial operations including telecommunications, electricity supply, management of an international airport, and a liquor bond. (The totality of service delivery arrangements amongst the three tiers of government is tabulated in Attachment A to the CGC Report.)

In carrying out its various responsibilities towards Norfolk Island, the Commonwealth provides the island with substantial monetary input. Decisions as to how best to provide services and how to fund them are therefore important. A core issue is then to identify the cost of provision, and to compare this against the capacity of Norfolk Island to raise its own revenues in funding them. This is what the CGC Inquiry has set out to do.

It needs note that the CGC Report makes clear that the CGC "in no way implies how Norfolk Island should be raising revenues or delivering services" (p. 21). In the same context it must be emphasised that DIRDC was the client for the CGC inquiry, which therefore focusses on the matters at issue from a Commonwealth perspective, not an NIRC one. Commonwealth-type services (such as KAVHA, Norfolk Island National Park) are out of scope for the CGC inquiry, which relates only to state-type and local-government type services. The CGC analysis emphasises data from the 2017-18 fiscal year as the most recent and relevant (2016-17 being a year of major upheaval). The Report excludes issues relating to infrastructure capital expenditure. Within this context, the CGC Report is thorough and systematic, open and explanatory. Almost all reasoning is set out clearly in the text.

2.2 Report's approach

State-type services were classified into 10 functional groups: Schools; Post-secondary education; Health; Justice; Welfare; Housing; Services to communities; Transport; Services to industry; and Other expenses. Some of these groups were further disaggregated.

Local government services were also classified into 10 functional groups: General administration; Health, housing and welfare; Law, order and public safety; Planning and community amenities; Environmental protection; Recreation and culture; Roads and bridges; Depreciation; Airport; and Other services.

For each of these functional groups, estimates were made of:

- (i) service delivery cost for Norfolk Island, determined with reference to the service delivery costs for "comparable communities" in Australia, with adjustments as deemed necessary to reflect the "unique circumstances" of Norfolk Island; and
- (ii) revenue raising capacity of Norfolk Island, determined with reference to revenues raised by "comparable communities" in Australia, and assuming that Norfolk Island makes "the average revenue raising effort" of those communities.

Thus estimates of potential revenues and expenses for each service provided on Norfolk Island can be set out and compared with the actual amounts of revenue and expenses recorded in each case in NIRC's accounts.

Because exact measurement is rare in economics, economic appraisals invariably need to make assumptions, approximations, and estimates – rather than exact determination – of quantities of interest. This is accepted in all economic analysis. It is important therefore to be clear about the core assumptions of the CGC Report.

2.3 Key terms

"comparable communities". The CGC Report sets out its approach to this matter as follows:

The Terms of Reference asked us to make our calculations by reference to revenues raised and services provided in comparable communities and allow for other circumstances of Norfolk Island.

This conceptual approach recognises that, while Norfolk Island requires services similar to those in comparable communities, there are particular circumstances that mean those services cannot be provided at the same cost, or that other supplementary services may be required. Similarly, circumstances on Norfolk Island may mean per capita revenue collected there may differ from that in comparable communities, even when the same revenue raising effort is made.

In general terms, we considered Norfolk Island was comparable to small, very remote communities with a relatively low Aboriginal or Torres Strait Islander population in the States. However, our concept of comparable communities did not rely on full comparability with an actual community. Instead, it relied on establishing a base from the costs and revenues in communities or regions where the major features are broadly comparable with those on Norfolk Island and making adjustments to it to better recognise any other circumstances of Norfolk Island. (p. 4)

Thus the concept is used flexibly, at both state and local government services levels. The idea will require further examination (see below).

"unique circumstances". The special circumstances under which Norfolk Island finds itself are set out in Chapter 2 of the CGC report. As there explained, these unique circumstances include matters relating to:

- ❖ location: the island being both remote and isolated;
- ❖ economy: in relation to tax bases, service delivery;
- ❖ population issues: such as size, age distribution, socio-economic status, community and culture; and
- ❖ governance and service delivery arrangements: including service delivery arrangements and grants to local governments.

These items provide adjustment factors that may be applied in circumstances where Norfolk Island is adjudged uniquely different from mainland Australia. More will be said of these matters below.

"average Australian revenue raising effort". The Report explains with regard to state-based taxes and charges:

We estimated Norfolk Island's capacity to raise revenue from each tax by applying the average tax rates and exemptions of the States and local governments to the potential revenue bases on Norfolk Island.

This approach gives an estimate of what Norfolk Island could raise if the average tax policies of the States were applied to its potential revenue bases. It recognises all communities within a State face the same tax regimes but the per capita amounts raised may differ from community to community because their circumstances and potential revenue bases differ. (p. 42)

And for local-government-based taxes and charges:

The assessed local government revenues have been derived by the same broad process as that used for State revenues. That is, for each tax or charge, the revenue raising policies observed in broadly comparable circumstances on the mainland have been applied to estimates of the revenue base on Norfolk Island.

The choice of the mainland circumstances used to derive the base or standard revenue raising policies for each tax or charge depended on what we considered was most consistent with the circumstances of Norfolk Island. In some cases, we derived the base or standard policies from an average of those adopted by local governments in all or selected States (such as Tasmania), in others we based them on King Island policies.... (p. 55)

Other terms of considerable relevance are:

"average efficiency".

As in all other Commission inquiries, we have assumed the average level of efficiency is reflected in the average amount spent by States, local government or comparable communities. However, an allowance has been included to recognise that some costs incurred in delivering administrative and regulatory services are independent of the size of the community. (p. 4)

"Capacity". This is commonly defined as the maximum amount something can contain or produce, although the term is not specifically defined by the CGC. The emphasis here is however on "capacity to pay".

2.4 Estimation of the costs of service provision

(i) state-type services: viz. schools; post-secondary education; health; justice; welfare; housing; services to communities; transport; services to industry, other expenses.

Cost of provision of these services on Norfolk Island have been estimated as the cost of services normally provided by State governments in comparable communities, possibly with some "unique circumstances" adjustment, and assuming that Norfolk Island operates at the Australian average level of efficiency.

In the CGC Report a wide variety of estimation methods are used. Here are two examples from the CGC Report (with slightly edited text in some cases):

Schools (CGC Report, p. 65):

The Commission's assessment of State school expenses uses a regression model to estimate service delivery costs. Based on school profile and financial data from the Australian Curriculum, Assessment and Reporting Authority, the model measures the effects of the following school and student characteristics on service delivery costs:

- . schools size (enrolments)(with 9% loading per student for NI)*
- . student remoteness area (with 55% loading per student for NI)*
- . socio-economic status (with 66% loading per student in lowest SES quintile)*
- . Aboriginal or Torres Strait Islander status (with 54% loading for ATSI students).*

The regression estimate for the cost of school services on Norfolk Island is \$5.5 million or \$19,129 per student (287 students), whereas the base Australian average cost per mainland student is \$10,862.

On-island hospital services (CGC Report, p. 71):

NIHRACS is a small facility in a very remote location. If it was on the mainland it would be considered as a block-funded hospital. Based on the current level of on-island activity and using King Island's similar sized very remote facility as a benchmark, we have classified the on-island facility as a middle-range block-funded hospital in the Independent Hospital Pricing Authority's service volume group C.

The Independent Hospital Pricing Authority uses actual expenses from mainland hospital procedures to estimate the costs of procedures in very remote contexts, taking into account: the health and demographic status of patients in very remote contexts, the costs of servicing patients in very remote hospitals and the complexity of treatment provided to acute and sub-acute patients.

The pricing authority's costing for block-funded hospitals in group C provides a benchmark estimate of on-Island hospital costs, of \$5.5 million in 2017-18.

(ii) local government services: viz. general administration; health, housing and welfare; law order and public safety; planning and community amenities; environmental protection; recreation and culture; roads and bridges; depreciation; airport; other services.

The CGC Report notes:

For most services, the calculation began with the Australian average spending by all councils with adjustments for remoteness (34%), isolation (5%) and wages...

For general administration and depreciation, King Island actual per capita expenses and asset values provided the starting point with adjustments for isolation and wages.

A summary of assessment methods for local government type expenses is given in the CGC Report at p. 94.

2.5 Estimation of Norfolk Island revenue raising capacity

Table 1 summarises the methods by which Norfolk Island was assessed for revenue raising and the modifications made for the island's particular circumstances, for both State taxes and charges and local government taxes and charges.

Table 1: CGC Estimation Methods for NIRC revenue raising capacity

Revenue source	Norfolk Island assessment tax base
State taxes and charges	
Payroll tax	Average of state policies – only banks on NI are above threshold
Land tax	Average of state tax rate for each value range – land values from NI Valuer General
Stamp duty on conveyances	Average of state tax rate for each value range – applied to NI conveyances
Insurance tax	Limited NI data available – used per capita premiums paid in Tasmania
Motor tax (rego)	Average of state fees for light and heavy vehicles; stamp duty on initial registrations and transfers – as Tasmania
Mining	Average Australian royalty per tonne of rock produced
Gambling tax	Average state gambling tax revenue per capita applied to NI pop'n
Other fees & charges	Ave of state revenue per capita from charges in this category
Local government taxes and charges	
Municipal rates	Limited NI data available; used per capita King Island rate revenue, modified by relative land values and NI pensioner rebate
Other – fees and charges	Average per capita non-rate revenue King Island
Cwlth financial assistance and road grants	Per capita grants for Brewarrina Shire made by NSW gov't
State govt grants	Average per capita grant by NSW to local governments, by NI pop'n

Source: CGC Report, 2019. Attachments C and D.

As the CGC Report details, State policies themselves can be variable, so there can be variability in what is determined to be "average". With regard to local government taxes and charges, King Island and Brewarrina are identified to as "comparable communities" in different circumstances, and comparisons are also made to Shoalhaven City Council, and to the Northern Territory.

2.6 Assessed overall expenses and revenues

As a result of the detailed analyses carried out, the CGC provided its results in summary form, as reproduced here as Table 2 (CGC Report, Table 1).

Table 2. Norfolk Island revenue and expenses: assessed and actual, 2017-18

	Norfolk Island assessed		Norfolk Island actuals	
	\$ per capita	\$m	\$ per capita	\$m
Revenue				
State	1,824	3.2	1,335	2.3
Local	4,460	7.8	4,698	8.2
Total	6,284	11.0	6,033	10.6
Expenses				
State	18,237	32.0	18,954	33.3
Local	3,168	5.6	3,980	7.0
Total	21,405	37.6	22,934	40.3
Funding difference				
State	- 16,413	- 28.8	- 17,619	- 30.9
Local	1,292	2.3	717	1.3
Total	- 15,121	- 26.6	- 16,901	- 29.7

Source: CGC staff analysis (CGC, 2019, p. xv)

The CGC Report explains:

[Table 2] compares the amounts Norfolk Island actually spent and raised in 2017-18 with what it would have spent and raised if it operated like comparable communities. In 2017-18, there was a difference of \$26.6 million between the Norfolk Island State and local government assessed revenues and expenses. This is the net assistance needed to provide comparable State and local government services at average levels of efficiency, if comparable State and local government revenues were raised.

The difference between assessed State-type revenues and expenses was \$28.8 million. However, local government grants (including the assessed revenue from State-type grants) and own source revenue exceeded the amount needed to provide comparable local government services. The assessed local government surplus would provide NIRC with the capacity to fund some capital expenditure on new local government-type infrastructure. (p. xiv-xv)

It is evident that Norfolk Island is in considerable deficit in revenues raised, in relation to the cost of government services provided. However regrettable that may be, it is a circumstance it shares with many local government areas across Australia. State-based surveys suggest that between 25 per cent and 40 per cent of Australian councils are financially unstable, while a sample-based national survey has indicated a figure of between 10 and 30 per cent. (Access Economics, 2006; Price Waterhouse Cooper, 2006) Those local governments considered the least financially viable are accumulated in the categories of "rural agricultural" and "rural remote". An analysis by the NSW Treasury Corporation (2013) found that in 2012 only one third of NSW councils reported an operating surplus, and that the financial sustainability position was expected to deteriorate for nearly 50 per cent of all NSW councils.

3. A Norfolk Island Perspective

Note: In this Section all dollar prices were recorded prior to the first Australian National Cabinet Meeting in relation to the COVID-19 emergency (15/03/20)(with one exception as noted).

3.1 The main issue

Suppose for argument's sake that at some time the levels of prices on Norfolk Island were – for some undisclosed reason – substantially higher than the level of prices in Australia. This would have the consequence of overstating the capacity of the Island to pay taxes and charges directed at providing public services, when compared to an Australian average. This is the principal matter that requires examination here.

One aspect that arises in this consideration is in relation to the "unique circumstances", which provide factors which might be brought into play to adjust for locational, economic, population, and governance issues, particular to Norfolk Island. What is noteworthy about the Report's description of the unique circumstances of the island (CGC Report, Chapter 2) is that although it is acknowledged that special circumstances may occur in either the costs of service provision and/or in the ability of Norfolk Island to raise revenue, almost all of that discussion is in fact carried out in relation to the former. And this is reflected in the specific applications to individual services as described in the Report.

To take some examples: the cost of *delivering school services* on Norfolk Island is given a loading of 55 per cent per student on account of the remoteness area (as previously noted); the cost of *providing services* for family and child protection is given a loading of 10 per cent on account of the use of contractors, and 5 per cent on account of the island's isolation. On the other hand, we can find no case of a calculation for *raising revenue* – state-type (CGC Attachment C) or local government type (CGC Attachment D) – where a rider is applied in relation to particular circumstances on Norfolk Island.

Related to this is the matter of "comparable communities". With regard to Norfolk Island's revenue raising capacity: for State-type taxes and charges, the CGC assessment is essentially based on average Australian State tax rates applied to Norfolk Island (or in two instances, Tasmanian); and for local government type taxes and charges the assessment is based on levels in King Island and Brewarrina (see Table 1). That is to say that, in terms of the analysis, Norfolk Island – after any adjustments made – is to be compared to King Island (or for a few details Brewarrina) as most comparable in terms of revenue-raising capacity for local government type taxes and charges, and compared to "Average Australia" (or Tasmania) in terms of revenue-raising capacity for state-type taxes and charges. It is the acceptability of these assumptions that is at issue.

From a Norfolk Island perspective, we need to start at the local level.

3.2 Norfolk Island, King Island and Brewarrina

Table 3 compares some basic statistics for Norfolk Island with those of King Island and Brewarrina. Norfolk Island is more akin to King Island than to Brewarrina on the variables displayed. Even so, in comparison with King Island, Norfolk Island's GTP is half that of King Island on a per capita basis, and Norfolk Island has a 16 per cent lower median household weekly income, a 30 per cent higher median monthly mortgage repayment, and an eight per cent higher median weekly rental payment. Median mortgage payment as a percentage of household income is 29.6 per cent on Norfolk Island, over ten percent higher than on King Island. The figure of 30 per cent of income spent on housing is equal to the Australian threshold figure for "rental stress". Mortgage and rental payments as a percentage of household income are also higher on Norfolk Island than in Brewarrina.

Table 3. Basic statistics for Brewarrina Shire, King Island, and Norfolk Island (2016)¹

Variable	Brewarrina Shire	King Island	Norfolk Island
Population	1,651	1,585	1,748
Private dwellings	725	842	1,080
Ave people per household	2.6	2.1	2.2
Median household weekly income	\$864	\$1,199	\$1,012
Median monthly mortgage payment	\$433	\$1,000	\$1,300
Median weekly rent	\$90	\$128	\$138
Gross Territory Product (GTP)		\$150m (2017-18) ²	\$82m (2016) ³
Mortgage as percent of household income (medians, monthly)	11.6%	19.2%	29.6%
Rent as percent of household income (medians, monthly)	10.4%	10.6%	13.6%

Sources:

¹ Basic data from ABS 2016 Census QuickStats; populations various

² King Island Council, 2019.

³ KPMG, 2019, p. iv.

3.3 Norfolk Island prices

We consider the major determinants of prices on Norfolk Island and compare them where possible with those of King Island and Brewarrina.

(i) freight rates

Every thing that comes to Norfolk Island is transported either by sea or air freight. Table 4 compares sea and air freight rates (per revenue tonne and per kilogram respectively) to Brewarrina, King Island and Norfolk Island, from their associated metropolises.

The cargo ship serving King Island is the *John Duigan*, an 80m long and 16m wide landing craft, built in 2018, and designed for containerised, bulk and vehicular cargo and livestock. The cost of stevedoring at both ends is included in the freight charge.

For Norfolk Island, cargo shipments from Sydney to Norfolk Island must come via Auckland, as there is no direct shipping service between the Australian mainland and this island. In Auckland sea freight attracts transport and repackaging charges and Customs fees, and at Norfolk Island various stevedoring and other charges accrue based on the fact that all cargoes are brought ashore by lighters from ships unloading in ocean waters. To which it must be added that because of the way shipping charges are imposed, there is almost no difference in the cost of shipping one revenue tonne of goods to Norfolk Island from point of origin Sydney or point of origin Auckland: freight trans-shipment charges aside. The details of Sydney to Norfolk Island sea freight costs are set out in Appendix I.

Table 4. Freight charges from capital cities, current March-April 2020

Variable	Sydney to Brewarrina	Melbourne to King Island	Sydney to Norfolk Island
Sea freight (per rev tonne) ¹			
- basic	n/a	\$171.65	\$285.00
- taxes & charges		\$28.23	\$417.32
Total		\$199.88	\$702.32²
Air freight RPT (per kg) ³			
- basic		\$4.00/kg (\$17 min)	\$2.65/kg (\$35 min)
- taxes, charges		Nil	\$30 + \$0.21/kg ⁴
Total			
- 10 kg		\$40.00	\$81.50
- 20 kg		\$80.00	\$100.00
Air freight charter (per kg) ⁵			
- basic			\$3.75/kg (\$35 min)
- taxes, charges			\$30 + \$0.21/kg ⁴
Total			
- 10 kg			\$83.55
- 20 kg			\$122.00
Road freight (tonne) ⁶	\$271.97	n/a	n/a
Distance	760km	246km	1,673km

Sources:

¹ Sea freight data from Transam Argosy P/L (NI), Foodland P/L (NI), Christian Bailey Agencies P/L (NI), Currie Cargoes (KI)

² See further Appendix I

³ Air freight by RPT (regular passenger transport) data from Air New Zealand; King Island Airlines, Sharp Airlines

⁴ Airways bill \$30; security fee \$16 or 16c/kg whichever is greater; NI waste mgmt levy 5c/kg

⁵ Air freight charter data from Toll Group, Burnt Pine Travel (NI)

⁶ Western Parcel Express: goods palletised, 1 tonne, Sydney to Bourke (add Bourke-Brewarrina)

As Table 4 shows, with regard to sea freight the cost per revenue tonne from Sydney (or Auckland) to Norfolk Island is roughly **two hundred and fifty per cent higher** than the cost from Melbourne to King Island. This is a huge impost on every item of goods that arrives on Norfolk Island – from foods and household goods, to commercial and industrial equipment, to stock feed, and to construction materials such as roofing iron, timber and cement. For those living on Norfolk Island, the cost and consequences of sea freight charges outweighs almost every other commercial consideration. (Regarding foodstuffs, Management at Foodland P/L Norfolk Island attest that - within the limits imposed by Biosecurity Australia as to the origin of specific products - the company sources product to ensure lowest cost for items as landed on Norfolk Island, and that items sourced from New Zealand are those less costly overall than those sourced from Australia.)

It should also be noted in terms of sea freight rates that Neptune Pacific Line – the only shipping company currently serving Norfolk Island: (i) announced on 3 April 2020 an increase in CABAF (a fuel adjustment factor) from 34.5 percent to 42 per cent of the ocean freight charge; and (ii) a 10 percent increase in freight rates from New Zealand to compensate for a depreciation of the New Zealand dollar against the US dollar; both new charges to commence in May 2020. (See further Appendix I.)

Because of the lack of any direct shipping service from Australia to Norfolk Island, and as a result of the current indeterminacy of the shipping service from New Zealand (see Section 3.4), an increasing volume of cargo is air-freighted to the island. Due to the limitations of air cargo on regular passenger transport services imposed by passenger loadings, Norfolk Island has come to rely increasingly on air charters, at greater freight cost.

(ii) energy prices

Table 5 compares energy unit prices for the three locations of Brewarrina, King Island and Norfolk Island. On the date of record, petrol price per litre was four per cent higher on Norfolk Island than King Island and diesel price per litre 11 per cent higher (and 59 per cent and 54 per cent higher respectively than in Brewarrina). Electricity price per kilowatt hour on Norfolk Island is 42 per cent higher than on King Island, and the cost of 550kWh of electricity on Norfolk Island (a representative average electricity usage by one household over a billing period of 3 months) is **58 per cent higher** than the cost on King Island.

Table 5. Energy prices, 3 localities, February-March 2020

Energy unit prices (29/02/20)	Brewarrina	King Island	Norfolk Island
Petrol/litre	\$149.9	\$220	\$239
Diesel/litre	\$154.9	\$215	\$239
Electricity - price/kWh - cost 550 kWh (w. charges) ¹		28.93c \$243.62	70.00c \$385
LPG (45kg) ²	\$184.40	~\$200	\$215.95

Sources:

Petrol, diesel prices: Service stations in Brewarrina, King Island, Norfolk Island.

Electricity: Hydro Tasmania, NIRC. Tariffs are the same for businesses and households.

¹ King Island: add service charge 84.58c/day; meter charge 8.29c/day.

² As at 16/03/20.

(iii) food prices

In recognition of the substantial difference in prices between Norfolk Island and mainland Australia, the Norfolk Island Legislative Assembly established its own retail price index (RPI) with the passage of the *Retail Price Index Act 1983*. This index was calculated regularly over many years, although not after 2013.

An informal study of supermarket prices for a range of 39 items, carried out in December 2019, which compared prices on Norfolk Island with those of a suburban Brisbane supermarket, indicated that Norfolk Island prices ranged from slightly less than Brisbane prices (4 items) to over double the Brisbane price (5 items). The average price increase for Norfolk Island compared with Brisbane over the 39 items was +46 per cent, and the **median price was higher by 28 per cent**. (Nobbs, 2020)

Efforts have been made by the Regional Council towards restarting the RPI. KPMG in its August 2019 report on the monitoring of the Norfolk Island economy, made this as its first recommendation. (KPMG, 2019)

(iv) wages and superannuation

Under the pre-2016 regime on Norfolk Island there was considerable flexibility in employment with regard to working hours, shift lengths and overtime, which were conformable to the needs of on the one hand the tourist industry (e.g. days of flight arrivals and departures; preferences of tourists regarding shopping etc.; accommodation room cleaning), and on the other hand to employees' choices, responsibilities and home duties.

With regard to wage levels at that time, some were higher than the equivalent Australian award, but there was also some trade-off between wage and flexibility for workers. With imposition of the

Australian Modern Awards System in 2016 this flexibility has been lost, particularly with regard to minimum shift length, and weekend overtime (when tourist flights often arrive). A case mounted by the Norfolk Island Chamber of Commerce (assisted by the NSW Chamber) before the Australian Fair Work Commission, for Norfolk Island employment contracts to be specifically designed to counter some of these problems, at least temporarily, was rejected.

Prior to the changes introduced by the Australian Government in 2016, superannuation was the responsibility of the individual, excepting the Norfolk Island Public Service which had its own scheme.

Payment by Norfolk Island businesses of employee superannuation under the Australian Superannuation Guarantee commenced 1 July 2016 at one per cent of employee normal earnings, moved to two per cent on 1 July 2017, to three per cent on 1 July 2018, and increased by one per cent annually after that. The current Australian 2019-20 rate of 9.5 per cent is fixed by Commonwealth legislation until 2020/2021, after which it will rise by 0.5 per cent per annum until it reaches 12.0 per cent per annum in 2025-26 and henceforth. However in 2020/2021 the rate on Norfolk Island will have reached only 5.0 per cent per annum, so on the island the rate will continue rising at 1.0 per cent per annum until 2027/2028.

(v) fares to major cities

Table 6 gives details of the cost for return fares from Brewarrina, King Island and Norfolk Island to their relevant metropolises, as advertised publicly in early March 2020, for travel over that year. Such flights are (were) available daily from King Island, three days per week from Brewarrina, and two or three days per week from Norfolk Island. For Brewarrina the option of land-based travel also exists.

Table 6. Basic return fares one adult, between named locations, 2020

Variable	Brewarrina – Sydney	King Island – Melbourne	Norfolk Island – Sydney	Norfolk Island – Brisbane
Air fare	\$497, \$698 ¹	\$304 - \$436 ²	\$508-\$666 ³	\$561 - \$981 ³
- days of week	3	7	3	2
Sea fare	n/a	n/a	n/a	n/a
Land fare				
- train/coach	\$161 ⁴	n/a	n/a	n/a
- drive	\$140	n/a	n/a	n/a

Sources:

¹ Pelican Airlines: Cobar-Sydney, add Brewarrina-Cobar cost; 1 bag (20kg max); cheaper flight for Far North West NSW residents only.

² Sharp Airlines, King Island Airlines: 1 bag (15kg max); no food; excl. govt taxes and charges.

³ Air New Zealand: 1 bag (23kg max); no food; excl. govt taxes and charges. Flights for March, May, August, November as advertised online 13/03/20. Prices vary dependent on season, time before travel.

⁴ NSW Trainlink.

We note the following factors:

(a) That air travel from Norfolk Island to mainland Australia is **more than double** the equivalent travel cost from King Island, and for Brewarrina there exists land-based transport at half the price of the King Island air fare, or around a quarter of the air fare for Norfolk Island;

(b) Because flights from and to Norfolk Island are restricted to few days of the week, travel to Sydney or Brisbane may also incur significant accommodation and city travel costs for the traveller;

(c) A need to travel at short notice from Norfolk Island to the Australian mainland confronts much higher air fares than those indicated in Table 6, on account of Air New Zealand's practice of raising advertised fares substantially as departure date approaches;

(d) There are many reasons why trips to Australian capital cities by Norfolk Island residents may be essential, both for businesses and for households:

- ❖ business needs that cannot be adequately done or completed online e.g. large machinery purchases, attendance at trade fairs, recruitment;
- ❖ businesses and households seeking professional advice unavailable on Norfolk Island e.g. tax and estate matters, loan facilities;
- ❖ anyone seeking medical assistance unavailable on the island (with or without Norfolk Island Patient Travel and Accommodation Assistance Scheme - NIPTAAS). Plus expenses in Sydney. Need is augmented because there is no operating theatre on Norfolk Island. For some Norfolk Island residents this is a regular journey, often quarterly.

3.4 Some additional issues

In addition to the factors mentioned above, Norfolk Island is subject to a number of additional issues, not experienced by King Island or Brewarrina, which impose additional costs of time and/or money on the Norfolk Island community, and in so-doing decrease further its ability to raise revenues.

On-going shipping crisis. In recent years, Norfolk Island has been served by two freight ships, the *Capitaine Wallis* and the *Southern Tiare*. These ships have provided regular service of around 12 voyages per year to adequately provision the island. Following an accident on the *Capitaine Wallis* it has been removed from service, precipitating a serious crisis in freight provision. This is because of the rudimentary means of unloading ships at Norfolk Island, and the very limited number of ships that can accommodate to conditions on Norfolk Island. Although the *Southern Tiare* has been chartered to provide six voyages in 2020, no alternative ship has so far been identified as available in the Pacific Region to augment supply.

Although some foodstuffs and other provisions can be uplifted to the island by air – at substantially increased costs – many supplies cannot e.g. heavy food goods such as flour, sugar, packaged milk, stock, poultry and pet foods, canned and bottled products; and building and plumbing goods. As long as this situation continues Norfolk Island will suffer further price rises and diminished economic and building activity.

Commonwealth legislation without concern for Norfolk Island. Over the period 1979-2015 all Commonwealth legislation was subject to the rider that it would not extend to Norfolk Island unless expressly stated to do so. Since the change of regime in 2016 and despite the unique position of Norfolk Island – as acknowledged by the CGC Report – this proviso has been abolished. In consequence it is likely that in future Commonwealth legislation will be imposed on Norfolk Island without due consideration of its effects on the island. This is likely to impose additional costs on the island, whether fair or not.

Land custodianship. Norfolk Island families of Pitcairn origin do not consider land as a mere fungible asset, but as a cultural possession to be passed on to descendants as part of their island identity. The imposition of municipal land rates on Norfolk Island by the Commonwealth has substantially disadvantaged these families, often being land rich but cash poor. There is therefore on Norfolk Island an active group campaigning for the removal of land rates as a means of revenue raising, a proposal being investigated currently by Councillors.

Interactions with Commonwealth departments. In Norfolk Island's experience in recent years Commonwealth departments often impose decisions on the island without consultation or negotiation, which means abrupt change in conduct and economic costs for the island. e.g. biosecurity decisions by the Department of Agriculture, Water and the Environment (DAWE). Some DAWE biosecurity

decisions have directly weakened the island's traditionally high ecological protection levels. Government departments often do not respond to correspondence e.g. to a private Norfolk Island proposal for the establishment of a bee sanctuary on the island, DAWE took eight months to respond that the Department did not have the powers to establish such a sanctuary on Norfolk Island. (Buffett & McPherson, 2019) Some Commonwealth departments (and also some Australian businesses) do not accept Norfolk Island telephone numbers as legitimate for on-line log-ins or service access; at least one department on some of its webpages does not accept 2899 as a legitimate postcode (author's experience, 1 May 2020).

3.5 Summary and analysis

For a range of matters prices and costs on Norfolk Island are not comparable to those on King Island (or Brewarrina). These are summarised in Table 7.

Table 7. Summary comparison of economic variables: Norfolk Island and King Island

Norfolk Island has, in comparison to King Island:

- Gross Territory Product (GTP) per capita lower by 50 per cent
- median household weekly income lower by 16 per cent
- median monthly mortgage payment higher by 30 per cent
- median weekly rent higher by 8 per cent

And:

- sea freight rates higher by 250 per cent
- air freight rates (passenger aircraft) higher by up to 100 per cent
- petrol, diesel and LPG prices higher by around 10 to 11 per cent
- electricity prices (family bill) higher by 58 per cent
- air fares to metropolises higher by more than 50 to 70 per cent (NI to Sydney),
by 85 to 125 per cent (NI to Brisbane)

Together with:

- higher food prices (~ 30 per cent?)
- additional adjustments to Australian superannuation guarantee levy over time
- an on-going crisis in freight shipping to the island
- complexities from land custodianship and municipal rating.

Sources: Tables 3–6, this paper.

The CGC has chosen King Island as that Australian local authority area which reflects most closely conditions on Norfolk Island. However on all the economic indices we have (above), and without exception, Norfolk Island fares worse than King Island. The notion that Norfolk Island is a "comparable community" to King Island for the purposes of revenue raising – even on a flexible interpretation of that concept – appears therefore, on the evidence available, to be extremely weak. For it is not the case that one island is advantaged or disadvantaged in relation to the other in a random fashion, but that on all the above indicators Norfolk Island shows a systematic bias to disadvantage.

The evidence is that prices and the costs of living and doing business on Norfolk Island are far higher than is the case for King Island. On the evidence available it is not possible to estimate the extent of that difference, but with Norfolk Island sea freight costs 250 per cent higher, air transport costs to the metropole 85 to over 100 per cent higher, and electricity bills around 60 per cent higher, the difference is evidently great.

For Norfolk Island there is a downward bias of economic capacity and well-being in every indicator when compared to King Island. That is to say that rather than occupying comparable places on the

distribution of local authorities in Australia with regard to revenue raising capacity per capita (and indeed economic well-being), the two appear substantially separated. And it is relevant here to recall the earlier discussion on the lack of "unique circumstances" adjustments for revenue items (Section 3.1 above).

The evidence suggests furthermore and *a fortiori* that Norfolk Island cannot be fairly and reasonably represented by an "average Australian revenue raising effort" for state-type services. This is because there is an underlying assumption being made in the CGC Report that the price levels met by families and businesses on Norfolk Island are at least roughly comparable to those in Australia. However the foregoing analysis shows that this is not the case. (Or: if the claim is made that the price levels are roughly comparable, this has not been demonstrated to be so, and is not supported by the evidence.)

With regard to Brewarrina we do not know what the local price level is, but with lower freight rates (more than 50 per cent less), lower prices for fuels (40 percent less), lower travel prices to its metropole (16 per cent less by air, around 75 per cent by cheapest option), lower median rent (by 35 per cent) and mortgage repayments (by 67 per cent) - but with lower median household incomes by 15 per cent - it is hard to consider that the effective price level (price level in relation to income) there approaches that of Norfolk Island.

3.6 Conclusion: unresolved issues

The CGC Inquiry was invited by DIRDC to estimate the capacity of Norfolk Island to raise revenue for the public services that are provided on the island. The CGC Report of this Inquiry has revealed two unresolved issues of importance.

The first is to demonstrate how far Norfolk Island is from being able to raise revenues to cover the services it currently receives from the Commonwealth, and provides itself as a local government (at "Australian levels" of service). Like many other local governments in Australia, particularly those that are rural or remote, NIRC runs a deficit and with little capacity to fund infrastructure investment.

Second, and from the evidence available, it appears that the CGC has significantly overestimated Norfolk Island's revenue-raising capabilities based on the criteria that it has used. This is because of the much higher price levels on Norfolk Island as a consequence – in particular – of the very high freight rates, fuel costs and travel costs which confront the island and which undercut the expenditure possibilities of businesses and families.

Although the CGC's methodology is no doubt appropriate for state-on-state comparisons, it does not appear to be well attuned to comparisons of Australia with Norfolk Island, without some means of price level comparison and adjustment being included, and/or a close analysis of "ability to pay" amongst other individual Australian local governments being available.

The above analysis was largely carried out prior to the advent of responses to the COVID-19 pandemic. The economic futures for Norfolk Island, Australia, and indeed for the world, may now look different from those in the past, in the light of this experience. However this does not mean that the significance of the issue of fair and appropriate allocation for Norfolk Island discussed in the foregoing is in any way diluted, or that discussion over methods of analysis, and the seeking of improvements to them, should not proceed.

References

Access Economics 2006. *Local Government Finances in New South Wales: An Assessment for the Independent Review Panel*, quoted in (PWC, 2006).

Buffett, M. & McPherson, C., 2019. Letter to *The Norfolk Islander*, 17 August.

CGC, 2019. *2019 Norfolk Island Inquiry: Final Report*. November.
<https://www.cgc.gov.au/inquiries/norfolk-island>

King Island Council, 2019. Submission to Productivity Commission Review of Remote Area Taxes.

KPMG, 2019. Monitoring the Norfolk Island Economy, Report prepared for DIRDC, 26 August.

Nobbs, C., 2020. A note on Norfolk Island food prices, *The Norfolk Islander*, 1 February.

NSW Treasury Corporation (T Corp), 2013. *Financial Sustainability of the New South Wales Local Government Sector: Findings, Recommendations and Analysis*, April.

Price Waterhouse Coopers (PWC) (2006). *National Financial Sustainability Study of Local Government*, Sydney: PWC.

Appendix I

Shipping costs Sydney to Norfolk Island via Auckland - one revenue tonne¹ landed

Excludes: delivery to loading wharf; insurance charges; biosecurity permit costs in Norfolk Island

All dollar prices recorded prior to the first Australian National Cabinet Meeting
in relation to the corona virus emergency (15/03/20)

	A\$ per RVT
Basic Freight charges	
Ocean freight	285.00
CABAF ² (fuel)(at 34.5%) ³	98.32
Low sulphur surcharge (fuel)	17.00
Auckland-based charges	
Auckland repacking surcharge	
-Transfer containers from Sydney to NZ depot & de-van	65.00
Consolidation and documentation	
- repacking to export pallets, wrapping, strapping, documentation (dangerous goods etc), Customs fees	110.00
Norfolk Island charges	
Lighterage charges (ship to shore)	40.00
NI stevedoring surcharge	30.00
NI lighterage penalties surcharge	8.00
NI destination surcharge	8.00
Waste management levy	41.00
	<u>\$702.32</u>

Notes:

¹ Revenue tonne (RVT) equals one cubic metre of volume or one tonne weight,
whichever is greater

² CABAF = Currency Adjustment and Bunker Adjustment Factor.

³ On 3 April 2020, Neptune Pacific Line announced an increase in CABAF to a rate
of 42% from voyage 27 (Scheduled ETA Norfolk Island 8 May 2020)

Appendix II

Department of Infrastructure, Regional Development and Cities CGC 2019 Norfolk Island Inquiry – Terms of Reference

Terms of Reference for the Norfolk Island Inquiry 2019

The Department of Infrastructure, Regional Development and Cities (Infrastructure) is seeking to obtain credible costing-related information to both:

- (1) Support consideration of options for the provision of state-type government services on Norfolk Island; and
- (2) Assist in defining the optimal service provision framework for the delivery of state-type and local government services, and legacy-type government business enterprises.

Infrastructure is seeking estimates of annual expenditure for services on Norfolk Island from the Commonwealth Grants Commission (CGC). CGC will make its calculations with reference to the services available in comparable communities, having regard to the circumstances of Norfolk Island, and assuming that Norfolk Island makes the average Australian revenue raising effort from its state and local government equivalent revenue bases, and that Norfolk Island operates at the average level of efficiency.

CGC will:

- (1) Calculate the amount of annual expenditure, including infrastructure costs, required to provide state-type government services, local government services and support for legacy-type government business enterprises on Norfolk Island, taking into account the circumstances of Norfolk Island.
- (2) Provide a breakdown by expense categories for state-type government services, local government services and legacy state-type government business enterprises.
- (3) Determine the capacity of Norfolk Island to raise revenue from a comparable range of taxes and charges levied by state and local governments.
- (4) Determine the costs of infrastructure that would be required for the provision of state-type government services, local government services and support for legacy state-type government business enterprises at the range and levels provided in the states, assuming Norfolk Island has the average per capita infrastructure at the beginning of the financial year.
- (5) Provide Infrastructure with a final report and modelling tool or mechanism for updating annual expenditure for state-type government services, local government services and legacy state-type government business enterprises, by September 2019.
- (6) Publish the final report on its website, on a date to be agreed with Infrastructure.

CGC will refer to and, where applicable, update the Commission's 2011 Norfolk Island Inquiry, noting that Norfolk Island was self-governing at that time.

[Note: The modelling tool mentioned in item (5) was not finally required.]

Appendix III: Initial Circulation of this Paper

Commonwealth Grants Commission

Mrs. Alison Harper, Assistant Secretary

Commonwealth Parliament

The Hon. Nola Marino MP, Assistant Minister for Regional Development and Territories

Senator the Hon Zed Seselja, ACT Senator

Katy Gallagher, ACT

Mr David Smith MP, Member for Bean, ACT

Department of Infrastructure, Transport, Regional Development and Communications

Mr. Alex Foulds, FAS, Territories

Ms. Nicole Pearson, AS, Norfolk Island and Mainland Territories

Administrator, Norfolk Island

Mr Eric Hutchinson

Norfolk Island Regional Council

Mr. Andrew Roach, General Manager

Mr. Bruce Taylor, Group Manager Services

Norfolk Island Regional Councillors

Ms. Robin Adams, Mayor

Mr. Rod Buffett Mr. John

McCoy Mr. David Porter

Mr. Lisle Snell

Norfolk Island Accommodation and Tourism Association

Mr. Rael Donde, President

Norfolk Island Chamber of Commerce

Mr. Brett Sanderson, President

Appendix B – Rates and Waste Management Fee Increases are Excessive

**Draft Operational Plan
1 July 2022 – 30 June 2023
Norfolk Island Regional
Council**

Submission of the Accommodation and Tourism Association (ATA)



ACCOMMODATION & TOURISM ASSOCIATION INC.

P.O. BOX 452 NORFOLK ISLAND 2899 SOUTH PACIFIC
TELEPHONE: President - Int. +672 3 50033 Secretary - Int. +672 3 50095
www.welcometonorfolkisland.com info@welcometonorfolkisland.com

Mr Rael Donde
President
Phone: 50033



1. Executive Summary

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

1.1 Limited capacity to pay Excessive Fees and Charges.

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

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

1.2 Inconsistent with Community Strategic Plan

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

1.3 Cumulative Increases are unaffordable

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

1.4 Increased charges imposed after Tourism Industry Losses exceeded \$38-mil

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

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

1.6 Shrinking Tax Base will lead to downward economic spiral

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



1.7 Waste Management Fee increase to Accommodation Houses of 247% is unaffordable

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

1.8 Inequitable distribution of the imposed Waste Management revenue burden

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

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

1.10 Land Rates increase is excessive and evidence of poor governance

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

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

1.11 Increasing Business Prices significantly is not an option

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

1.12 Council should expand the tax base

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

1.13 Council should implement a phased approach

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

1.14 Amend Governance Model. Council should work with the community and Federal Government to propose changes to the current Governance model to provide flexibility, reduce the current funding



constraints, and increase options for local government funding. This may provide a better path to sustainability.

1.15 Perceived Futility of Submission Process and Lack of Engagement

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

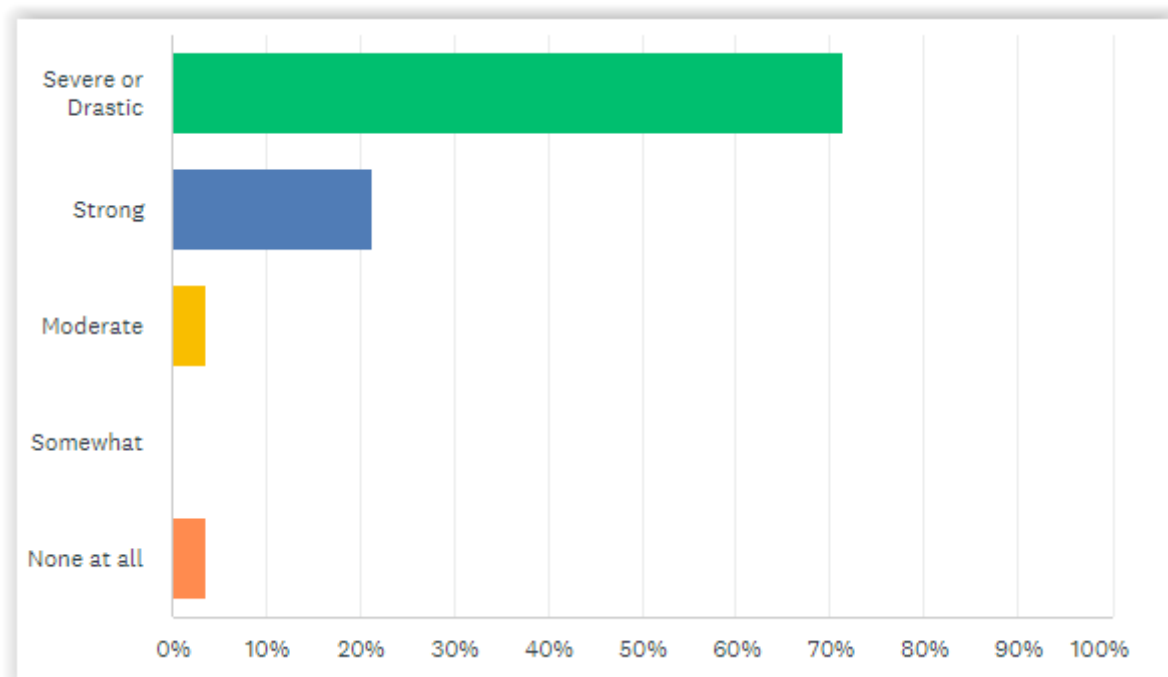
- There are currently no elected council representatives accountable to the community.
- The council has no contingency plans or proposed alternatives.
- Council did not bother arranging a public meeting to hear the community's views.
- Council did not meet with key stakeholders such as the ATA and other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

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

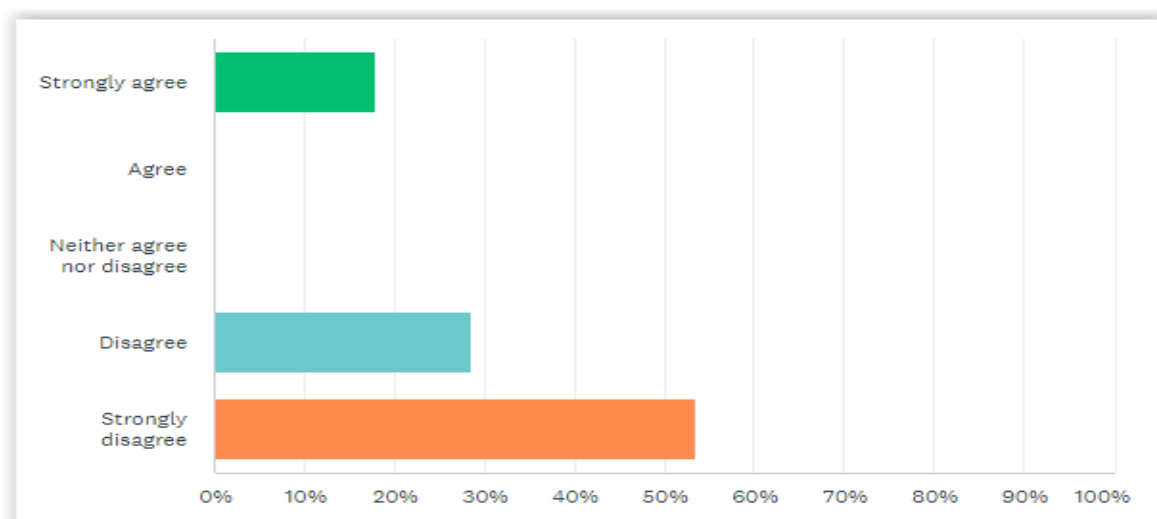
2. Limited capacity to pay Excessive Fees and Charges.

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

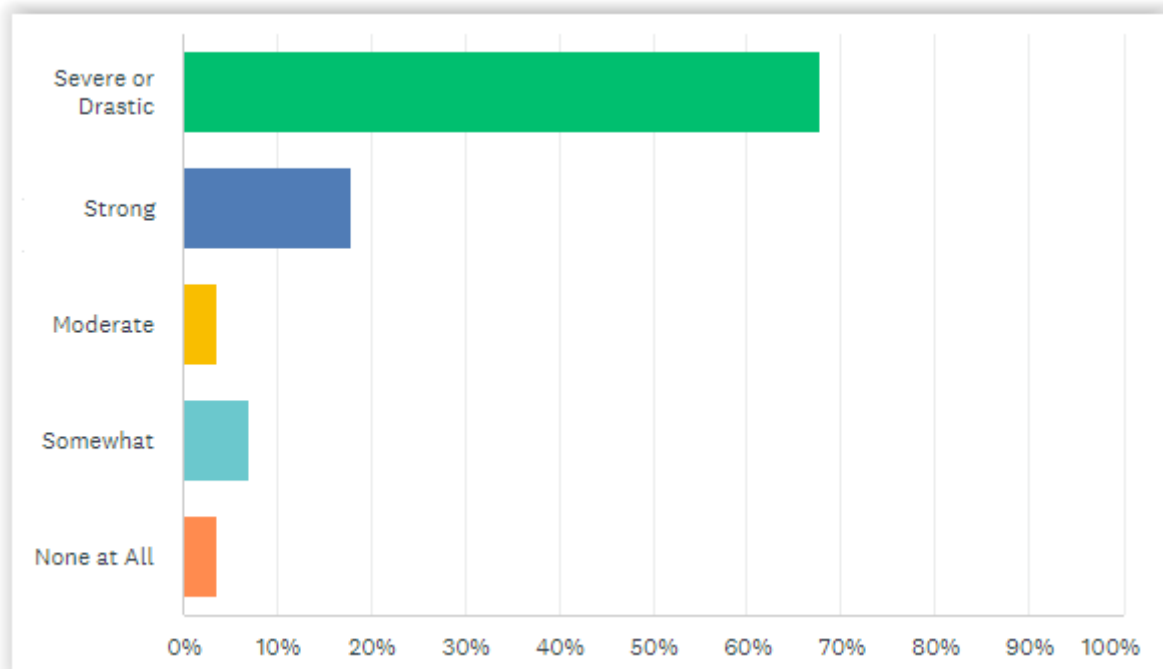
2.1 The Council proposes to tax the community with an additional \$1 million as a waste management fee. Please assess the financial impact on your business.



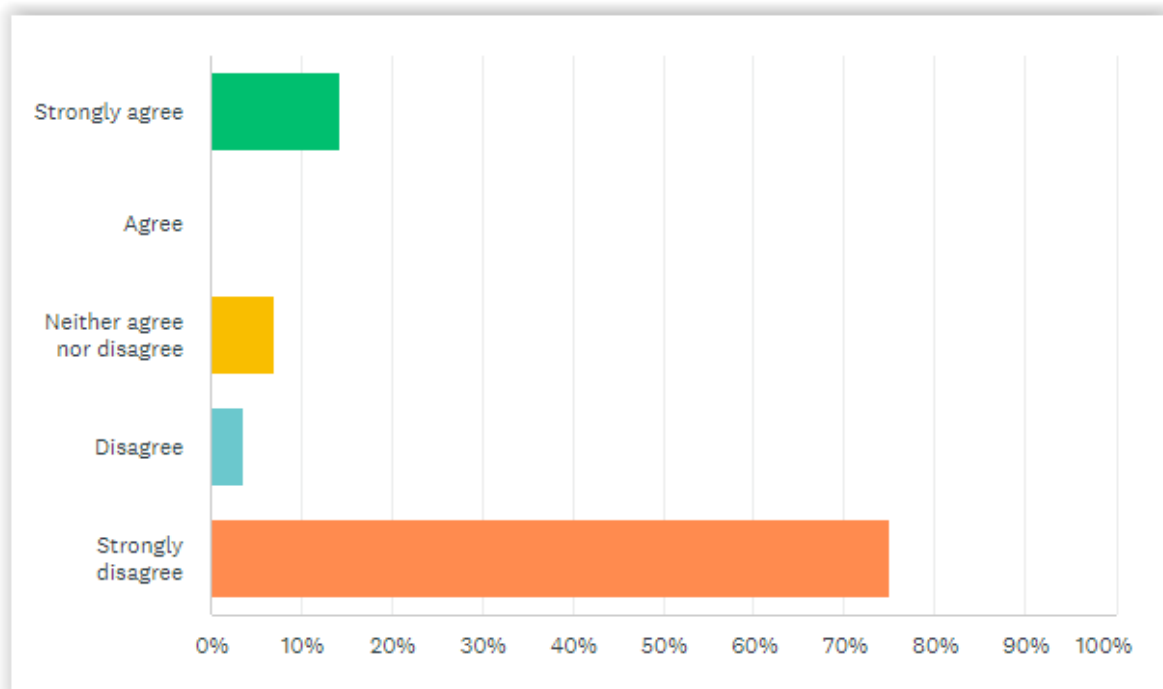
2.2 The Operational Plan states that sub-categorisation is a more effective way to apply differential waste management charges reflecting usage. Do you agree that the sub-category for your business reflects actual usage?



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



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



3. Bad timing: The perfect storm.

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

- 3.1 The community has reduced capacity to pay due to a massive economic contraction from March 2020 and to January 2022, resulting from the Government imposed Covid-19 travel ban. The Norfolk Island tourism industry losses from March 2021 to January 2022 are estimated at approximately \$38 million and will take years to recover.
- 3.2 The accommodation occupancy rate for the year ending June 2022 is at 28%.
- 3.3 Average visitor numbers over the 3-year period of the pandemic years 2019-20, 2020-21 and 2021-22 are down by 27% from the 3-year pre-pandemic average.
- 3.4 After a disastrous 22-month period of record low visitor numbers, these massive council charges will deter businesses from reinvesting in their products and services.
- 3.5 Tourism businesses will struggle to fund upgrades and invest in marketing activities.
- 3.6 The tourism industry is currently facing new market challenges. The latent demand caused by the border closures is dissipating, and new destinations in the South Pacific are re-opening to Norfolk Island's traditional market.
- 3.7 The tourism industry is facing increasing financial challenges in several other areas: Increased charges for fuel, gas, food, freight (more than 3 times King Island), wages (due to acute shortages) and virtually everything else, as well as increasing interest rates with the cash rate expected to be 2% within the 2022/23 year.
- 3.8 Federal Government's imposition of additional costs on the private sector through Income Tax, Increased Employment Costs dictated by the Fair Work Act, Superannuation contribution guarantee cumulative annual percentage increases, Compliance Costs, increased costs through the extension of NSW laws such as Water Quality, etc.



4. Inconsistent with Community Strategic Plan

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

A successful and innovative community

We work to make our economy grow

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

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

4.1 No Consideration of Economic Impact

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

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

5. Poor Current State of the Economy

5.1 Tourism Sector Losses

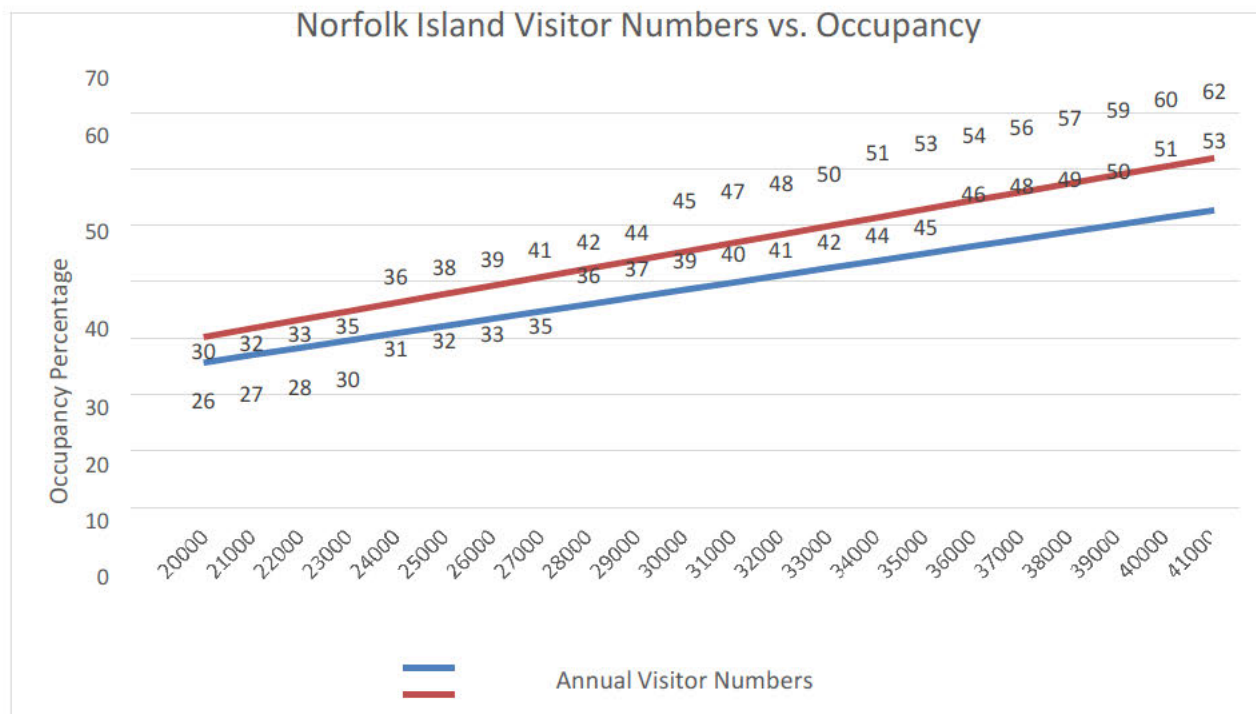
The economy is in a poor position, **exacerbated by the 2020-21-22 travel ban due to the Coronavirus pandemic, and the many border closures.** Many businesses, including most within the accommodation sector, earned zero income for approximately 6 months during 2020, and were teetering on the edge. The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

5.2 Tourist Accommodation Occupancy

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

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

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



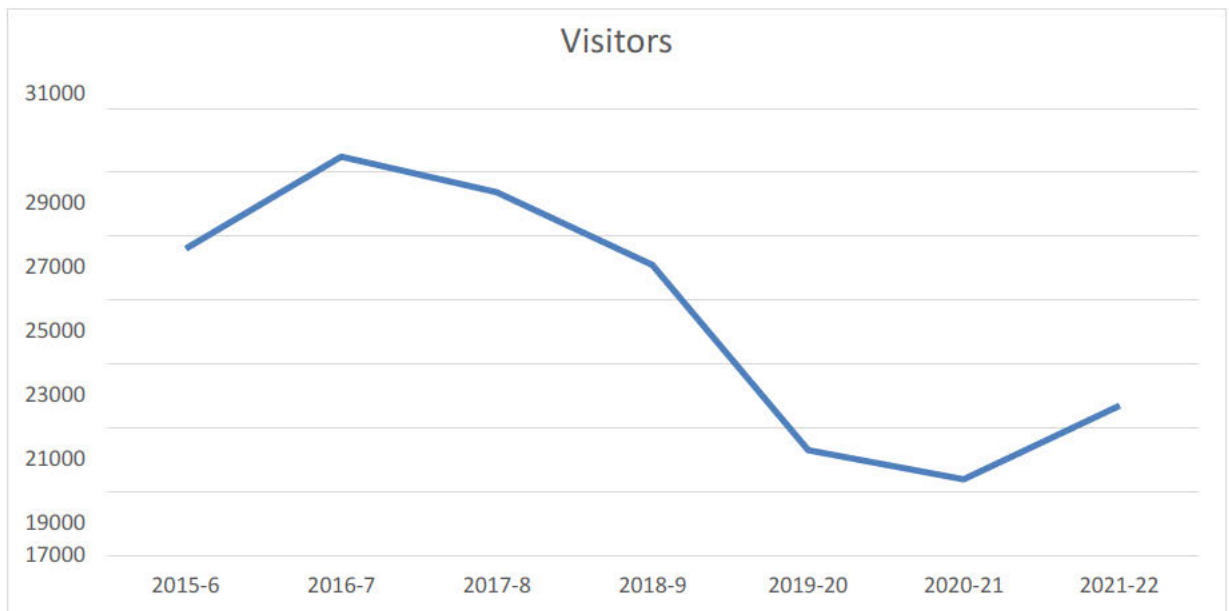
Occupancy Percentage current 529 units
 Occupancy Percentage alternative 450 units

5.3 Visitor Numbers

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



→
Pandemic 27% visitor decline



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

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

Average Annual Visitor Numbers Pre-pandemic 2015-6 to 2017-8: 27,980

Average Annual Visitor Numbers during pandemic 2019-20 to 2021-22: 20,454

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

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

6.0 Waste Management Charges

6.1 Waste Management Fee increase to Accommodation Houses of 247% is unaffordable

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

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

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

Compare this with B:

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

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

Accommodation category A (1-10 units)

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

Accommodation category B (11-20 units)

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

Accommodation category C (more than 20 units)

2021-2 2022-3

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

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

FY 2022-3 WM Fee \$394,718.64

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

FY 2021-22 WM Fee \$123,000

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

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

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

6.2 Inequitable distribution of the imposed Waste Management revenue burden

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

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



7.0 Land Rates

7.1 Land Rates increase is excessive

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

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

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

2021-22 Land Rating Model:

Businesses: Base Rate of \$758 plus Ad Valorem % 0.006125609

2022-23 Land Rating Model:

Accommodation (weighted average A to D) Base: \$2,413.25 plus Ad Valorem % 0.00956094

Percentage Increase:

Base:318% **AdValorem%:56%**

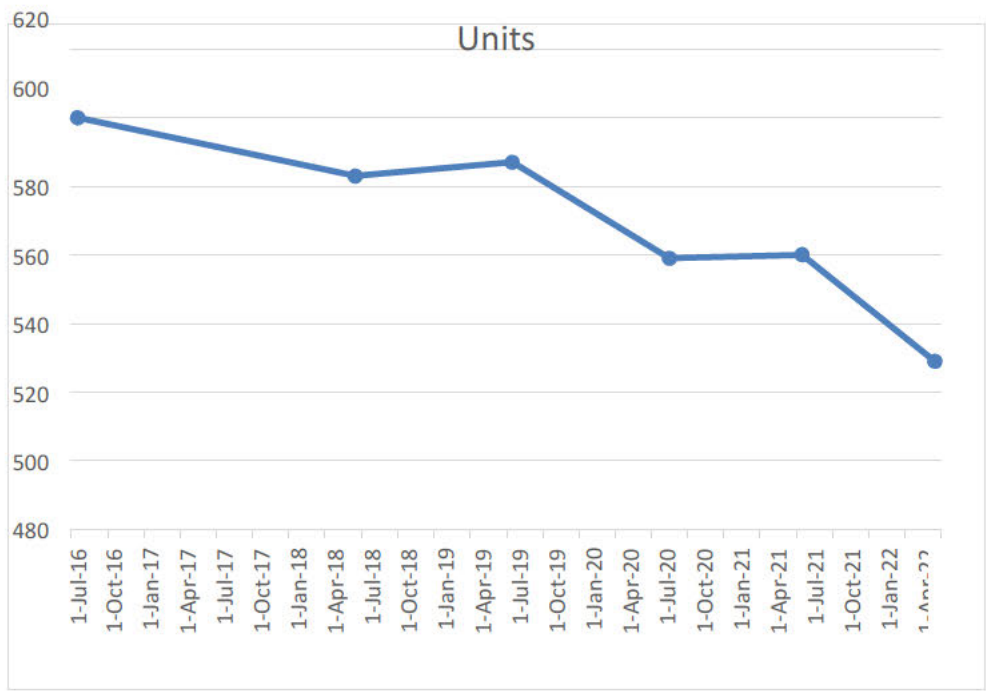
7.2 Operators will exit the industry

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

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

7.3 Shrinking Tax Base will lead to downward economic spiral

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



7.4 Council Rates Increases – Rate Peg protections

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

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

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

8.0 Council lacks Economic Stimulus Plan

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

appears to be limited to the quarterly BITAC Committee meetings. The ATA is concerned that there are no meaningful operational plans to promote economic development, and no accommodation industry involvement.

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

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

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

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

9.0 Governance Framework is unsustainable.

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

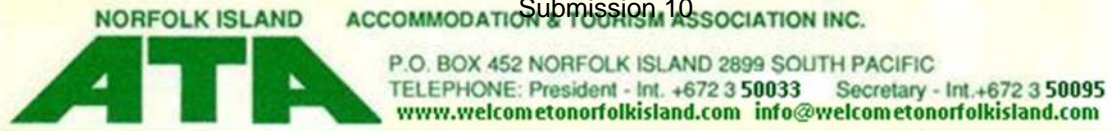
The council appears to be caught "between a rock and hard place". However, it is irresponsible for the Council to continue to simply raise fees and charges to balance certain key functions without appropriate consideration given to the adverse impact on the economy and community and taking adequate measures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

10. Questions arising from Draft Operational Plan document

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

Accommodation houses on the sewer system did not pay zero. The definition of *room* is missing.

The definition of Business – Accommodation D and E is unclear.



Appendix C – Business Survey Results - Rates and Waste Management Fees

**Draft Operational Plan
1 July 2022 – 30 June 2023**

**Norfolk Island Regional
Council**

**Submission
Number 2**

**Accommodation and Tourism
Association (ATA)**

Submitted: 21 June 2022

Accommodation and Tourism Association – Principal Contact

Mr Rael Donde

President

Phone: 50033

1. Executive Summary

Norfolk Island - Impending economic and social crisis

The Norfolk Island Regional Council implements the largest increase in rates, fees, and charges on record

Businesses are willing to pay their way, but it needs to be within their financial means, sustainable and equitable. They need to be provided with sufficient notice to adequately prepare for such extraordinary increases or take measures to exit the industry.

The results of a recent Business Survey, which included members of the Business Council, Chamber of Commerce, ATA, and many other local businesses, point to a devastating economic and social impact that will result from the Norfolk Island Regional Council (NIRC) plan to impose the largest increase on record in rates, fees, and charges for FY 2022-3.

For accommodation businesses, the base component of the land rates will be increased by 318% and the ad valorem rate by 56%. Other businesses face similar increases. Unlike NSW and other mainland States and Territories, there is no rate pegging on Norfolk Island nor any independent authority to protect the community by regulating council rate increases.

The maximum percentage limit of council rate increases in NSW is 0.7%. Exceptions are made to some NSW councils to increase this percentage up to 5% based on population growth or a local government cost index. Rather than exploiting the fact that no such safeguards exist for Norfolk Island, the council is strongly encouraged to pass a resolution urgently limiting the increases in rates and charges. In the interests of good governance, this should ideally be regulated by an independent body.

Waste Management fees will be increased by 247% for the tourist accommodation sector, and many times higher for some entities, but provide no incentive for waste conservation. This is being done before the local economy has been able to recover, and in the face of skyrocketing inflation.

The accommodation sector is the largest employer on Norfolk Island, and the primary driver of the Norfolk Island economy. Nightly rates cannot be increased sufficiently to adequately absorb these astronomical increases, due to competitive and contractual reasons.

Many accommodation bookings are already in place for 2022-23 at rates that cannot be changed. Also, wholesale rates are fixed until 31 March 2023. There is a limit to the level of nightly rates, as visitors have many other choices of travel destinations. Norfolk Island will be at risk of outpricing itself from the market, causing a further decline in visitor numbers. When this happens, wholesalers will also abandon the Norfolk Island market, and the tourism industry and council tax base will quickly unravel.

The council's proposed exponential increase in charges is short sighted, and clearly not a realistic path to sustainability for the private sector nor the council.

The council is recklessly contributing to an economic environment where businesses are unable to upgrade their products and services, or market Norfolk Island as a tourist destination. This is directly contrary to the published council strategic objective to ensure a "strong, diverse and vibrant business environment".

Norfolk Island has just endured a severe financial crisis with one of the largest economic contractions on Norfolk Island, with visitor numbers down 27% compared to pre-pandemic levels and tourist accommodation occupancy at 28% for the year ending June 2022. The local tourism industry losses exceeded \$38-mil from March 2020 to January 2022.

NIRC has not conducted any financial impact assessment or risk analysis. These massive increases on a small tax base will have a devastating impact, which will render the council itself financially unsustainable under the current governance model. NIRC has not seriously explored other sources of revenue with a larger tax base nor considered a phased approach.

The council's proposed revenue model directly conflicts with the Council's stated objective 6 of the Community Strategic Plan to ensure a "strong, diverse and vibrant business environment". It will result in precisely the opposite. The council's transition to sustainability requires a strong local economy to be successful.

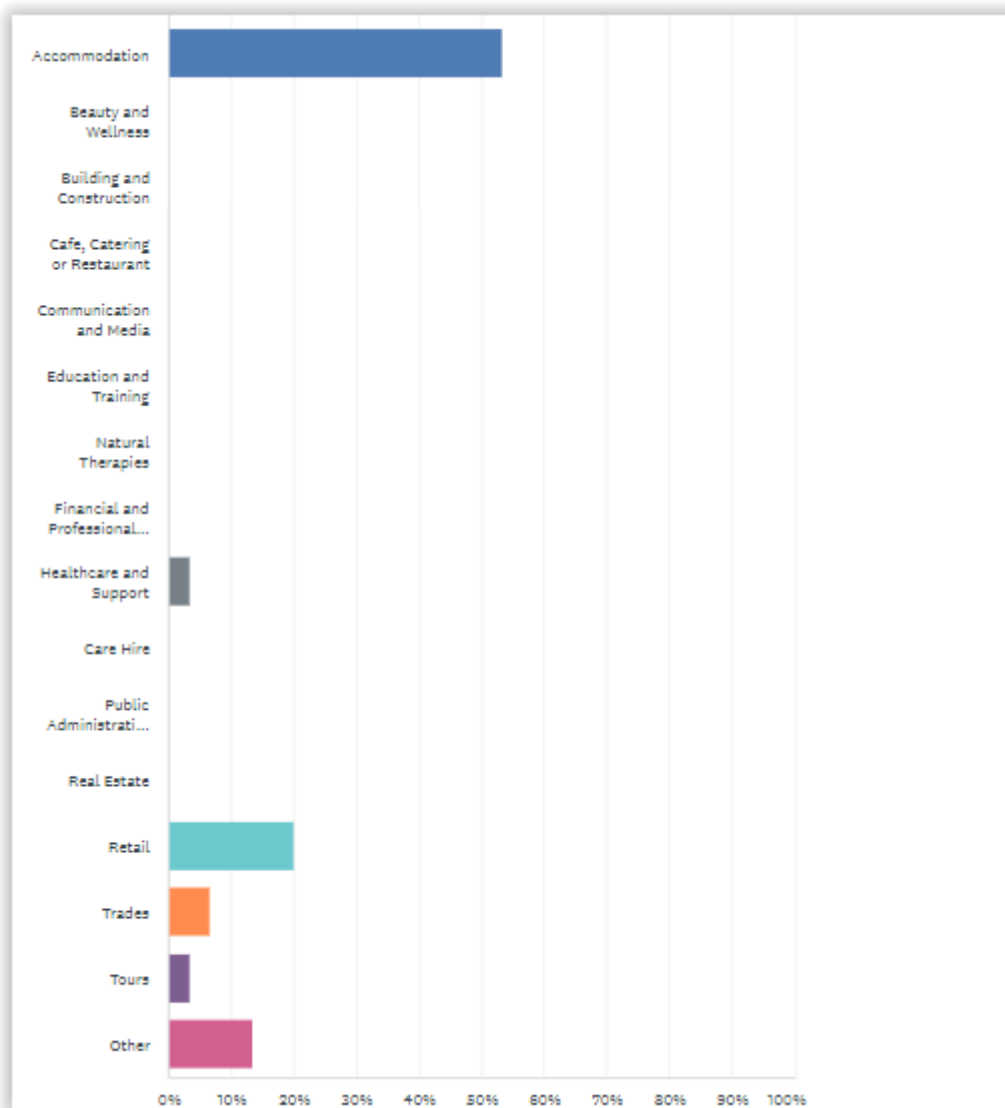
The council is strongly encouraged to demonstrate good governance by engaging with the community and Federal Government to explore other revenue models that lead to economic sustainability for everyone and restore business confidence.

2. Business Survey with Comments

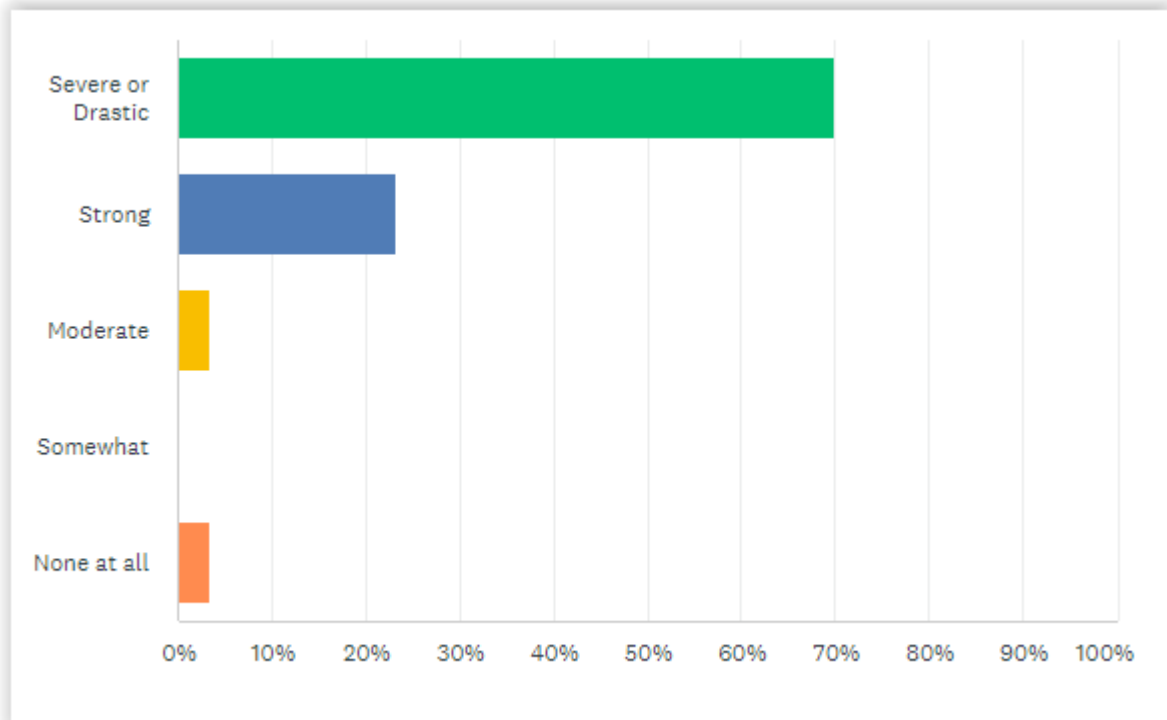
The Norfolk Island Business Survey was conducted in June 2022. Respondents included members of the ATA, Chamber of Commerce, Business Council of Norfolk Island, as well as a cross section of local businesses who are not members of these organisations. The results below show an overwhelming majority of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

Norfolk Island Business Survey – 19 June 2022

1. What type of business do you operate?



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



ANSWER CHOICES	RESPONSES
Severe or Drastic	70.00%
Strong	23.33%
Moderate	3.33%
Somewhat	0.00%
None at all	3.33%

This is another fee that the NIRC is putting on the businesses, its like a slap in the face, especially when we have had the problem with COVID from all those years. When is this fees going to stop. Are we paying all these fees to better our businesses on island or are we paying all these fees because NIRC has so a general manager, who isn't doing much and so many managers who are been highly paid and we are making up for them to get paid big money to fill their pockets only.

Together with the other proposed increased charges, the extraordinary increase in waste management charges will impact our ability to continue with our upgrade program. If all increased costs are passed on, there is every likelihood that travellers will choose destinations other than Norfolk Island, especially now that international travel is opening up. Destinations such as Bali and Fiji will once again become viable options.

We are a large Importer of product for retail to which we already pay a waste management fee on the importation. We also operate a Tourism Accommodation Business that continues to incur increasing Council charges. In the present economic environment, increased waste management fees can not be justified or afforded.

To excessively tax the accomodation providers will have a sever impact on viability of the business. A decline in visitation is already being experienced as overseas markets are opening up, and visitor enquiries are already declining.

How can a \$3K+ fee be justified for an office waste? Our work is 80% electronic, no paper etc. Equipment waste and furniture waste etc is minimal with freight charges so high we recycle and reuse wherever possible.

Not fair to be paying a waste management fee when goods are imported into the community but then an additional fee for taking the packaging to waste management. This will simply encourage more people to save their rubbish and burn it which causes much more environmental damage. It should be only one fee at the point of importing goods then an exemption to dispose of the packaging at Waste Management.

Our business does not run at %100 occupancy and our guests produce less waste than a domestic household

Quite simply cannot afford to pay these fees unless I raise prices - which I cannot do until mid 2023 as 70% has already been held by wholesalers. Have not been able to afford any upgrades or needed renovations to property since 2020 as no income with Covid, so desperately worried that guests will be dissatisfied with some levels of accommodation in some rooms.

I work from home, in winter we export and work in horticulture, for the remainder of the year in touring, two people live in a big old family home we have had in the family since 1896. We generate negligible rubbish because of how we operate using reusable items in touring, and jute sacks which are imported and re-exported full of seeds. I would like to see equity and a user pays system where we are all encouraged to reduce our personal waste streams and are charged according to our waste generation. Empty tourist beds will be unfairly hit. Seems rather arbitrary and unfair. Farms generate little waste compared to cafes and restaurants.

The fact that people will have to pay on vacant land that does not generate any waste will have a severe impact on individuals and families. Business are clearly the target of the massive increases in Waste Management by the NIRC.

We can not obsorb this cost into our accommodation as half the time out units are empty. Plus the amount of waste the guests create is minimal compared with average house holds. A small bag of rubbish each week as they eat out most nights. We would have to sell many weeks accommodation to cover this cost before anything else and we were already struggling with all our out goings

Since COVID have been operating at a loss. Needs to be a two year period after Covid to recuperate.

I am already paying a waste management levy when I import my goods & I pay extra to dump again these high costs are going to cripple my business

My rates will go from \$1000 to \$6,500 per year

It is a double tax Since 2016 we have had an increase in expenditure to the magnitude of 75% and revenue has decreased by 25%

261% increase in Waste Management Fees

The tourism economy on Norfolk Island is listless, with visitor numbers only providing only about 35% occupancy to the accommodation industry. To burden this industry with a considerable tax rise makes no sense as the industry can ill afford any additional charges. The industry needs to be encouraged and given the confidence and ability to invest and innovate. Burdening this industry with a substantial tax increase is not in the best interest of the overall economy. Vistors contribute less waste than residents.



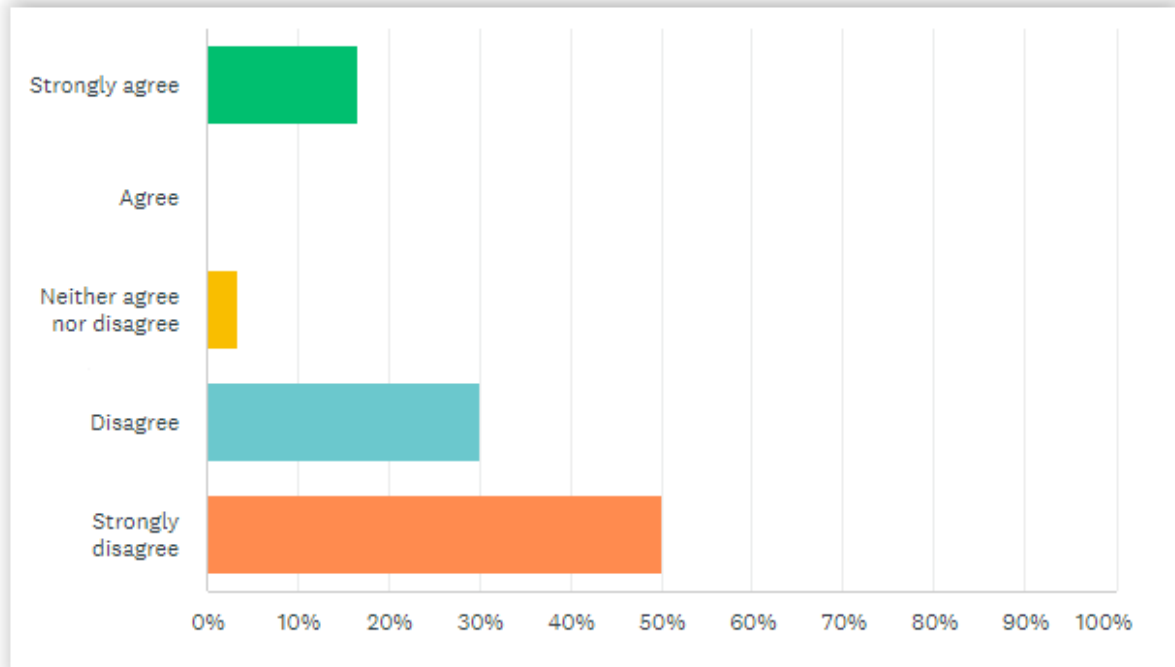
The fees are so outrageous we may have to close our business

Over 300% increase with no sufficient notice has not been budgeted for and the business is likely not to be able to pay the increased rates.

there appears to be a disproportionate increase for tourist accommodation operators. The new waste charges amount to an increase of around 300% from last year.

Our current waste costs for 21/22 were \$40...set to increase to \$3731...its severe and ridiculous!

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



ANSWER CHOICES	RESPONSES
Strongly agree	16.67%
Agree	0.00%
Neither agree nor disagree	3.33%
Disagree	30.00%
Strongly disagree	50.00%

Our waste is managed with minimum use of the Waste Management Centre.

The larger contributors to waste streams are construction and cafe's/bars etc

The only category I believe we can fit into is retail. The waste generate in comparison to a retail shop importing goods etc. is no comparison

guest produce little waste as our visitors mostly frequent restaurants , clubs cafes and Tours.

No, absolutely not. Our main wastage is recyclable as guests cannot eat in their rooms so do not contribute to a lot of waste. ALSO, since when are accommodation properties on Norfolk 100% full - or even 70% full the majority of the year?

We have one property, the one property fits into multiple categories will we be charged multiple times. Categories do not necessarily reflect waste generation levels at all. Varies from business to business.

As in the above statement - the guests create less waste than a normal household as they eat out most nights etc

It's not quite as simple as that. Waste varies with each establishment and is subject to numerous factors. eg our biggest waste material is cardboard boxes, and we give most of ours to gardeners for making mulch

Only fair way would be a gst so everybody pays

Collection of rates generally imply a regular pickup of waste by the council

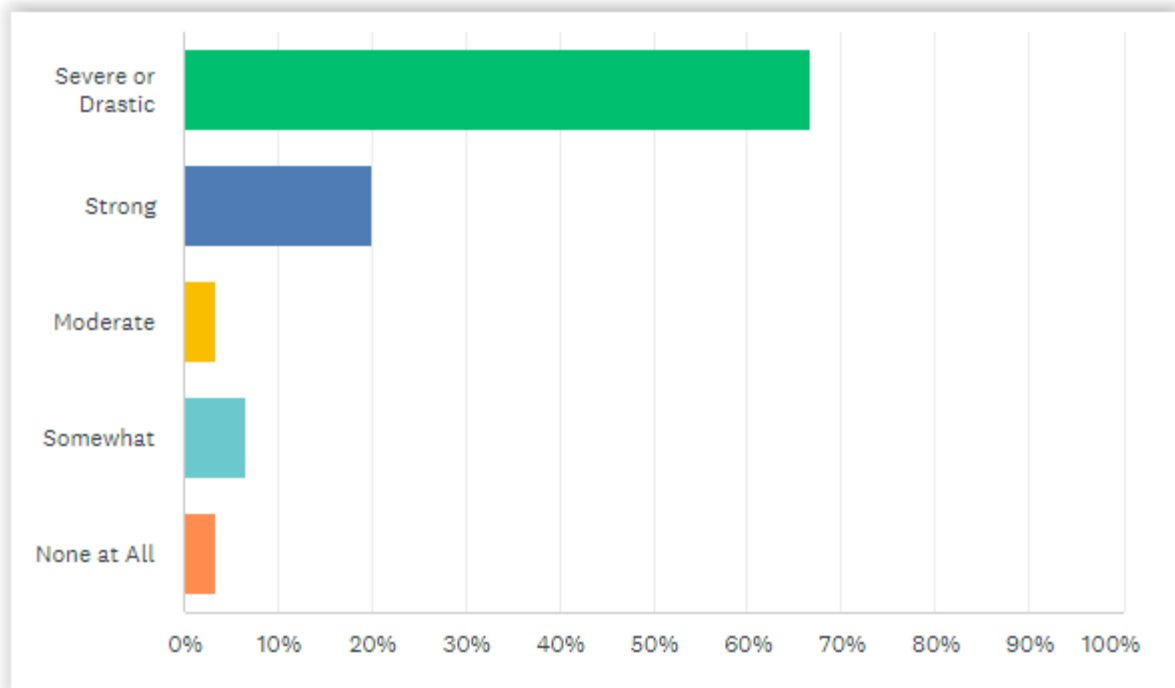
Waste management fee charged on vacant land is a bad joke. How can this be at all reflective of usage of this service. This constitutes nothing more than a sinister land tax aimed at relieving norfolk islanders of their land and encouraging over development.

The \$746 waste management charge is too high as it is not aligned with the low level of tourist usage, as this does not recognize the low tourist accommodation occupancy rate nor the very low level of waste generated by tourists.

The actual waste from from our tourist accommodation business is considerably less than from an average household, hence, the new rates are unfair and unsustainable.

I agree with sub-categories as a way to differentiate costs between large and small business, however the proportion of the fees proposed does not reflect this. We are sub-category 'Business- Shops/Retail A' and as we have primarily paper waste which compostable/recyclable it seems over the top to be charged over \$2000 for waste management.

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



ANSWER CHOICES	RESPONSES
Severe or Drastic	66.67%
Strong	20.00%
Moderate	3.33%
Somewhat	6.67%
None at All	3.33%

The reasoning as Q2: Together with the other proposed increased charges, the extraordinary increase in land rates will impact our ability to continue with our upgrade program. If all increased costs are passed on, there is every likelihood that travellers will choose destinations other than Norfolk Island, especially now that international travel is opening up. Destinations such as Bali and Fiji will once again become viable options.

The proposed increases are outrageous. A scandalous money grab with complete contempt for businesses, their viability and their overall contribution to the economy of this Island. The Council's attempt to justify their "efficiencies" to a negligent Commonwealth Department, leaves our Community bankrupt.

Due to excessively high airfares it is impossible to increase tariffs to deal with this increase. Also refer to points in 1. above.

Has any research been done to establish what can be sustained by business in the long term? or if these costs foster or inhibit new business growth and development? where does this stop? Cost of living, freight,

rates, waste fees are all increasing at rates much higher than is reasonable. Its hard to keep faith that everything will be okay when there seems to be no end to these increasing costs.

This was always going to be the case, the community was warned in 2016 that rates and Council charges would have to be increased. Everyone has had 5 years to prepare for this and it is inevitable as the costs for providing community infrastructure are steadily increasing everywhere not just here. If we want to have modern consumerism we have to pay for it.

Our already discounted rates would have to reflect these increases and this would affect our occupancy

We have been through so much and no one on Norfolk has made any money for the past few years. Continuing to raise these types of expenses - for no other reason than some idiot has decided it is the easiest way to raise funds - to fund things that the majority of people on Norfolk do not consider necessary is a crime in itself. I cannot express enough how disgusted I am with these proposals and cannot help but feel that there has to be some other agenda to send businesses broke on Norfolk.

Along with the wastemanagement fee and this it will cripple our business. I dont know how accommodation businesses are expected to pay this. This is an outragous increase and I am not even sure if it is legal to rise rates by this percentage.

This is way out of proportion. We already pay a waste levy when goods are brought to the Island

This is too high an increase all at once and will cripple many businesses

I propose to close or de- register my business.

The council does not appear to have the desire to utilise waste as a valuable bi product and put in the appropriate equipment. WMS this year has seen decision after decision on the collection issue. The voucher system for a whole lot of reasons has been incompetently run and poorly thought out and you would have no confidence in a new system which is purely a money grab

Pensioner cannot afford

The Land Rates charge without taking into account the increased Waste Management Fee has increased by 283%

A 38% increase would be a severe financial burden and yet another confidence buster particularly as no effort is being placed on increasing visitor numbers to grow the economy.

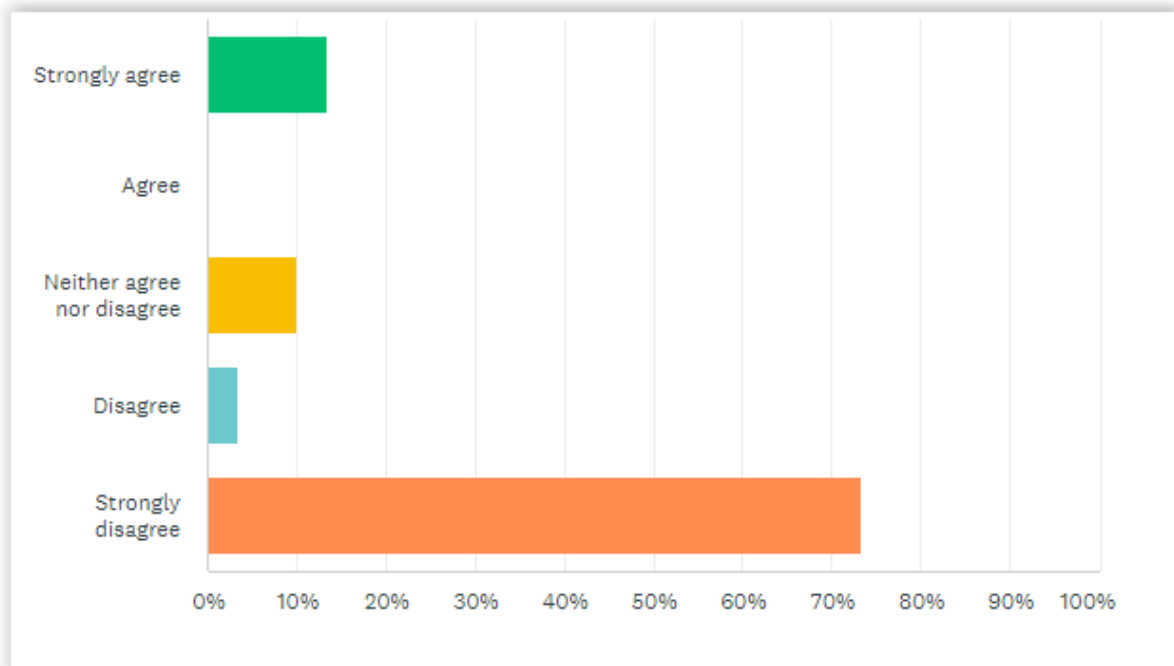
Such a drastic increase overnight will be detrimental for our business. We struggled to pay the rates last year and hoped that there wouldn't be another increase in the near future.

It is a massive increase that we can not absorb without putting our pricing up....Norfolk is already a very expensive destination to holiday in....its going to become a 5 star price for a 3 star holiday.

This will have a major impact on everyone, from residential to businesses. To increase revenue, council needs to find other areas to create revenue and slowly increase rates.

Not really known at this stage. As a leasee, it will be up to the landlord as to whether they pass on the impact to us as tenants.

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



ANSWER CHOICES	RESPONSES
Strongly agree	13.33%
Agree	0.00%
Neither agree nor disagree	10.00%
Disagree	3.33%
Strongly disagree	73.33%

We are only too smaller island to achieve this objective. In saying that, you are charging too much and taking a lot out of the businesses. Why don't the government try and help the businesses and the community instead of inject so much funds out of them to build the revenue when you should be looking at subtracting some of the highly paid managers/staff from the government sector, also instead of making the community poor and empty their pockets. In saying that, even the General Manager, should have his pay packet slashed to save money.

We cannot see any "reduction in business costs" in the proposed new charges.

This is incompetent thinking. The Council Top Management Team and the Commonwealth Council Administrator, have displayed a complete lack of basic Economic and Financial Acumen.

It is hard to understand how increases in costs to residents equates with reducing business costs.

Its the exact opposite, I've never felt more discouraged about owning a business.

I haven't seen anything at all that actually reflects a genuine strategy (with goals and objectives and outcome measures) to develop "a strong diverse and vibrant business environment". There has been only very feeble attempts to diversify the business community here, none of these have followed through in any way at all, and no incentives have been offered for diversifying business through innovative ideas to create new economic streams for the community, leaving us almost entirely dependent on tourism. No-one has actually mapped the costs of running business here, least of all outside the tourism industry.

What reduction? There is nothing but increases in business costs to the degree that the majority of businesses are trying or thinking of selling.

Labour shortages, high costs, poor supply lines, bigger population, larger no Of visitors, environmental impacts, and a very expensive council model is unsustainable.

Is this small business or business costs of the NIRC? If it's the NIRC one must question how savings will be made when services are being contracted off Island and the community has no idea of the costs to the community

With the amount of money that is wasted constantly with travel costs, consultants fees for things that are not even required or ever acted on buildings that are not required instead of the roading and I could go on - I do not ever see any reduction of costs to businesses ever occuring when such waste is always happening

It will most likely do the opposite

I think a charge applied to every passenger flying into the island would be a fairer way to try & raise the revenue required to meet the waste management costs

This is just poppycock. More businesses will close or amalgamate because of rent increases Cost is a cost no matter how you want to view it. Rates in a Sydney are cheaper than NORFOLK and you get roads, curbing, lighting, rubbish removal and a bucket load of amenities. It is quite obvious there is something not being done properly at G/M level It is illogical that the decision makers are not affected by any of this and to see a General Manager flying constantly off Island is not a good look and the secretive way of doing things reeks a little of Communism Can I suggest a way of getting over this hurdle is for Regional Council to cut it own costs first which appear to have a very low priority. Stop Offering free housing free car. Would be a good start Buying out accomodation where tourism is 90% of our business tells me they are not for NORFOLK Island but purely for themselves an example is the Queens 70th. Prior to 2016 this would have been a very big deal for Norfolk Island but the new broom like a whole raft of things have systematically been taken away It is a small point but a very disappointing point I cannot understand why the Administrator and General manager have not been sacked on the spot as Public Servants. They have no interest in preserving Norfolk Island there interest is looking for their next job

NFI

The Council will destroy the economy as these charges are unaffordable.

The actual increase in rates is opposite to the statement "reduction in business costs".

I dont see how thats possible at all???

A little too early to judge the impact as all measures or proposals are not in place, ie. if we see a reduction in electricity costs, will that compensate for other introduced charges?