
The Parliament of the Commonwealth of Australia

Norfolk Island Financial Sustainability

The Challenge – Sink or Swim

Joint Standing Committee on the National Capital and External Territories

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Canberra

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Foreword

Norfolk Island is at the crossroads in relation to decisions that must be made about its future financial sustainability. By isolation, its internal revenue base is necessarily limited, and there is over reliance on its tourism industry which is facing increased competition from other tourist destinations.

At the same time, there are increasing demands on government expenditure to provide adequate government services and ensure key infrastructure is maintained at acceptable levels. These competing pressures are significant and should not be underestimated.

The Committee has examined Norfolk Island's internal revenue-raising options, and has also considered the ability of the Norfolk Island Government to increase expenditure for government services and asset replacement. It is clear that the challenge has become too great for the Norfolk Island Government alone to confront and resolve.

What is needed is a more coherent long-term strategy which acknowledges the gravity of the present fiscal situation and sets out solutions that would give more certainty to Norfolk Island's future financial sustainability.

The pathway to increased prosperity will not be easy and will not be quick. The Committee has recommended that Norfolk Island should come under the income taxation and welfare systems of the Commonwealth. This is currently the case for the Indian Ocean Territories.

The implications of this proposal are much more significant than just the fact that Norfolk Island residents could be subject to personal income tax. Norfolk Island will be able to access the significant expenditure side of the Commonwealth Budget - access of which has been generally denied to date.

The Commonwealth Government will have a greater role in the delivery of services and the upkeep of certain key infrastructure. It is abundantly clear to the Committee that the *status quo* cannot and should not be maintained. The Committee is of the view that all Australian citizens, irrespective of where they choose to reside in the nation, deserve competent government administration and service delivery to a standard no less than can be expected in any similar jurisdictions in other States or Territories.

The Committee has stated its preference for the Commonwealth to resume responsibility for social security, health and aged care services, national census and economic statistics collection, immigration, customs and quarantine. Commonwealth law should be applied to Norfolk Island, most particularly in the areas of corporations law and trade practices. A range of State-type services, in-so-far as they do not already exist, would also fall under the Commonwealth's umbrella, including primary and secondary school education and vocational education and training, legal services and the courts, telecommunications, broadcasting, and environment protection. The Commonwealth would also resume responsibility for the funding and upgrade of Island infrastructure, including the hospital, roads, the school, power generators, a deep water harbour, and the airport.

The Committee makes this recommendation in the interests of fairness, equity and justice for all residents of Norfolk Island, as citizens of the Commonwealth of Australia.

The Committee is of the view that this arrangement would still leave a number of significant matters to be managed and determined by the Norfolk Island Government. The Commonwealth Government will require a local representative body to assist in the provision of appropriate services and to lobby on behalf of the Norfolk Island community. Clearly, the Norfolk Island Government and its Administration are best placed to represent their local community.

The Committee is convinced that the adoption of its recommendations will lead to greater financial sustainability, increased certainty, and a higher standard of living for all those Norfolk Islanders who currently struggle financially.

In conclusion, and on behalf of the Committee, I would like to thank all those who have contributed to this inquiry.

Senator Ross Lightfoot
Chairman



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Membership of the Committee

41st Parliament

Chairman Senator Ross Lightfoot

Deputy Chair Senator Trish Crossin

Members	The Hon. Ian Causley MP	Senator John Hogg
	Ms Annette Ellis MP	Senator Barnaby Joyce (from 16 August 2005)
	Mr Paul Neville MP	Senator Kate Lundy (from 10 August 2005)
	Ms Sophie Panopoulos MP	Senator Kerry O'Brien (to 10 August 2005)
	Mr Patrick Secker MP	Senator Nigel Scullion (to 16 August 2005)
	The Hon. Warren Snowdon MP	Senator Natasha Stott Despoja

40th Parliament

Chair Senator Ross Lightfoot

Deputy Chair Senator Trish Crossin

Members	The Hon. Ian Causley MP	Senator John Hogg
	Ms Annette Ellis MP	Senator Kate Lundy
	Mr Michael Johnson MP (to 19 February 2004)	Senator Nigel Scullion
	Mr Paul Neville MP	Senator Natasha Stott Despoja
	The Hon. Warren Snowdon MP	
	Dr Mal Washer MP (from 19 February 2004)	

Committee Secretariat

41st Parliament

Committee Secretary	Stephen Boyd (from 19 September 2005) Peter Keele (from 11 July to 16 September 2005) Beverley Forbes (to 8 July 2005)
Inquiry Secretary	Sonia Palmieri
Senior Research Officer	Justin Baker
Administrative Officers	Natasha Petrovic Cameron Carlile
Advisor	Alan Kuslap

40th Parliament

Committee Secretary	Margaret Swieringa
Inquiry Secretary	Quinton Clements
Administrative Officers	Daniel Miletic Donna Quintus-Bosz
Advisor	Alan Kuslap



Terms of reference

That the Joint Standing Committee on the National Capital and External Territories report on measures to improve the operations and organisation of the Territory Ministry and Legislature on Norfolk Island, with particular emphasis on the need for a financially sustainable and accountable system of representative self-government in the Territory.

The inquiry should consider possible alternative measures, such as:

- a) direct elections for the position of Chief Minister; and*
- b) fixed terms of government.*

These matters should be considered in the context of the financial sustainability of self-government arrangements on Norfolk Island, with particular consideration of:

- a) the findings of the Commonwealth Grants Commission documented in its 1997 report on Norfolk Island on the Territory's capacity to administer and fund obligations associated with:
 - current and future government functions and responsibilities;*
 - the Island's current and foreseeable infrastructure requirements;*
 - the provision of government services on Norfolk Island at an appropriate level;**
- b) subsequent government and parliamentary reports relevant to the above; and*
- c) the role of the Commonwealth and its responsibilities for Norfolk Island as part of remote and regional Australia.*



List of abbreviations

ABS	Australian Bureau of Statistics
BAS	Business Activity Statement
CEO	Chief Executive Officer
CGC	Commonwealth Grants Commission
CPI	Consumer Price Index
DEWR	Department of Employment and Workplace Relations
DOTARS	Department of Transport and Regional Services
EEZ	Exclusive Economic Zone
FACS	Department of Family and Community Services
GST	Goods and Services Tax
ICAC	Independent Commission Against Corruption
IOT	Indian Ocean Territories
JCPAA	Joint Committee on Public Accounts and Audit
KAVHA	Kingston and Arthur's Vale Historic Area
MLA	Member of the Legislative Assembly
MOU	Memorandum of Understanding
NI	Norfolk Island

NIG	Norfolk Island Government
NIGTB	Norfolk Island Government Tourist Bureau
NJE	Norfolk Jet Express
NSL	Norfolk Sustainability Levy
NSWDET	New South Wales Department of Education and Training
RPI	Retail Price Index



List of recommendations

3 Norfolk Island sustainability

Recommendation 1

The Committee recommends that a new taxation model be developed whereby Norfolk Island is gradually incorporated into the taxation regime of the Commonwealth of Australia. (Paragraph 3.115)

Recommendation 2

The Committee recommends that, on acceptance of Recommendation 1, the Commonwealth make transitional financial arrangements to ensure the Norfolk Island Government is adequately funded prior to the implementation of the new taxation model. Particular emphasis should be on:

- replacing and/or maintaining depreciating infrastructure, notably the hospital and the school;
- key service provision, specifically health, aged care and social services;
- structural adjustment programs first, to sustain and increase the Island's tourism industry, and second, to diversify the economy to the extent practicable; and
- engaging in wide-ranging consultation and discussions with the Norfolk Island Government and with the Norfolk Island community. (Paragraph 3.116)

Introduction

I do not believe the current arrangements are sustainable ... When one considers that costs associated with maintaining and renewing essential infrastructure, on-going service provision, the rapidly escalating costs of social services, healthcare, education, the ageing population, the need to vastly improve occupational health and safety and the environmental pressures facing the Island, it is not really surprising that this is well beyond the capacity of such a small population.¹

Background to the inquiry

- 1.1 This report represents the second part of an inquiry initiated by a reference from the then Minister for Regional Services, Territories and Local Government, the Hon. Wilson Tuckey MP, which was accepted by the Committee on 28 March 2003. The terms of reference for the inquiry included that the governance arrangements for Norfolk Island “be considered in the context of the financial sustainability” of the Island.
- 1.2 Accordingly, at the outset of its inquiry, the Committee determined that issues relating to the financial sustainability of the Island would be addressed separately in a second report, while the first report

¹ Mr L. Johnson (Submission No. 12), pp. 2, 9.

would focus on ways to improve and strengthen governance arrangements on the Island. The terms of reference for the inquiry also directed the Committee to investigate measures to improve the operations and organisation of the Territory Ministry and Legislature on Norfolk Island.

- 1.3 In assessing current and future governance arrangements, including the provision of government services and infrastructure, the Committee was called on to make particular reference to the findings of the Commonwealth Grants Commission's (CGC) 1997 *Report on Norfolk Island*.
- 1.4 The first report of this inquiry, *Quis custodiet ipsos custodes?*, was tabled in December 2003. The report presented a comprehensive case for reform and focused its analysis on existing political arrangements and legal infrastructure, which the Committee considered to be inadequate.² The Committee argued that:
- ...the best approach would be to retain the existing institutions of government, but with the following essential reforms:
- modification to improve accountability and financial management;
 - the resumption of Commonwealth responsibility for delivery of key services and programmes on-Island such as social welfare, health and immigration;
 - rectification to the distortions in the electoral system to open the political and administrative systems to change; and
 - imposition of an equitable tax regime, including on income, to provide financial sustainability.³
- 1.5 In making its recommendations, the Committee did not intend for the Norfolk Island Government to take on additional, costly functions, and, therefore, recommended that the task of implementing and maintaining these review mechanisms should fall singularly on the Commonwealth.⁴

2 Joint Standing Committee on the National Capital and External Territories (JSCNCET), 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, pp. 7-40.

3 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 25.

4 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 27.

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- 1.6 On 5 February 2004, the Norfolk Island Government released its response to the recommendations of the Committee's first governance report. Many of the Committee's recommendations were accepted despite the Norfolk Island Government's contention that the Committee had failed to recognise the unique governance arrangements on Norfolk Island.⁵
- 1.7 The Committee reiterates its disappointment that the Commonwealth Government did not respond to the recommendations of the Committee's first report on Norfolk Island governance.⁶ The Committee stands by these recommendations and now encourages the Commonwealth Government to expedite its response to both governance reports and, to the outstanding recommendations in the Committee's review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage with respect to Norfolk Island.
- 1.8 The second part of the governance inquiry, focusing on financial sustainability, was initiated in the 40th Parliament; however, it lapsed when the House of Representatives was dissolved on Tuesday, 31 August 2004.
- 1.9 On Thursday 9 December 2004, the Minister for Local Government, Territories and Roads, the Hon. Jim Lloyd, MP wrote to the Committee asking that it continue its inquiry into Norfolk Island Governance Part 2 (Financial Sustainability of Current Governance Arrangements). The Committee resolved to continue this inquiry on 9 February 2005.
- 1.10 In the meantime, a general election has been held on Norfolk Island. The 11th Legislative Assembly was formed on 27 October 2004.
- 1.11 As a matter of courtesy, on 29 February 2005, the Committee wrote to the Norfolk Island Government to inform them that the sustainability
-

5 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*.

6 On 27 October 2005, the Commonwealth Government tabled a brief response to the Committee's *Quis custodiet ipsos custodes?* report. The two-page response summarises the Norfolk Island Government's position on the Committee's report, but concludes:

The Committee's report recommends that the Australian Government reassess its current policies with respect to Norfolk Island and the basis for Norfolk Island's exclusion from Commonwealth programmes and services. The Australian Government wishes to be quite clear that it will indeed consider these and other matters as part of its consideration of the Committee's forthcoming report on Norfolk Island's financial sustainability, and is prepared to re-examine aspects of current arrangements.

inquiry was to proceed and to invite them, as a new Legislative Assembly, to make a submission. No submission has been received.⁷

- 1.12 The inquiry was advertised in *The Australian* and *The Norfolk Islander* in March and April 2005 respectively. The closing date for submissions was Friday 22 April 2005. Further submissions were received following an advertisement placed in *The Norfolk Islander* on 27 August 2005 by the Minister for Local Government, Territories and Roads, the Hon. Jim Lloyd, MP.
- 1.13 The Committee received a total of 29 submissions.
- 1.14 On 6 and 7 June 2005, the Committee held private briefings and inspections on King and Kangaroo Islands as a comparative exercise, drawing on their population size and remoteness from the mainland, while acknowledging that their local government regimes are significantly different to the self-governing Territory of Norfolk Island. The Committee examined the budgetary processes employed by the local councils, as well as inspecting specific infrastructure on the islands.
- 1.15 The Committee also held a public hearing in Canberra on 4 August 2005 with representatives of the Department of Transport and Regional Services, the Australian Treasury, and the Australian Bureau of Statistics. A former Chief Executive Officer of the Norfolk Island Administration also gave evidence at this hearing.⁸
- 1.16 The Committee was disappointed to have to cancel its visit to Norfolk Island to conduct public hearings, scheduled for 2 and 3 October 2005. The Committee cancelled its visit because the Norfolk Island Government chose not to accept an invitation to appear at the scheduled hearing.

Focus of this report

- 1.17 The second part of the inquiry has focused on the sustainability of the current governance arrangements, as directed by the terms of reference.

7 Following the Committee's public hearing in Canberra on 4 August 2005, the Committee wrote to the Norfolk Island Government, again inviting them to discuss issues of financial sustainability. No response was received by the Committee to this letter.

8 A full transcript of proceedings is available at:
<http://www.aph.gov.au/hansard/joint/commttee/J8617.pdf>.

- 1.18 The Committee has previously noted that the financial and administrative capacities of the Norfolk Island Government and the system of financial management have been the subjects of a number of inquiries and reports.⁹ Many of these reports, including that of the CGC, have argued that Norfolk Island has adequate capacity to raise more revenue.¹⁰ This premise has been at the core of further arguments, that, the Norfolk Island Government could extend its legislative powers and areas of responsibility.¹¹
- 1.19 This report challenges these assumptions. The Committee suggests that the Norfolk Island Government and its Administration have limited options for further revenue-raising. In addition, the Committee argues that there is limited capacity, in terms of human and financial resources, to administer internal revenue-raising systems, as further discussed in Chapter Three.
- 1.20 This notwithstanding, in this report, the Committee does not canvass the option of revoking Norfolk Island's internal self-government. Rather, the Committee has called for a 'remodelling' of self-government and reiterates its previous recommendation for a fundamental overhaul of Commonwealth Government policy towards Norfolk Island. At the core of the Committee's recommendations has been a desire to achieve the right balance between the services provided by, and regulatory powers of, both the Commonwealth and Norfolk Island governments.

Norfolk Island today

- 1.21 Norfolk Island is often referred to as a "unique" and "special place".¹² The Norfolk Action Group stated:

Norfolk is a unique place because of its history, language and culture. For example, our language is one of the world's rarest. Despite the influences of tourism and external forces ... our culture remains strong. If it were to die, there is nowhere else in the world where it could be resurrected ...¹³

9 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 1.

10 See, for example, Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 164.

11 See, for example, Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, finding 25, p. 177.

12 See, for example, Mr L. Johnson (Submission No. 12); Prof. M. O'Collins (Submission No. 15); and Norfolk Action Group (Submission No. 24).

13 Norfolk Action Group (Submission No. 24), p. 1.

- 1.22 Data from the 2001 Census of Population and Housing indicates that the proportion of the permanent population who are of Pitcairn descent has remained remarkably stable over the last 15 years. Although the total proportion has remained under 50 per cent, younger Pitcairn descendants represent two-thirds of the population under 15 years of age (see Table 1.1).

Table 1.1 Norfolk Island permanent population: Pitcairn descent, 1986-2001

	2001		1996		1991		1986	
	<i>Total</i>	<i>% total</i>						
Under 15 years								
Of Pitcairn descent	208	67.3	194	65.8	228	67.7	230	66.5
15 years and over								
Of Pitcairn descent	548	43.3	489	41.6	464	40.7	426	39.4
All ages								
Of Pitcairn descent	756	48.0	683	46.5	692	46.8	656	45.9

Sources Norfolk Island Administration, Census of Population and Housing, 7 August 2001 (p. 10) and 6 August 1991 (p. 12)

- 1.23 Norfolk Island, like many other remote and isolated regional areas of Australia, faces significant challenges in its population and demography. Most notably these include an ageing population, and a decline in the number of itinerant workers and visitors on the Island.

An ageing population

- 1.24 According to recent Norfolk Island Census figures, Norfolk Island is experiencing “similar but more dramatic trends” in its population demographics compared to those found in other parts of Australia.¹⁴

14 Focus 2002 Community Update, 12 October 2002, p. 2.

Table 1.2 Trends in Norfolk Island Permanent Population, 1986 to 2001

	2001	1996	1991	1986	% increase/ decrease from 1986 to 2001
Under 15	309 19.6%	295 20.1%	337 22.8%	346 24.2%	-11.97%
15 to 64	1005 63.8%	940 63.9%	930 62.9%	932 65.3%	7.26%
65 and over	256 16.3%	234 15.9%	207 14%	146 10.2%	42.97%
Total population	1574	1470	1478	1428	9.28%

Source *Norfolk Island Administration, Census of Population and Housing, 7 August 2001 (p. 8) and 6 August 1991 (p. 10).*

1.25 While population projections for Norfolk Island are unavailable,¹⁵ it is nonetheless evident that the overall population of Norfolk Island has continued to increase in the over 15 age category during the past 15 years (from 10.2 per cent in 1986 to 16.3 per cent in 2001). Moreover, Norfolk Island's population is, on average, significantly older than that in other parts of Australia. In 2001, 16.3 per cent of the permanent population was 65 years or over, compared with 12.5 per cent of the rest of the population.¹⁶ If, as is projected, the proportion of the population aged 65 years and over is to increase (current estimates are between 27 and 30 per cent by 2051), it is more than likely that such trends will be mirrored on Norfolk Island.¹⁷

1.26 In other States and Territories, such trends are accompanied by a projected decrease in the proportion of people under 15 years to between 12 and 15 per cent by 2051. Due to the absence of life expectancy data it is difficult to project similar trends for Norfolk Island (see footnote 15). This notwithstanding, it is clear from Table 1.2 that there has been a decline in the number of young people on Norfolk Island over the past 15 years (from 24.2 per cent in 1986 to 19.6 per cent in 2001).

15 Statistics for Norfolk Island are not collected by the Australian Bureau of Statistics. As such, Australian population projections do not include Norfolk Island.

16 ABS, *Australian Social Trends, Population, National and state population summary tables*, via: <http://www.abs.gov.au>, accessed 26 September 2005

17 ABS, *Population Projections, Australia*, Catalogue No. 3222.0, via: <http://www.abs.gov.au>, accessed 26 September 2005.

1.27 Overall, population growth continues through natural accretion and migration. Despite some variability, the total number of births over the past eight years has outweighed the total number of deaths.¹⁸

Table 1.3 Births and deaths, 1996-97 to 2003-04

		2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	Totals
Births	<i>Female</i>	11	7	7	8	8	15	12	5	
	<i>Male</i>	11	6	10	9	16	8	12	9	
	Total	22	13	17	17	24	23	24	14	154
Deaths	<i>Female</i>	7	8	10	19	11	5	7	5	
	<i>Male</i>	8	2	12	9	9	9	3	9	
	Total	15	10	22	28	20	14	10	14	133
Natural increase*		7	3	-5	-11	4	9	14	0	

Sources Norfolk Island Administration, *Annual Reports, 2001-02 to 2003-04*; Norfolk Island Administration, *Census of Population and Housing, 7 August 2001, p. 40.*

Note * The term 'natural increase' is used by the Australian Bureau of Statistics. See, for example, *Catalogue no. 3201.0*

1.28 The Norfolk Island population has remained relatively stable since the mid 1980s.¹⁹ Those permanently on the Island have generally represented over 60 per cent of the population. Approximately 37 per cent of the permanent population were born on Norfolk; 33.4 per cent were born in other parts of Australia, and 20.7 per cent were born in New Zealand.

18 According to Mr Michael Hehir (Submission No. 23, p. 1), the Norfolk Island Government adopted a policy of 2 per cent population growth. Despite such a policy, however, it appears that population projections made in the early 1980s have not been attained. According to a report prepared for the Norfolk Island Government in 1985, population projections estimated that permanent residents and permit holders would total 2,440 by 2001 (and 2,833 by 2005). Mr Hehir submitted that the population ought to be increased to 3,000.

19 The Census of Population and Housing classified the Norfolk Island population into three categories: the permanent population, comprising 'residents' and those holding a 'General Entry Permit', as defined in the *Immigration Act 1980* (NI); the itinerant population, comprising those holding a 'Temporary Entry Permit' and those either awaiting permits or not requiring permits; and tourists or visitors to the Island. Norfolk Island Administration, *Census of Population and Housing, 7 August 2001, p. 2.*

Table 1.4 Total population: residency status, 1986-2001

	2001		1996		1991		1986	
	No	%	No	%	No	%	No	%
Resident	1359	52.2	1282	58.8	1294	56.6	1240	52.4
General Entry Permit	215	8.3	188	8.6	184	8.1	188	7.9
Permanent population	1574	60.5	1470	67.4	1478	64.7	1428	60.3
Temporary Entry Permit	442	17.0	293	13.4	424	18.6	535	22.6
Other	21	0.8	9	0.4	10	0.4	14	0.6
Itinerant population	463	17.8	302	13.8	434	19.0	549	23.2
Tourist and visitor	564	21.7	409	18.8	373	16.3	390	16.5
Total	2601		2181		2285		2367	

Source Norfolk Island Administration, *Census of Population and Housing, 7 August 2001 (p. 6) and 6 August 1991 (p. 7)*.

Decreasing numbers of 'itinerants'

1.29 The proportion of the Norfolk Island population classified as 'itinerant', has steadily declined (23.2 per cent in 1986, to 17.8 per cent in 2001). The itinerant population can be considered a labour source, with roughly 67 per cent of the itinerant population "working in a job or business". Less than one per cent of this population were retired.²⁰

1.30 In his submission, Mr Michael Hehir noted that the number of working persons has "substantially decreased since 2001".²¹ In the financial year to 30 June 2004, Mr Hehir reported that there were 403 Temporary Entry Permit (TEP) holders and that this decreased to 357 in the following financial year, constituting "a net decline of 62 over this period" with a further "40 TEP holders [having] left the Island" in the period from 1 July 2005 to date.²²

1.31 However, Table 1.4 indicates that the proportion of the population who are tourists or visitors to the Island has increased.²³

20 Norfolk Island Administration, *Census of Population and Housing, 7 August 2001*, p. 16.

21 Mr M. Hehir (Submission No. 23), p. 5.

22 Mr M. Hehir (Submission No. 23), p. 5.

23 See chapter two for more details on the relationship of tourism to the Norfolk Island economy.

Further challenges to sustainability

1.32 In addition to an ageing population and the concerning decline in the number of itinerants on Norfolk Island, the Island's remoteness and limited accessibility is a key factor in the four following challenges that impede a sustainable future for Norfolk Island under the current arrangements:

- a vulnerable and volatile economy, essentially dependent on one industry, tourism;
- limited taxation and revenue-raising capacity;
- declining levels of service delivery and depreciating infrastructure; and
- governance arrangements, coupled with a restricted administrative capacity.

Norfolk as a remote island community

1.33 The Committee understands that for some Norfolk Islanders, remoteness has required a degree of self-sufficiency.²⁴ The issues and circumstances facing individual isolated island communities, clearly differ significantly from those juxtaposed to more urban locations, and from many other remote communities. Principally as a result of increased transportation and freight costs, housing costs of island communities are higher, as is the cost of food. Businesses also suffer from the additional costs of such remoteness.²⁵

A vulnerable and volatile economy

1.34 The Norfolk Island economy is precariously dependent on tourism. Recent trends in tourism have seen a decline in the number of tourists travelling to Norfolk and a decrease in the revenue generated by the tourist sector as a result. The Norfolk Island tourism industry is facing increased pressure to keep pace with global market changes and increasing competition. Today, the industry caters mainly to the rather "price sensitive"²⁶ tourist market of the over 70s.

24 See, for example, the assertion made by the Norfolk Action Group (Submission No. 24, p.1), that "[o]ur remoteness has led to an innovative people who pride themselves on their self-sufficiency..."

25 See, for example, Department of Family and Community Services (Submission No. 7) and Ms R. Menghetti (Submission No. 25).

26 Mr P. Colmer (Treasury), *Transcript of Evidence*, 4 August 2005, p. 11.

- 1.35 It is also clear that despite numerous attempts, Norfolk Island has found it particularly difficult to diversify its economy away from its reliance on tourism.

Limited taxation and revenue-raising capacity

- 1.36 The nature of existing taxation arrangements on Norfolk Island significantly hampers the ability of the Norfolk Island Government to raise sufficient revenue to adequately fund acceptable levels of services on the Island. Because income and personal wealth are not taxed, the existing tax regime is effectively biased against tourism, a circumstance that is regressive and inequitable, particularly given the current financial climate. Norfolk Island is limited in the number of tourists it can accommodate sustainably. Tourism revenue, therefore, is finite. The limits imposed by the size of Norfolk Island's population also mean that there is a very restricted and narrow resource base from which revenue is, and, can be, drawn.

Declining standards of service delivery and depreciating infrastructure

- 1.37 There has been a significant lack of forward planning with respect to infrastructure and service delivery on Norfolk Island. Social security benefits are paid at roughly 80 per cent of those paid to recipients in other States and Territories. Some benefits, such as those for the unemployed, do not exist. Many members of the Norfolk Island community are concerned by the escalating ageing population and the implications for superannuation, pensions and other welfare payments.
- 1.38 The Committee has repeatedly commented on the sad state of public health infrastructure, including aged care facilities, and the only hospital that, effectively, needs to be rebuilt. Educational infrastructure is also of concern, as are roads, the provision and maintenance of reliable electricity generation facilities, and a deep water harbour.

Governance arrangements and limited administrative capacity

- 1.39 Underpinning all of these challenges are the current governance arrangements and the incapacity of the Norfolk Island Administration, which is, effectively, required to carry out administrative functions and the delivery of services at Local Government, State and Commonwealth levels. The Administration is plagued with limited human and financial resources, a situation which is compounded by an almost complete absence of statistical

infrastructure, that would allow for the necessary forward planning and budgeting. The Norfolk Island Government has, on many occasions, had to rely on Commonwealth funding and technical assistance and support.

- 1.40 As canvassed in the Committee's first report, there are also perceptions and claims of conflicts of interest arising due to Members of the Legislative Assembly holding interests or positions in the community that are incompatible with their role as elected representatives.

The question of 'difference'

- 1.41 The Committee is concerned that an argument of 'difference' on Norfolk Island has underlined an acceptance of below-standard service provision and infrastructure. In this respect, the Norfolk Island Government argued that:

...the JSC has fundamentally failed to realise the significant differences in the model of government in Norfolk Island from those of Australian [sic] jurisdictions. Current government structures and procedures in Norfolk Island are essentially *different*, not inadequate.²⁷

- 1.42 Without negating the existence of a 'different culture' on Norfolk Island, the Committee can only stress the remarkable and ongoing experience of accommodating difference – however this is defined – in a range of remote locations across Australia. In various capacities, members of the Joint Standing Committee have travelled extensively across Australia and have noted the ability of governments, at all levels, to accommodate indigenous and multicultural communities.
- 1.43 Ultimately, the Committee recognises that the people of Norfolk Island, as Australians, should have access to the basic levels of services afforded the rest of the nation's population. Specifically, the Committee considers that the ageing population of Norfolk Island should be afforded some security and adequate access to a reasonable standard of health care. All Norfolk Islanders should be afforded the same equality of opportunity as other Australians in similar positions.

27 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 2. Emphasis in original.

Role of the Committee

- 1.44 The Parliament of Australia has a significant role to play in the affairs of Norfolk Island. It is the function of the Commonwealth Parliament to participate in developing law and policy, to scrutinise government activity and public administration and, to inquire into matters of public interest on behalf of all Australians. A system of parliamentary committees facilitates the work of the Commonwealth Parliament.
- 1.45 As one of these committees, the Joint Standing Committee on the National Capital and External Territories is established by a Resolution of Appointment passed in both the House of Representatives and the Senate on 18 November 2004. The Committee is appointed to inquire into, and report to both Houses of Parliament, in an advisory role, on a range of matters.
- 1.46 Since 1993, the Committee has had a specific responsibility to examine the Commonwealth's external territories, including Norfolk Island. The Committee has produced nine reports in relation to the external territories, four of which have been exclusively focused on Norfolk Island:
- *Delivering the Goods*, February 1995 (Government Response, 1 December 1995);
 - *Island to Islands: Communications with Australia's External Territories*, March 1999 (Government Response, 1 March 2001);
 - *In the Pink or In the Red: Health Services on Norfolk Island*, July 2001;
 - *Risky Business : Inquiry into the tender process followed in the sale of the Christmas Island Casino and Resort*, September 2001 (Government Response, 6 February 2003);
 - *Inquiry into Norfolk Island Electoral Matters*, June 2002;
 - *Quis custodiet ipsos custodes?: Inquiry into Governance on Norfolk Island*, December 2003 (Government Response, 27 October 2005);
 - *Norfolk Island: Review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage*, July 2004 (Government Response, 23 June 2005);
 - *Indian Ocean Territories: Review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage*, August 2004 (Government Responses, 18 August 2005); and

- *Inquiry into the Adequacy of Funding for Australia's Antarctic Program*, June 2005.

- 1.47 It is the role of the Committee to gather evidence, through submissions and public hearings, and, on the basis of such evidence, present sound recommendations to the Commonwealth Government. It is then the responsibility of the Commonwealth Government to take action.
- 1.48 The Committee will continue to perform its role and would trust that individuals, or the collective, on Norfolk Island would respect this role and seek to work cooperatively with the Committee in the execution of its duties.

Structure of the report

- 1.49 The report is divided into three chapters including this introduction. Chapter two examines the state of the Norfolk Island economy and its precarious dependence on tourism. The chapter examines the current downturn in the number of tourists travelling to Norfolk and the consequential reduction in revenue.
- 1.50 Noting the various challenges to more sustainable internal revenue-raising on Norfolk, chapter three presents the only alternative left for Norfolk Island, namely, adoption of the taxation and welfare system of the Commonwealth of Australia. The Committee recommends that Norfolk Island be incorporated into the taxation regime of the Commonwealth of Australia, with special zone provisions, similar to those applying to the Indian Ocean Territories. Underlying this recommendation is the Committee's preference for the Commonwealth to resume responsibility for the provision of, among other things, social services, health, aged care, education, immigration and telecommunications. Commonwealth legislation should be applied to the Territory, particularly in relation to trade practices and corporations law. The Committee believes that Norfolk Island would also benefit from infrastructure grants similar to those that exist in other areas of Australia.

The Norfolk Island economy

I fear that for many years we have failed to properly address the financial and economic crisis building in our midst and to put in place measures to ensure that we can protect and sustain the heritage of this magnificent island and our way of life. The time has come for us to recognise the critical issues and to deal with them.¹

- 2.1 The Norfolk Island economy has been often defined as ‘fragile’ or ‘vulnerable’.² The principal reason for this has been the economy’s dependence on volatile exports and, markets. Throughout much of the twentieth century, for example, the economy of Norfolk Island was dependent on the export of a variety of different primary products, including bananas, passionfruit pulp, whale products, lemon based products, fish, oranges and, guava jelly.³
- 2.2 Tourism would eventually replace the Island’s economic reliance on primary products, and, from the 1980s until recent times, would bring prosperity to Norfolk Island. Not surprisingly, significant investment was poured into the tourism sector; an investment that was never

1 The Hon. G. Gardner, Chief Minister, *Norfolk Island Legislative Assembly Hansard*, 20 April 2005, p. 173.

2 See, for example, Commonwealth Grants Commission, 1997, *Report on Norfolk Island*; Mr J. Kelly (Submission No. 9); and Mr L. Johnson (Submission No. 12).

3 M.L. Treadgold, 1998, *Bounteous bestowal: The economic history of Norfolk Island*, Pacific Research Monographs 18, National Centre for Development Studies, Australian National University; M. Hoare, 1983, *The Winds of Change: Norfolk Island 1950-1982*, Institute of Pacific Studies of the University of the South Pacific, Fiji; Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 30.

premised on a sound assessment of the viability of the tourism industry or, the finite nature of the market.

- 2.3 The various economic feasibility studies carried out since self-government essentially concluded, that, Norfolk Island was 'economically viable'.⁴ As one study remarked:

Our recommendations are based on the belief that the economic capacity of Norfolk Island is, in broad terms, sufficient for it to be economically and financially self-supporting, with appropriate standards of government services, including social services.⁵

- 2.4 However, the main assumption underpinning this conclusion was that the level of tourism would remain sustainable. Even then, it was clear that a nexus existed between government revenue and tourism.⁶ In the absence of any other identifiable, dependable and consistent source of revenue, confidence in the viability of the Norfolk Island economy remains dependent upon the assumption of a viable and dynamic tourist sector.
- 2.5 In the Committee's view, the strategy underlining the Norfolk Island Government's approach to economic management has been flawed. In the assessment of how much revenue was required to meet expenditure, very little, if any, allowance has been made for adequate levels of service delivery and infrastructure. The Norfolk Island Government has continued to find comfort in the conclusion that its economy was 'viable' and 'sound', on the assumption that tourism would 'see the Island through'. This chapter provides a synopsis of the

4 See, for example, R.G. Gates, 1979, *Norfolk Island Economic Feasibility Study*, University of New England; C.J. Aislabie, B.A. Twohill, W.J. Sheehan, *Public expenditure problems of a dependent micro economy – Norfolk Island, 1976/77 to 1982/83*, Department of Economics, University of Newcastle; C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment; C. Nobbs, 1983, *Which future for Norfolk Island?*; Norfolk Island Government, 1990, *Report of the Revenue Review Working Group*; C. Nobbs, 1992, *Financial Institutions and Taxes on Norfolk Island: A report to the Administration of Norfolk Island*; Commonwealth Grants Commission, 1997, *Report on Norfolk Island*; Access Economics, 1997, *Norfolk Island: Recent Economic Performance, Present Situation and Future Economic Viability. Is there a case for change?*; M.L. Treadgold, 1998, "The size of the Norfolk Island economy", *Pacific Economic Bulletin* 13(2):82-91.

5 C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment, p. 2.

6 The other consistent finding amongst these studies was the paucity of economic and financial data gathered on the Island. "Anyone conducting research into the economy of Norfolk Island soon discovers the paucity of useful data." Aislabie, *et al.*, p. 18.

current state of the Norfolk Island economy. The Committee notes that there is:

- a) a significant question mark over the size of the economy (and, indeed, that this may have been overestimated in previous assessments); and
- b) serious concern over the extent to which Norfolk Island has the required revenue resources to cover the cost of increasing expenditure costs, most notably attributed to depreciating infrastructure, an ageing population and, the current account.

2.6 From this assessment, it is clear to the Committee that today, the Norfolk Island economy's reliance on its primary source of revenue places it in a precarious position, especially given the current downturn in the number of tourists travelling to Norfolk.

The nature of the economy

2.7 As this chapter should illustrate, capturing the exact nature of the Norfolk Island economy has proved a difficult task for many years. As such, the following discussion is more a review of economic studies conducted over the past twenty years, rather than an economic study *per se*.

Guesstimating Gross Product

2.8 Although a number of attempts have been made, estimating the size of the Norfolk Island economy (or "gross product"⁷) has continuously proved difficult. In 1997, the Commonwealth Grants Commission (CGC) noted that while public sector data was of "good quality", only "scant information" was available on the level of private sector activity on the Island because:

... the Norfolk Island Government does not apply taxes to business sector inputs or outputs (there is no company tax or sales tax) – though accommodation, petroleum and liquor sectors are exceptions. Thus, most businesses do not provide information on their financial activities to the Norfolk Island Government.⁸

7 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 32.

8 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 32.

- 2.9 This notwithstanding, the resultant estimate of the Norfolk Island economy for the year 1995-96 was \$80 million, assuming a private sector contribution of \$57 million. In making this estimate, the Grants Commission did acknowledge that its estimate of the private sector's contribution may have been understated, and, that indeed, others had estimated the private sector contribution to be \$70 million, producing an overall estimate of the economy at \$90 million.⁹
- 2.10 Assessing the CGC's estimate, Professor Malcolm Treadgold, of the University of New England, remarked that, if correct, the Norfolk Island GDP was 70 per cent higher than that of the rest of Australia.¹⁰ This led Treadgold to conclude that the CGC had "exaggerated the size of the Norfolk Island economy", and suggested an alternative estimate as much as a third lower, of \$53.4 million. This revised estimate, if accurate, has serious implications:

The alternative estimate of GDP also suggests that the Commission has drawn an excessively optimistic picture of the revenue-raising potential of the Norfolk Island government. As a consequence, there must be considerable reservations about the Commission's conclusion that the Norfolk Island government has the financial capacity to achieve Australian standards in the provision of services, meet associated infrastructure costs, and assume additional powers.¹¹

- 2.11 It would appear that none of Treadgold's reservations have yet been given due consideration in the context of financial sustainability. Today, it remains difficult to say what, exactly, is the amount of Norfolk Island's GDP. In evidence to the Committee, Treasury officials reported that:

The figure provided to us by [the then Administrator] Mr Messner in 2003 was that he thought – and I am not sure of the basis on which he thought it – the total island economy

9 Two assumptions underpinned this estimate: first, that average wages for each employee in the private sector were 90 per cent of the public sector figure; and secondly, that gross profit for each employee in the private sector was 80 per cent of the figure for the profitable GBEs. A further caveat of this \$80 million estimate was the unpredictability of the "non-official or barter and cash economy that has existed on Norfolk since 1856". Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, pp. 32-33.

10 M.L. Treadgold, 1998, "The size of the Norfolk Island economy", *Pacific Economic Bulletin*, 13(2):82-91.

11 M.L. Treadgold, 1998, "The size of the Norfolk Island economy", *Pacific Economic Bulletin*, p. 90.

was around \$100 million ... We do not know, and we have no way of testing that figure.¹²

Inflation

2.12 The Norfolk Island Government maintains an indicator of its fiscal health with its Retail Price Index (RPI), which is similar to the Consumer Price Index (CPI) used in other States and Territories. The Norfolk Island Administration describes the RPI as follows:

The Retail Price Index measures the average price movement in a basket of goods which has been determined by a household expenditure survey to represent the purchases of a Norfolk Island household. The Index number is calculated every three months ... and is:

- used to increase benefits paid under the *Employment Act 1988* (NI);
- used to increase the Administration fee units; and
- a general guide to inflation in Norfolk Island.¹³

2.13 During the 2003-04 financial year, the RPI increased by 11.2 per cent whilst the CPI increased by 3.5 per cent. More recently, for the period ended 31 March 2005, the RPI increased 9.2 per cent while the CPI increased 2.4 per cent for the same period.

2.14 In his submission, Mr Mitchell Dickens, General Manager of a local business on Norfolk Island, referred to the significant inflationary pressures faced by the Island, "given its isolation and total dependence on petroleum products for freight and electricity generation".¹⁴

2.15 This serves to illustrate the greater volatility and susceptibility of the economy of this isolated island, as well as the capacity of such a small community to dictate fiscal policy and restraint against more robust external economic forces.

12 Mr P. Colmer (Treasury), *Transcript of Evidence*, 4 August 2005, p. 12.

13 Norfolk Island Administration, *Annual Report 2003-04*, p. 28.

14 Mr M. Dickens (Submission No. 13), p. 1.

Labour force participation

2.16 Labour force participation statistics as outlined in Tables 2.1 and 2.2 reflect that Norfolk Island has “negligible unemployment”.¹⁵ This can be largely attributed to the local immigration regime, which, in most circumstances, will only grant Temporary Entry Permits for employment purposes and requires that itinerant workers leave the Island when they cease employment.¹⁶ Indeed, in 2001, 87 per cent of the itinerant population, compared with 77.5 per cent of the permanent population, were reported to be in full-time employment. The figures do not differ dramatically from those of the previous census.

Table 2.1 Permanent population, 15 years and over: work characteristics

<i>Whether person had a full-time job or business last week</i>	2001		1996	
	<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>
Yes	981	77.5	877	74.6
No	240	19.0	283	24.1
Not Stated	44	3.5	15	1.3
Totals	1,265	100.0	1,175	100.0

Source Norfolk Island Administration, Census of Population and Housing, 7 August 2001, p 11.

Table 2.2 Itinerant population, 15 years and over: work characteristics

<i>Whether person had a full-time job or business last week</i>	2001		1996	
	<i>Number</i>	<i>Percentage</i>	<i>Number</i>	<i>Percentage</i>
Yes	314	87.0	203	86.0
No	40	11.1	29	12.3
Not Stated	7	1.9	4	1.7
Totals	361	100.0	236	100.0

Source Norfolk Island Administration, Census of Population and Housing, 7 August 2001, p 18.

15 Human Rights and Equal Opportunity Commission, 1999, *Territorial Limits: Norfolk Island's Immigration Act and Human Rights*, p. 10.

16 A full list of conditions governing the provision of Temporary Entry Permits is outlined in Section 17 of the *Immigration Act 1980* (NI).

- 2.17 The government is a significant employer on Norfolk Island. The Administration's 2003-04 Annual Report indicates that a total of 204 people worked for the Norfolk Island public service.¹⁷

Table 2.3 Composition of Norfolk Island public service (as at 30 June 2004)

Positions	Number
Fulltime employees	136
Contract employees	14
Part-time employees	23
Vacant positions	11
Positions in a recruitment process	20
Total	204

Source *Norfolk Island Administration, Annual Report 2003-04, p 17.*

- 2.18 A previous Chief Executive Officer of the Administration, Ms Robyn Menghetti, submitted that in addition to these positions, the government also employed a range of other individuals including the staff of the Norfolk Island Hospital Enterprise, the staff of the Norfolk Island Central School and, the staff of the Norfolk Island Government Tourist Bureau. Moreover, a number of contract staff, including cleaners and bobcat operators and other equipment hirers were also employed by the Administration.¹⁸
- 2.19 In general, wages and salaries are below those in the rest of the country. In 2000, a report prepared for the Norfolk Island Government found that:
- the mean average income on Norfolk Island was \$20,800 (net) per worker;
 - census details indicate that 41.7 per cent earned less than \$20,000 per annum; and
 - only 15 per cent earned over \$31,000 per annum.¹⁹

17 Not included in these figures are those public servants paid by the Commonwealth Government, such as the Australian Federal Police, and the staff of the Administrator's Office.

18 Ms R. Menghetti (Submission No. 25), Attachment A, pp. 1-2.

19 B. Paddick, 2000, *Review of Immigration System of Norfolk Island Volume 1 – Preliminary Study*, paragraph 2.61.

- 2.20 A number of millionaires also live on Norfolk Island. In 1997, the CGC Report noted that “between 40 and 80 very wealthy people live on the Island”.²⁰ It is likely that this figure has increased since 1997.
- 2.21 Average income from all sources for all Australians (excluding Norfolk Islanders) in 2000-01 was \$25,900 (gross) per person aged over 15.²¹ The difference in salaries and wages is generally attributed to the absence of personal income tax on Norfolk Island. It should be noted, however, that the cost of living is higher on Norfolk Island, the tax burden for lower income earners is higher and, the standard of service provision is lower, than in other States and Territories.
- 2.22 Table 2.4 provides data on the qualifications of the ordinarily resident population (both permanent and itinerant) on Norfolk Island. The 2001 Census found that 46.2 per cent of the population had some form of qualification, be it professional, technical, trade or otherwise. In evidence to the Committee, the previous Chief Executive Officer of the Norfolk Island Administration, Mr Luke Johnson noted that of the 200 staff in the Administration, no more than 15 had tertiary qualifications.²²

20 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 25.

21 ABS, *Experimental Estimates of Personal Income for Small Areas, Taxation and Income Support Data* (Catalogue No. 6524.0.55.001); ABS, 2001 Census.

22 Mr L. Johnson, *Transcript of Evidence*, 4 August 2005, p. 51.

Table 2.4 Ordinarily resident population, 15 years and over: professional, technical, trade or other qualification

<i>Field of Qualifications (Highest Level Obtained)</i>	Census, 7 August 2001			
	<i>Males</i>	<i>Females</i>	<i>Total</i>	<i>% of Total</i>
Management, Administration and Related Fields				
Accounting and Auditing	12	14	26	1.6
Secretarial, Typing and Shorthand	-	51	51	3.1
Legal	8	2	10	0.6
Management and Administration n.e.i.*	16	22	38	2.3
Natural and Applied Sciences	15	9	24	1.5
Engineering and Technology	18	3	21	1.3
Architecture and Building				
Building and Construction	25	-	25	1.5
Carpentry and Joinery	41	-	41	2.5
Plumbing and Gasfitting	22	-	22	1.4
Architecture and Building n.e.i.*	12	1	13	0.8
Social Sciences, Humanities, Religion and Theology	6	5	11	0.7
Education	20	42	62	3.8
Medicine and Health	13	67	80	4.9
Artistic, Literary and Performing Arts	9	19	28	1.7
Agriculture and Forestry	6	6	12	0.7
Manufacturing and Construction excluding building				
Electrical and Electronic	32	-	32	2.0
Metal	6	-	6	0.4
Vehicle	55	-	55	3.4
Other Manufacturing and Construction n.e.i.*	7	-	7	0.4
Services				
Transport and Communications	13	10	23	1.4
Food and Related Services	28	13	41	2.5
Other Services n.e.i.*	10	28	38	2.3
Fields n.e.i.*	2	4	6	0.4
Fields not stated or inadequately described	58	21	79	4.9
Total Persons with Qualifications	434	317	751	46.2
Persons without Qualifications	294	412	706	43.4
Persons still at school	19	33	52	3.2
Not stated whether Qualified	55	62	117	7.2
Total	802	824	1,626	100.0

Source *Norfolk Island Administration, Census of Population and Housing, 7 August 2001, p 25.*

Note ** Not elsewhere included (or classified)*

Private sector activity

- 2.23 Despite the difficulty in obtaining private sector data, Census data demonstrates a steady increase in the proportion of the resident working population, with jobs directly related to tourism, from 49.7 per cent in 1986 to 53 per cent in 1996 and 54.3 per cent in 2001.²³ Similarly, the 1997 CGC report indicated that the percentage of persons directly involved in tourism was 60 per cent, with an additional 24 per cent involved indirectly.²⁴
- 2.24 It is clear then that the main driver of private sector activity on Norfolk Island is tourism. In 1997, the CGC tried to estimate the “financial size of the tourist sector”, noting that this was difficult to define with any precision.²⁵ Based on certain assumptions, the CGC estimated that:
- ... in 1995-96, the Norfolk Island Government would have raised from tourists through [departure taxes, landing fee charges and the Accommodation Levy] about \$2 million of the \$7.6 million [earned overall in] indirect taxes less subsidies.²⁶
- 2.25 On the conjecture that every tourist spent \$100 a day, the CGC estimated that tourists’ contribution to the local economy (through their engagement in local activities) amounted, in 1995-96, to at least \$23 million.²⁷ According to the CGC, this meant that tourists, who comprised about 26 per cent of the population, contributed roughly 40 per cent of the Island’s revenue.²⁸
- 2.26 More recent estimates calculate tourism’s contribution to the Norfolk Island economy at 90 per cent.²⁹

23 Norfolk Island Administration, *Census of Population and Housing*, 6 August 1991 (p. 32) and 7 August 2001 (p. 30).

24 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 34.

25 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 35.

26 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 35.

27 The Commonwealth Grants Commission noted that this was a more conservative estimate than that calculated by Access Economics, who estimated the tourist sector contribution to be \$41.4 million. Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 36.

28 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 149.

29 F. Robson, *Queer as Norfolk*, Good Weekend Magazine, Sydney Morning Herald, 6 August 2005, p. 1.

- 2.27 In 2003, the Australian Treasury found that the commercial sector of the Norfolk Island economy was made up of 349 businesses operating in three broad categories:

Table 2.5 Commercial business sectors

Sector	Number
Accommodation providers	84
Tour providers	96
Retailers	169
Total	349

Source Department of the Treasury, 2003, Discussion Paper: Taxation Options for Norfolk Island, p. 4.

- 2.28 Treasury noted that “most of the 349 businesses exist principally because of the tourism trade”.³⁰ However the emergence of tourist packages, including airfares, accommodation and island tours, has resulted in fewer dollars being spent in retail outlets.³¹ This has, not surprisingly, resulted in a period of uncertainty for the private sector, with a number of businesses on Norfolk Island now for sale:

Until the last few years, commerce on Norfolk has seen good returns on investment ... However, many businesses today show significant shortfalls, (many quote being 50% down on the previous year’s revenues), which can be attributed to a significant downturn in tourist numbers.³²

- 2.29 Related to this is the concern on-Island that the Norfolk Island Government’s “regressive” policies towards immigration restrict private sector development. The Chamber of Commerce noted that despite the “many properties and businesses that have been for sale for between 3 to 6 years ... the pool of ‘eligible’ buyers is restricted. The Chamber feels that these markets have been static since 2002.”³³
- 2.30 The Committee will return to the serious challenges confronting the Norfolk Island economy, arising from its reliance on tourism, later in this chapter.

30 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, pp. 4-5.

31 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, pp. 4-5.

32 Norfolk Action Group (Submission No. 24), p. 1.

33 Norfolk Island Chamber of Commerce (Submission No. 14), p. 13.

Existing sources of revenue

- 2.31 There has been considerable debate over the question of the capacity of the Norfolk Island Government to raise sufficient resources from the revenue base already at its disposal. The CGC concluded that not only did Norfolk Island have that capacity, but that, in fact, the Norfolk Island Government had the capacity to increase revenue by as much as 60 per cent.³⁴

Taxes, duties and levies

- 2.32 Reflecting the Norfolk Islanders' desire for self-governance, Islanders do not pay any Federal taxes, including goods and services (GST), income, or company tax. There are, however, a range of local (indirect) taxes and imposts levied by the Norfolk Island Government which are used to fund services and infrastructure.³⁵ Among these is the flat \$250 Healthcare Levy, payable every six months by each adult resident, with an exemption for those who can afford private health insurance.
- 2.33 The CGC found that the taxation system on Norfolk Island was regressive, generally did not tax wealth or income and, fell disproportionately on tourists.³⁶ Moreover, where Norfolk Island imposed taxes, they were at a rate more than double the equivalent taxes in the rest of Australia.³⁷ Further to this, the Commonwealth Treasury noted that:

The taxes levied are generally flat, across the board, meaning that lower income earners pay a higher proportion of their income on taxation than higher income earners. In 1995-96, Norfolk Island raised only 4 per cent of its tax revenue from income and wealth, compared to 54 per cent in mainland Australia.³⁸

34 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 164. See also C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment, p. 46.

35 Department of Transport and Regional Services, *Norfolk Island: General Information*, <http://www.dotars.gov.au/terr/norfolk/general.aspx>.

36 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. xiv.

37 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. xiv.

38 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 7.

Table 2.6 Norfolk Island Administration source of revenue, 2003-04 and 2002-03

	<i>Year ended</i> 30 June 2004	<i>Year ended</i> 30 June 2003
	\$	\$
Revenue Fund	9,597,089	8,410,214
Liquor Supply Service (GP)	1,731,064	1,675,389
Postal Service	712,885	810,013
Electricity Service	3,110,073	2,867,746
Norfolk Telecom	3,792,978	4,265,975
Lighterage Service	445,809	500,427
Norfolk Island Airport	1,970,428	1,679,523
Water Assurance Fund	439,166	472,095
KAVHA Fund	572,272	635,303
Bicentennial Integrated Museums	191,188	209,442
Workers Compensation Scheme Fund	307,950	318,149
Healthcare Fund	789,719	771,380
Cascade Cliff Sale of Rock	322,543	491,654
Offshore Financial Centre	52	246
Gaming Enterprise	151,634	144,225
Total	24,134,850	23,251,781

Source Norfolk Island Administration, Annual Report 2003-04, p. 49.

2.34 Mr Luke Johnson, former CEO of the Norfolk Island Administration, was also critical of the Island's taxation regime:

An examination of the Norfolk Island financial statements clearly indicates that the Island is not 'tax-free'. The system is simply different to the Australian taxation system and the main difference is that it is far less equitable and does not raise enough revenue to sustain the Island.³⁹

Government Business Enterprises

2.35 The Norfolk Island Government Business Enterprises, operating as monopolies, provide more than 50 per cent of the revenue generating capability of the Government. Without the dividends that these enterprises pay the Revenue Fund, the costs of the limited government services and administration that are currently provided, could not be

³⁹ Mr L. Johnson (Submission No. 12), p. 7.

met. The Commonwealth Treasury noted that these enterprises “appear to be a substitute for taxation revenue.”⁴⁰

- 2.36 The Committee received a number of submissions suggesting that the Norfolk Island Government examine the potential to privatise the Government Business Enterprises.⁴¹ Of all the Government Business Enterprises, the Commonwealth Treasury supported the idea of privatising the Liquor Bond. Treasury argued that:

Prima facie, a monopoly for liquor would seem unnecessary if adequate revenue is available from other sources.

Withdrawing from the market would allow Government to consider appropriate taxation of alcohol taking into account any taxation and/or social policy issues without the distortions that might arise from the need for dividends.

Further, [the Norfolk Island] Government may benefit through the transfer of the costs of the Liquor Bond (for example, wages, rents, capital, etc) to private businesses.

Allowing competition in the liquor market would generally be expected to benefit consumers through either lower prices or product innovation (for example, broadening the range of products available).⁴²

Existing loans

- 2.37 Section 49 of the *Norfolk Island Act 1979* states that:

The Minister for Finance may, on behalf of the Commonwealth, out of money appropriated by the Parliament for the purpose, lend money to the Administration or to a Territory authority on such terms and conditions as the Minister for Finance, in writing, determines.

- 2.38 Two loans are currently contracted between the Norfolk Island Government and the Commonwealth. Both of the Norfolk Island Government’s current loans are interest free.
- 2.39 In 1998, the Norfolk Island Government was granted an interest free loan for the Cascade Cliff Safety project (designed to stabilise a dangerous cliff face overlooking a road and jetty at Cascade Bay to

40 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 8.

41 See, for example, Mr R. Robinson (Submission No. 5) p. 1; Mr M. Hehir (Submission No. 23), p. 16; and Norfolk Action Group (Submission No. 24), pp. 8-9.

42 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 8.

ensure public safety). This loan is controlled and managed by an independent board.

- 2.40 As at 30 June 2004, the amount outstanding on this loan was \$2,152,589. The loan is repayable from royalties paid for crushed rock sales on the Island.⁴³
- 2.41 On 28 July 2003, the Norfolk Island Government entered into an agreement with the Commonwealth for a \$5.8 million loan to resurface the runways at the Norfolk Island airport. In addition to the repayment of the interest free loan, the Norfolk Island Government has also agreed to establish a trust fund into which they will deposit \$7.9 million by 30 June 2015 for the next refurbishment of the runways.
- 2.42 On 27 June 2005 the agreement was varied to increase the \$5.8 million loan to \$12 million and the trust fund balance to be achieved was increased to \$17.5 million with the date being extended to 30 June 2020. The money held in the trust fund is to be used exclusively for Norfolk Island airport runway refurbishment to commence in the 2020-21 financial year. Included in this agreement are the anticipated interest earnings of the trust account of \$3,024,293 over the duration of the agreement. To date, no money appears to have been allocated to the trust fund.⁴⁴
- 2.43 The Committee expresses serious concern that these funds allocated two years ago have not yet seen the project advanced at all. This being the case, the Committee calls for an audit of any funds expended thus far under this project.

Commonwealth funding

- 2.44 The website of the Department of Transport and Regional Services states:

Notwithstanding the long-standing agreement that Norfolk Island should be exempt from federal taxation and be largely financially self-sufficient, Norfolk Island does receive assistance and funding from the Federal Government.⁴⁵

43 It is expected that substantial crushed rock will be required for the resurfacing of the Norfolk Island airport runways.

44 Norfolk Island Administration, *Annual Report 2003-04*, p. 49.

45 DOTARS, *Federal assistance provided to Norfolk Island*, http://www.dotars.gov.au/terr/norfolk/fed_assistance.aspx.

- 2.45 In fact, Norfolk Island receives funding:
- by federal agencies operating on Norfolk Island;
 - under national grant programs; and
 - as part of the Federal Government's responsibilities to the Australian community.⁴⁶
- 2.46 In the past year alone, the Commonwealth Government has provided:
- an additional \$7 million on the initial \$5.8 million interest free loan for the resurfacing of the Norfolk Island Airport;
 - an additional (but as yet unspecified) amount to supplement the \$2.6 million grant for the refurbishment of the Kingston Pier, plus an additional \$50,000 towards the cost of employing a project engineer;⁴⁷
 - a National Heritage Trust grant of \$650,000 to assist with implementation of a green waste management system including the purchase of a 'tub grinder' for the project, and a further \$240,000 to protect Norfolk Island's remnant rainforests and Norfolk Island Pines; and
 - funding for technical assistance:
 - ⇒ following the liquidation of Norfolk Jet Express (NJE), an expert aviation consultant (Centre for Asia Pacific Aviation) was sent to assist with airline planning and service delivery;
 - ⇒ an Australian Government Advisory Group, consisting of officials from the Australian Treasury, the Australian Taxation Office and the Australian Bureau of Statistics was sent to Norfolk to assist the Norfolk Island Government in its investigation of the Norfolk Sustainability Levy (NSL), at a total cost of \$7,644.⁴⁸
- 2.47 Despite the continued proliferation of such grants and loans, the Department of Transport and Regional Services was reluctant to admit any reliance on the Commonwealth Government:

46 DOTARS, *Federal assistance provided to Norfolk Island*, http://www.dotars.gov.au/terr/norfolk/fed_assistance.aspx.

47 The Hon. J. Lloyd MP, Minister for Local Government, Territories and Roads, *Norfolk Island Pier Refurbishment Funding Secured*, Media Release, 15 September 2005.

48 Department of Transport and Regional Services (Submission No. 19), p. 1.

I am not sure that I would say [the Norfolk Island Government] are reliant very heavily [on assistance from the Commonwealth]. But I certainly think that the airport situation highlights that the redevelopment of a critical piece of infrastructure for the island, in terms of its remoteness and access to Australia and also for its tourism industry, was not able to be financed by the government from its current revenue.⁴⁹

Levels of expenditure

2.48 Historically, the core focus of financial management on Norfolk Island has been to maintain a 'balanced budget'.⁵⁰ In achieving this objective, recurrent expenditure has often been capped by projected revenue and there has been little focus on future capital needs or the establishment of reserves.

2.49 A number of submissions expressed concern with this strategy.⁵¹ Mr Luke Johnson, for example, noted that, the Assembly's reliance on expenditure cuts and organisational restructuring to balance its budgets "only serves to mask the real problem and delay the identification and implementation of a meaningful solution."⁵²

2.50 In 2002, the Norfolk Island Government initiated a wide-ranging review of government expenditure. The report concluded:

Despite the identification of some savings, a clear finding of the *Focus 2002* [review] has been that **the capacity to make further substantial expenditure reductions is extremely limited**. Much of the savings identified were also 'lost' to other under funded areas that require additional revenue for the current financial year.⁵³

2.51 Table 2.7 summarises the Norfolk Island Administration's recurrent and capital expenditure for the 2003-04 and 2002-03 financial years.

49 Mr R. Magor (Department of Transport and Regional Services), *Transcript of Evidence*, 4 August 2005, p. 7.

50 C. Nobbs, 1983, *Which future for Norfolk Island?*, p. 11.

51 Mr L. Johnson (Submission No. 12), p. 10; Mr M. Zande (Submission No. 21), p. 2; Mr M. Hehir (Submission No. 23), p. 2; and Norfolk Action Group (Submission No. 24), pp. 2-3.

52 Mr L. Johnson (Submission No. 12), p. 10.

53 Norfolk Island Government, *Focus 2002 – Sustainable Norfolk Island*, Executive Summary, p. 2. Emphasis in original.

Table 2.7 Norfolk Island Administration expenditure, 2003-04 and 2002-03

	<i>Year ended</i> 30 June 2004	<i>Year ended</i> 30 June 2003
	\$	\$
Revenue Fund	11,288,967	10,729,459
Liquor Supply Service	280,881	284,865
Postal Services	652,911	616,660
Electricity Service	2,123,390	2,093,825
Norfolk Telecom	2,034,382	1,939,090
Lighterage Service	344,932	396,196
Norfolk Island Airport	1,009,872	734,505
Water Assurance Fund	405,755	117,164
KAVHA Fund	793,703	818,029
Bicentennial Integrated Museums	232,413	258,805
Workers Compensation Scheme Fund	244,566	255,031
Healthcare Fund	636,714	632,531
Cascade Cliff Sale of Rock	260,313	524,555
Gaming Enterprise	18,652	28,771
Offshore Finance Centre	3,055	11,417
Total	20,330,506	19,440,903

Source *Norfolk Island Administration, Annual Report 2003-04, p. 49.*

Service provision

- 2.52 The Norfolk Island Government is responsible for delivering a range of Commonwealth, State and Local Government type services. The most comprehensive review of service provision on Norfolk Island is the CGC Report of 1997. The report concluded that certain services on Norfolk Island were provided at levels that exceeded standards found in the rest of Australia,⁵⁴ whilst other services were not provided at comparable standards.⁵⁵ A number of remaining services were found to be delivered at comparable standards.⁵⁶

54 Namely, police services and the National Park, both of which are provided in association with the Commonwealth. Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 140.

55 Pre-school education and child care, vocational education and training, health insurance, social security, welfare services, housing assistance, water supply, employment conditions, waste disposal, culture, environment protection, land administration and planning, sundry regulatory and administrative services and fire services. Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 140.

56 School education, hospital, public health and community health services, road services, sewerage services, postal services, telecommunications, broadcasting, recreation and sport, promotion of tourism, quarantine services, immigration, corrective services, court services, emergency management, the Kingston Arthur Vale Historical Area (KAVHA)

- 2.53 In response to the CGC Report, the Norfolk Island Government disagreed with this assessment and questioned the validity of the classifications. For example, the Norfolk Island Government argued that welfare services, culture and environment protection provided on Norfolk Island were comparable to those services provided in the rest of the country.⁵⁷
- 2.54 With regard to the services classified as being “below mainland standard”, the Norfolk Island Government stated that, as there are services which the Island community is not interested in establishing at standards equivalent to those in other States and Territories, it has no mandate to enforce an increased standard in these service areas.⁵⁸
- 2.55 Certain submissions echoed this sentiment. Mr Bill Sanders, for example, stated:
- Persons who come to live in a remote and isolated location with an extremely small population, cannot expect to have the same standard of services as on the mainland.⁵⁹
- 2.56 Similarly, the Norfolk Action Group stated:
- ... This does not mean that the Norfolk Community desires all of the services, nor services to the same levels, as that enjoyed by other Australians. Indeed, our aspirations as a community may well be less in some areas, and the majority of us do not feel ‘second class’ (as some would have us believe) as a consequence.⁶⁰
- 2.57 These arguments notwithstanding, the Norfolk Island Government has acknowledged that the Island’s ageing population will necessarily require additional funds to be allocated to social security and, health and aged care services.⁶¹ It was also submitted that there are insufficient funds to maintain quality education on Norfolk Island.⁶²

and, customs services. Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 140.

57 Hon. Ivens Buffett (Submission No. 4), Attachment B, *Commonwealth Grants Commission Report 1997: 7 years on. Project plan for review of main findings*, p. 3.

58 Hon. Ivens Buffett (Submission No. 4), Attachment B, *Commonwealth Grants Commission Report 1997: 7 years on. Project plan for review of main findings*, p. 3

59 Mr B. Sanders (Submission No. 1), p. 1.

60 Norfolk Action Group (Submission No. 24), p. 2.

61 Norfolk Island Government, *Public sector reform and major changes to revenue system*, Media Release, 21 April 2005, p. 1.

62 Ms H. Pedel (Submission No. 16).

Social security

- 2.58 The Norfolk Island Government currently operates its own social security system under local legislation, namely the *Social Services Act 1980* (NI). Age, invalid, widowed persons', handicapped children's, supplementary children's and special benefits are available on Norfolk Island as part of this welfare regime. Benefits are payable at levels around 80 per cent of those paid to recipients of similar benefits in other States and Territories.
- 2.59 Underlying the social security arrangements on Norfolk Island is the philosophy that a 'close-knit' community can look after its own without the need for government intervention. The Norfolk Action Group stated:
- Norfolk remains, especially in times of hardship, a leading example of what can be achieved by a generous community – from philanthropists who give hugely of their wealth to establish scholarships, the dental clinic and many other services; to those who give of themselves so the school students have trips away and equipment; to those many amongst us who share our surpluses; to families who look after their own in times of illness and hardship; and to those who lay to rest with dignity those who die here. While we do not know what this community input contributes to the GDP, it is significant.⁶³
- 2.60 Even if this community spirit and generosity are taken into account, pensions available on the Island are well below standards found in other States and Territories. This is particularly problematic considering that the cost of living on Norfolk Island is substantially higher than in other parts of Australia.
- 2.61 Concern has also been expressed in relation to the absence of unemployment benefits on Norfolk Island. The Norfolk Island Government has argued that such benefits are unnecessary, although, in reality, the Island's "negligible unemployment" is principally attributable to the fact that unemployed persons leave the Island to, either find work or, receive benefits paid in other States and Territories.

63 Norfolk Action Group (Submission No. 24), pp. 1-2.

Health services

- 2.62 Medicare benefits were withdrawn from Norfolk Island on 1 January 1989 as a result of the transfer of powers for public health matters, including the hospital and environmental health, to the Norfolk Island Government.⁶⁴
- 2.63 In place of Medicare, the Norfolk Island Government operates its own Healthcare scheme, membership of which is compulsory for all residents over the age of 18. Members of the scheme are liable to a healthcare levy of \$250 every six months. Under the scheme, families and individuals must also pay the first \$2500 incurred for medical expenses.
- 2.64 Nearly all health services are provided through the Norfolk Island Hospital Enterprise, but the hospital depends on a diminishing fee base and subsidy from the Norfolk Island Government. Without adequate funding or planning for replacement of the health infrastructure, including much needed aged care facilities, the gap between the level of service which patients expect and, that which can be provided, is increasing.

Education

- 2.65 The Norfolk Island Government provides free infant, primary and secondary schooling. All resources and teacher salaries are paid for by the Norfolk Island Government. There are currently two Memorandums of Understanding, one between the Norfolk Island Government and the Commonwealth about the provision of education, and one between the Norfolk Island Government and the New South Wales Department of Education about staffing the Island's school.⁶⁵
- 2.66 While there is general satisfaction with the quality of education currently provided on Norfolk Island, there appear to be a number of difficulties associated with the costs of providing such quality education. For example, Ms Helen Pedel submitted that:

The quality of education on Norfolk is under threat once again by the current Minister for Education [the Hon. John

64 At this time, a Memorandum of Understanding between the Federal Government and the Norfolk Island Government was proposed for reciprocal arrangements but the Commonwealth considered it inappropriate in light of the inapplicability of the *Health Insurance Act 1973 (Cth)* on Norfolk Island.

65 Ms H. Pedel (Submission No. 16), p. 3.

Brown] who is on record with his negative attitude to the cost of the service provided, salaries, and Years 11 and 12. The financial difficulties the Island is facing once again focus negatively on the cost of education.⁶⁶

2.67 Specifically, Ms Pedel submitted, that, the Norfolk Island Government is attempting to reduce the cost of education on Norfolk Island by reducing teachers' salaries which are set by the NSW Department of Education and are, therefore, comparable to wages in that State. This makes teachers' salaries higher than other Administration-funded salaries and means that the:

... Norfolk Island Government has little control [over a significant proportion of] current expenditure. This adds to the difficulties of the budgeting process and would continue, when at the same time, an attempt is being made to index other public sector payments and salaries to Norfolk Island price fluctuations. To the degree that New South Wales salaries rise more quickly than Norfolk Island prices, this would also represent some importation of inflation.⁶⁷

2.68 In addition to salaries, Ms Pedel submitted that the Norfolk Island Government was considering the withdrawal of the education package provided by the NSW Department of Education. Not only does the cost of this package cover the supply of teachers, but it also includes:

... the curriculum package and guarantee, external examinations - HSC, SC BST, ELLA, SNAP and Computing, Distance Education facilities, specialist consultant access, system monitoring, policies, etc.⁶⁸

2.69 Ms Pedel suggested that these financial problems for education could be relieved by the Commonwealth Government taking ongoing responsibility for the cost of teachers' salaries. The Norfolk Island Government would retain responsibility for funding the operational costs of the school, but, an element of joint responsibility with the Commonwealth Government would allow the maintenance of an education system comparable with that in NSW.⁶⁹

66 Ms H. Pedel (Submission No. 16), p. 1.

67 C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment, pp. 123-124.

68 Ms H. Pedel (Submission No. 16), p. 3.

69 Ms H. Pedel (Submission No. 16), p. 3.

Infrastructure

- 2.70 A number of submissions noted that public infrastructure on Norfolk Island has been allowed to depreciate without any upgrade.⁷⁰ Infrastructure projects on Norfolk Island are severely restricted by the remoteness of the Territory and the need for raw materials and heavy equipment to be imported. This places a price premium on all such proposed works. It is further apparent that the limited human and financial resources of the Island are not able to provide sufficient capital funding to maintain existing infrastructure or provide for future capital investment.
- 2.71 Areas highlighted by the CGC as being deficient included a harbour facility, the airport and, electricity generation and supply. Other areas, including school and hospital infrastructure, road building and maintenance equipment, street lighting and, fire services equipment, were considered adequate although the CGC noted that they were in danger of degradation in the short term.⁷¹ The Norfolk Island Government disputed the validity of the CGC's finding, noting that:
- ...there has been considerable work completed and scheduled for the school, new generators have been purchased and installed, Burnt Pine has been upgraded including street lights, new airport terminal constructed, new fire engines purchased for the community service.⁷²
- 2.72 Various submissions disagreed with the Norfolk Island Government's position.⁷³ According to these submissions, urgent attention is required, particularly with respect to public health infrastructure, including an upgraded aged care facility, roads, education infrastructure, power generation, water management and, a deep water harbour facility. It is also evident that the Burnt Pine area still requires further upgrading, including street lighting, pavements and footpaths.

70 See, for example, Mr L. Johnson (Submission No. 12), Ms H. Pedel (Submission No. 16), Mr M. Hehir (Submission No. 23), Norfolk Action Group (Submission No. 24), and Mr C. Blackwell (Submission No. 28).

71 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 141.

72 Hon. Ivens Buffett (Submission No. 4), Attachment B, *Commonwealth Grants Commission Report 1997: 7 years on. Project plan for review of main findings*, p. 5.

73 Mr L. Johnson (Submission No. 12), p. 9, Ms H. Pedel (Submission No. 16); Mr M. Hehir (Submission No. 23), p. 6; Norfolk Action Group (Submission No. 24), p. 2; and Mr C. Blackwell (Submission No. 28), p. 2.

Public health infrastructure

- 2.73 New buildings and, plant and equipment are required, including a better-equipped ambulance.⁷⁴ Ongoing and increasing operating and maintenance costs also need to be funded. In evidence to a previous committee inquiry, the Acting Director of the Norfolk Island Hospital Enterprise, Mr David McGowan, noted that:

The recent independent inquiry into the Hospital Enterprise put a figure on the complete replacement of the hospital at \$15 million. That is to develop a multipurpose centre, the same as is in place in many rural areas of Australia.⁷⁵

Roads

- 2.74 To date, assessments on the conditions of the roads on Norfolk Island have not been made available to the Commonwealth. Uninformed estimates are, that, reseal and repair of the Island's roads will cost in the vicinity of \$6 million, although, it appears no funds have been set aside for any such project. Professor O'Collins noted:

...although some roads have been upgraded, general road maintenance has deteriorated, particularly with regard to side roads accessing historical or scenic spots around the Island.⁷⁶

- 2.75 Moreover, general comments elicited from 'Letters to the Editor' columns and the Assembly's Hansards, indicate that the roads have been neglected, some of which are now beyond repair and, expensive remedial action is required.⁷⁷

74 See, for example, Prof. M. O'Collins (Submission No. 15), pp. 2, 4:

The ambulance service is also inadequate. It is resourced totally by volunteers and the service operates with only one vehicle capable of carrying only a single stretcher patient. This means that the service cannot respond adequately to serious incidents where there are multiple injuries. There are reports that in the case of road accidents with multiple victims, ambulance officers must choose who to transport first or transport injured people in private vehicles.

75 Mr David McGowan (Norfolk Island Hospital Enterprise), *Transcript of Evidence*, 18 February 2003, p. 29.

76 Prof. M. O'Collins (Submission No. 15), p. 2.

77 Letters, Hansard.

Education infrastructure

- 2.76 New school buildings are required and existing buildings require upgrading. In her submission to the inquiry, Ms Helen Pedel noted that:

[t]he school is in need of significant funds to maintain technology requirements for our students and there is of course, very little money available for such an important area ... We do not have access to technology roll-outs as other NSW schools have.⁷⁸

Power generators

- 2.77 Since the CGC Report, second-hand diesel powered generators have been bought and installed on the Island. Despite the fact that these generators will need to be replaced in the medium term, it is clear from the Administration's annual reports that insufficient funds are being put aside for this project.
- 2.78 There is also a need to replace or upgrade the Island's energy reticulation system (that is, its power lines). Given the Island's reliance on fuel for energy generation, a federal grant was awarded in 2002 from the Australian Greenhouse Office under the Commonwealth Government's National Renewable Energy Demonstration Program to conduct a feasibility study on Norfolk Island's use of renewable energy (such as solar-wind-tidal generated power).
- 2.79 While the study generated useful findings and solutions, the Norfolk Island Government has not made any progress in implementing them.

Waste management

- 2.80 Previously, waste produced on Norfolk Island was disposed of by dumping it directly into the ocean over a cliff at Headstone Point into the ocean. Not surprisingly, the CGC Report concluded that waste disposal measures were very much below the standard expected in other Australian States and Territories. The Committee's review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage recommended:

78 Ms Helen Pedel (Submission No. 16), p.1.

That the Federal Government assist the Norfolk Island Government in upgrading existing sewage services and, where necessary, developing new sewage disposal facilities that protect the health of the community, visitors, the environment and adjacent coastal areas of Norfolk Island.⁷⁹

2.81 This recommendation led to the finalisation of a new Waste Management Centre on Norfolk Island and discussions with the Commonwealth Government about possible further contributions to honour international benchmarking on the environment. The new Waste Management Centre was facilitated with a \$250,000 grant from the Commonwealth's Coast and Clean Seas component of the Natural Heritage Trust.⁸⁰

2.82 Island residents have welcomed this development, although there is still some room for improvement. As Professor O'Collins states:

While it is encouraging to see some improvement in waste disposal methods, further sustained action is required.⁸¹

Harbour facilities

2.83 The Norfolk Island Government has not identified the construction of a deep water harbour as a priority issue (lighterage being identified as part of their cultural heritage),⁸² despite numerous reports that have been commissioned on this subject⁸³ and, the high added cost of the manual handling of all freight and the vagaries of weather that can

79 Recommendation 12, *Norfolk Island: Review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage*, p. 51.

80 The Norfolk Island Focus 2002 Report recommended that the Waste Centre be funded \$300,000 per annum from the Water Assurance Scheme, as it is unlikely that this facility could be self-funding from any revenue earned from recycled material.

81 Professor M. O'Collins (Submission No. 15), p. 2.

82 Hon. Ivens Buffett (Submission No. 4), Attachment B, *Commonwealth Grants Commission Report 1997: 7 years on. Project plan for review of main findings*, p. 5.

83 Department of External Territories, 1929/1939, *Report on Improvement of Landing and Shipping Facilities*, Ref: D241/4/1; Wilton & Bell, Dobbie & Partners (Consulting Engineers), 1970, *Report on Development of Harbour Facilities on Norfolk Island*; M. Silva, 1977, *Report – Part 1 – Marine Structures*; W. Service (Townsville Port Authority), 1991, *Report on Harbour Facilities for Norfolk Island*; W. Bremmer, N. Perkins, N. Lopex, 1993, *Report on A Preliminary Investigation for the Provision of Harbour Facilities for Norfolk Island* (in conjunction with PPK Consultants Pty Ltd); Norfolk Island Administration, 1993, *Lighterage Review: Discussion Paper*; Karlene Christian and Jack Marges, 1995, *Environmental Impact Assessment on the Maritime Environment in relation to the proposed construction of a stern loading vessel berthing facility in Ball Bay, Norfolk Island*; J. P. Marges, 2005, *Survey of marine flora and fauna in the vicinity of Kingston Pier and as assessment of any impact the refurbishment of the pier may have on the fauna, flora and environment*. Survey conducted at request of the Norfolk Island Administration.

delay or prevent the off-loading of freight, all of which necessarily comes by sea.⁸⁴

- 2.84 At least one of the Island's two shallow port jetties at Kingston and Cascade Bay, require stabilisation and repair. The Kingston Pier is listed on the Register of the National Estate and it is now estimated that the cost of repairs will exceed \$5 million. In 2004, the Commonwealth Government originally pledged funding of \$2.6 million for the pier's refurbishment. Detailed engineering analysis carried out in 2005 by the project manager, Patterson Britton and Partners, revealed more comprehensive work would be required to save the pier. On this basis, the Minister for Territories, the Hon. Jim Lloyd, MP announced further funding for the pier in September 2005.
- 2.85 A Norfolk Island Harbour Board has been recently established on the Island.⁸⁵ One of the aims of the Board is to make permanent, the temporary jetty at Ball Bay. The Harbour Board has argued that this would save the community money and, provide an alternative lighterage jetty.
- 2.86 In addition, a deep water harbour capable of taking cruise ships and containers would have a significant economic impact on the Norfolk Island community. Such a harbour would deal with the mainstream trade to and from the Island and, would increase the potential for the Island to be a base for aquatic adventure tours and sports.⁸⁶

Airport

- 2.87 The airport has a new terminal facility but the resurfacing of the runways has become a priority as the landing surfaces become less serviceable for air traffic through normal wear and tear. The airport is an essential service to Norfolk Island, being the sole tourism entry point in the absence of a harbour facility.
- 2.88 As noted previously, the Commonwealth and Norfolk Island Governments negotiated a \$12 million loan to the Island for this project. One of the conditions of the loan is that the Norfolk Island Government establishes a Norfolk Island Runway Trust Fund into which a total of \$17.5 million is to be accumulated by 2020, when the next runway resurfacing is expected to fall due.

84 Ms R Menghetti (Submission No. 25), p. 3.

85 Correspondence, Norfolk Island Harbour Board.

86 Norfolk Action Group (Submission No. 24).

- 2.89 The depreciating state of Norfolk Island's infrastructure is not a new phenomenon. Capital expenditure has been highlighted as a serious deficiency in the Administration for some time. Aislabie *et al.*, for example, noted in 1983 that:

Capital expenditure presents far more serious problems, some of which have been inherited as a result of decisions made (or not made) in the past. The most serious seems to be the complete lack of any capital expenditure planning. This means that the present Government and Administration have little or no experience in the co-ordination of public and private sectors.

Some forward planning of capital expenditure priorities is absolutely essential. At present, there seems to be no systematic evaluation of proposed capital expenditures and no attempt made (e.g. by way of cost-benefit analysis) to rank proposals in order of priority.⁸⁷

- 2.90 Having successfully negotiated funds from the Department of Transport and Regional Services to coordinate an Asset Management Plan, Mr Luke Johnson noted that "the financial magnitude of the revenue short-fall will become apparent with the development of a detailed costing of asset renewal requirements."⁸⁸ Mr Peter Maywald, Secretary to the Norfolk Island Government, advised that drafts completed by the consultants had been distributed to all functional areas (such as the hospital, the power station and the works depot), seeking responses and, specific costed implementation strategies.⁸⁹

The 2004-05 budget deficit

- 2.91 The Norfolk Island Government's measure of a sound and viable economy is to produce a balanced budget.⁹⁰ Generally, the Norfolk Island Government has operated at an average annual budget surplus of over \$880,000 against an annual average expenditure of \$19.2 million.

87 C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment; see also Mr L. Johnson (Submission No. 12), p. 10.

88 Mr L. Johnson (Submission No. 12), p. 9.

89 Mr P. Maywald, personal communication, 31 October 2005.

90 See, for example, C. Nobbs, 1983, *Which future for Norfolk island?*, p. 11.

2.92 In reviewing the 2004-05 Budget, the Finance Minister of the 11th Norfolk Island Legislative Assembly, the Hon. Ron Nobbs, stated that two major factors accounted for the reduction in anticipated income and the resultant budget deficit:

- 1) Norfolk Telecom annual dividend to the Revenue Fund was normally around \$1.2m and the original 2004-05 Budget contained that figure. However, the dividend paid by Telecom required by the last Government in the 2003-04 financial year was \$1.85m – an increase of \$650,000 on normal. This left Telecom cash strapped and thus a conscious decision was taken to rectify the problem with no dividend to be paid by Telecom this financial year (2004-05), cutting revenue by \$1.2m.
- 2) The expected revenue from land title and miscellaneous fees has been reduced from \$600,000 to \$250,000 based on sales to date.⁹¹

2.93 The prospect of a budget deficit and a downturn in tourism activity prompted a major statement from the Assembly highlighting the systemic problems with the fiscal situation on the Island, including:

- coping with the ramifications of an ageing population and subsequent provision of future health, welfare, aged care and pension services;
- replacement of depreciated public infrastructure such as roads, buildings and communication networks and, of badly depleted equipment assets;
- reduction in the numbers of tourists coming to Norfolk Island and, in the amounts of money they spend while on the Island; and
- deficits in the Revenue Fund budget, which are expected to amount to \$2.2 million.⁹²

91 Norfolk Island Government, *Finance Minister's statement on the Budget*, Media Release, 10 February 2005.

92 Norfolk Island Government, *Public Sector Reform and Major Changes to Revenue System*, Media Release, 21 April 2005.

Table 2.8 Balance Sheet

	Year ended 30 June 2001 (\$)	Year ended 30 June 2002 (\$)	Year ended 30 June 2003 (\$)	Year ended 30 June 2004 (\$)
ACCUMULATED FUNDS	32,957,470	32,331,747	34,051,863	35,526,436
Current Assets				
Cash at Bank	7,752,715	9,174,430	10,183,173	10,938,068
Sundry Debtors	3,845,613	3,358,494	3,249,549	3,380,621
Inventory	2,532,063	2,319,095	2,159,365	2,077,421
Fixed Assets				
Buildings Plant & Equipment	24,984,480	23,181,450	23,432,090	24,149,837
TOTAL ASSETS	39,114,871	38,033,469	39,024,177	40,545,947
Current Liabilities				
Creditors & Employee Entitlements	5,079,459	4,715,269	3,859,953	4,331,357
Long Term Liabilities				
Trust Fund & Employee Entitlements	1,077,942	986,453	1,112,361	1,188,154
NET ASSETS	32,957,470	32,331,747	34,051,863	35,526,436
Cascade Cliff Loan*	3,024,609	2,692,478	2,257,782	2,152,589

Source *Norfolk Island Administration, Annual Reports, 2000-01 to 2003-04.*

Note* *Cascade Cliff loan liability is not shown in Norfolk Island's consolidated accounts.*

Reliance on tourism: implications for sustainability

2.94 That Norfolk Island has long been reliant on tourism as its major source of income, is self-evident and well documented in a number of reports.⁹³ The continued sustainability of the Island's economy, owing to this dependence on tourism, however, is now in question. As this section outlines, Norfolk Island faces serious challenges in maintaining a tourist sector large enough, and diverse enough, to cover the shortfall in its budget.

93 See, for example, R.G. Gates, 1979, *Norfolk Island Economic Feasibility Study*, University of New England; C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment; C. Nobbs, 1983, *Which future for Norfolk Island?*; Commonwealth Grants Commission, 1997, *Report on Norfolk Island*; Access Economics, 1997, *Norfolk Island: Recent Economic Performance, Present Situation and Future Economic Viability. Is there a case for change?*; J. Howard and Associates, 1998, *Norfolk Island Administration, Strategic Review*.

2.95 Unfortunately, it has proved somewhat difficult for Norfolk Island to move away from its reliance on tourism, despite repeated warnings. For example, the CGC concluded that:

The potential for increased tourism is in any case not unlimited. There are physical limits to the number of people the Island can sustain – limits imposed by environmental constraints, including its water resources and the difficulties of waste disposal. The Norfolk Island Conservation Society has noted the need for the development of a conservation and population control strategy which would ensure the long term economic sustainability of the Island for residents and the tourist industry. These limits should be expressly reviewed as part of the development of a strategic plan for the Island.⁹⁴

2.96 While opportunities for economic diversification on Norfolk Island have been canvassed for a number of years, the remarkable entrepreneurial spirit on Norfolk Island has seen a range of interesting, but, ultimately unsuccessful, ventures emerge on the Island. For example, Professor Merval Hoare noted:

... an attempt by the Norfolk Island Guava Growers Association to export guavas to Australia was abandoned after delays in the quarantine inspection process in Sydney resulted in overripe fruit that did not reach the market. Frozen pulped guavas sent to New Zealand were also delayed at their destination and were unsaleable.⁹⁵

2.97 Most recently, options were discussed in the Howard Review of the Norfolk Island Administration, presented in April 1998. The Report notes the potential for agriculture and forestry in specialist niche markets that would take advantage of the Island's unique quarantine status.⁹⁶ A major obstacle to this form of development, however, was the lack of a port facility which in turn creates prohibitive transport access costs, both to and from the Island.⁹⁷

94 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, pp. 41-42.

95 M. Hoare, 1999, *Norfolk Island: A revised and enlarged history 1774-1998*, Central Queensland University Press, p. 180.

96 J. Howard and Associates, 1998, *Norfolk Island Administration: Strategic Review*, p. 3.

97 See also Norfolk Action Group (Submission No. 24), p. 5: "Most, if not all, have experienced intense competition and have suffered from our remoteness and lack of access to affordable transport links"; and Ms R. Menghetti (Submission No. 25), p. 3: "I have observed otherwise viable business projects fall by the way simply because of the

- 2.98 Yet, as noted by the Norfolk Island Chamber of Commerce, the current reliance on tourism has serious implications for the economy:

There is no argument that tourism forms the backbone of the Norfolk Island economy. Ongoing uncertainty and instability of the main access points for visitors, residents and cargo to the island have significantly contributed to the current crisis. Therefore it is imperative that these issues be confronted and suitable long-term solutions be put in place.⁹⁸

- 2.99 The problem, as Mr Luke Johnson argued, is that the tourism market is “volatile, unreliable and susceptible to price variation”.⁹⁹ Access Economics’ report concluded that the existing taxes and charges were biased against tourism, making Norfolk Island a less competitive tourist destination and posing a threat to its prime income base.

Trends in Norfolk Island tourism

Declining tourist numbers

- 2.100 Over the past fifty years, absolute tourist numbers have grown, in most instances, exponentially. In 1951-52, the number of visitors to Norfolk Island was about 1,500; by 1970-71 it had grown to 10,000; in the 1978 calendar year the number was 19,500; and in 1980 it was 24,300. Some variations in this trend were apparent between 1980 and 1982, when tourist numbers decreased to 15,500.
- 2.101 Yet, according to recent statistics from the Norfolk Island Government Tourist Bureau (NIGTB), the sector is suffering from reduced numbers of tourists and, a decrease in the total dollars spent by tourists on the Island. Statistics for 2004-05 indicate a downturn in numbers of 2932 (8.7%) against the previous five year average and, 4575 (11.9%) below the previous year (see Table 2.9).¹⁰⁰

need to rely on imported business imports; the landed cost of which renders the proposed operations unviable”.

98 Norfolk Island Chamber of Commerce, “Position paper on Norfolk Island Sustainability Levy”, *The Norfolk Islander*, 9 July 2005.

99 Mr L. Johnson (Submission No. 12), p. 5.

100 Norfolk Island Tourism is a statutory body under the *Norfolk Island Government Tourist Bureau Act 1980* and is responsible, among other things, for maintaining comprehensive statistics on inbound passenger traffic and accommodation nights.

Table 2.9 Inbound Passenger Statistics, 2000-01 to 2004-05

Year	Tourist Numbers	Bed-nights	Average bed-nights*
2000-01	40,221	299,179	7.44
2001-02	33,596	263,502	7.82
2002-03	37,672	286,429	7.60
2003-04	38,317	287,822	7.51
2004-05	33,742	256,891	7.64

Source *Norfolk Island Government Tourist Bureau statistics provided for the Administrator's Report.*

Note * *Currently, there are 65 registered accommodation properties on Norfolk Island, comprising 590 units containing 1464 beds. See, Submission No. 23, p.9.*

Declining numbers of mainland State and Territory tourists to Norfolk Island

2.102 It has been argued that "a very small change in Australian tourist destination trends could have severe effects on a small tourist-dependent economy."¹⁰¹

2.103 Table 2.10 details how Norfolk Island fared among other Oceanic destinations in attracting tourists from other Australian States and Territories between 2003 and July 2005. It is important to note that of the six destinations listed, Norfolk Island was the only destination to experience a fall (of some 24 per cent) in arrivals from other States and Territories between 2003 and 2004. By comparison, arrivals from New Zealand have increased from 17 per cent in 2003, to 26 per cent in 2004.¹⁰²

101 C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment, p. 56.

102 Norfolk Island Government Tourist Bureau, *Norfolk Island Tourism Arrivals*.

Table 2.10 Short term movement, Resident Departures – Main Destination (Oceania and Antarctica)

Main destination	2003	2004	2005					
	'000	'000	Feb '000	Mar '000	Apr '000	May '000	Jun '000	Jul '000
Fiji	145.2	175.4	11.0	15.3	15.6	14.1	17.1	19.0
New Caledonia	15.3	15.5	0.6	1.0	1.6	1.3	1.4	1.6
New Zealand	662.8	815.8	69.4	82.9	69.6	51.6	56.0	61.1
Norfolk Island	33.4	25.5	1.9	2.0	2.3	1.3	1.3	1.2
Papua New Guinea	34.6	36.2	2.9	3.3	4.0	3.3	3.3	4.0
Vanuatu	27.2	34.6	1.8	2.9	2.9	2.7	3.2	3.8
Total*	959.7	1151.1	90.3	110.3	99.2	78.2	86.5	95.6
Norfolk as a % of all travel to Oceania and Antarctica	3.4	2.2	2.1	1.8	2.3	1.6	1.5	1.3

Source Australian Bureau of Statistics, *Overseas Arrivals and Departures, Cat. 3401.0, July 2005, p. 17.*

Note * Includes other countries from Oceania and Antarctica not included in the table.

Declining revenue from tourism

- 2.104 In the early 1980s and 1990s, a significant proportion of the Norfolk Island Government's budget derived from the supply of accommodation, food, tours and 'duty-free' shopping for tourists. In addition, tourists were taxed through customs duty on imports, a departure tax when leaving the Island, revenue from the liquor bond and, hire-car registration fees.¹⁰³
- 2.105 In its report of March 1997, Access Economics highlighted the decline in tourist export earnings as a main issue of concern.¹⁰⁴ During the period covered by this report, the number of visitors was increasing, but, they were staying for shorter periods and spending less. The Norfolk Action Group estimated that "10,000 fewer visitors to Norfolk means a reduction of \$1,000,000 in government fees and charges." Moreover, the Group stated that:

103 C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment, p. 14.

104 Access Economics, 1997, *Norfolk Island: Economic Performance, Present Situation, and Future Economic Viability. Is There A Case For Change?*, pp. E4-E5.

In a recent series of focus groups with visitors held by the NIGTB [Norfolk Island Government Tourist Bureau], visitors were asked about their spending habits while shopping on Norfolk Island. 90% of visitors said they spent less than \$1,000 during their stay.¹⁰⁵

- 2.106 Access Economics estimated that to increase tourist earnings by 3 per cent would require an 8 per cent increase in tourist numbers.¹⁰⁶

Debate over restrictions on tourist intake

- 2.107 There are differences of opinion regarding the extent to which restrictions on the number of tourists to Norfolk Island should apply. The 1976 Report of the Royal Commission into matters relating to Norfolk Island (known as the 'Nimmo Report') attempted to weigh up the benefits of tourism as the Island's only viable economy against any potential ecological and social drawbacks:

Evidence points to an upper limit of 20,000 tourists per annum as being desirable if Norfolk's ecological balances, way of life and uncrowded rural atmosphere are to be preserved. There are clear limits to the growth of Norfolk Island's economy.¹⁰⁷

- 2.108 Similarly, a Norfolk Island resident and economist, Mr Christopher Nobbs, stated that it is:

...necessary to maintain the destinational uniqueness of the Island through environmental conservation and management, and the limitation of tourist numbers. If expansion of earnings is required, it should be through increased productivity of existing tourism resources e.g. by increasing off-season tourism, holiday home leasing, or increasing earnings retention.¹⁰⁸

- 2.109 Conversely, Mr Michael Hehir submitted that "every effort be made to increase tourism to the Island to 50,000 persons per year". Indeed, he argued that the capacity exists on the Island to accommodate 60,660 tourists per year, "subject to seasonal fluctuations." He also noted the need for "special tourism packages [which] could

105 Norfolk Action Group (Submission No. 24), p. 4.

106 Access Economics, 1997, *Norfolk Island: Economic Performance, Present Situation, and Future Economic Viability. Is There A Case For Change?*, p. E2.

107 J. Nimmo, 1976, *Report of the Royal Commission into matters relating to Norfolk Island*, p. 118.

108 C. Nobbs, 1983, *Which Future for Norfolk Island?*, p. 22.

encourage more tourism during the winter months as the Island climate is still quite mild.”¹⁰⁹

- 2.110 To some extent, the debate is restricted by limitations in the accessibility of Norfolk Island for tourists. As the Norfolk Action Group submitted, at present:

...the standard schedule of aerservices to Norfolk Island can only achieve close to the 40,000 mark, if every seat is sold, which is highly unlikely.¹¹⁰

Collapse of Norfolk Jet Express

- 2.111 In its 1999 report, *Territorial Limits*, the Human Rights and Equal Opportunity Commission attributed the fragility of the Norfolk Island tourist economy to its vulnerability to external factors. The report stated that:

...in 1989, for example, the economy was affected severely by the airline pilots strike. Concerns also arose when Ansett Airlines withdrew its services on 1 July 1997.¹¹¹

- 2.112 In the same vein, the tourist economy experienced another setback in June 2005, when Norfolk Jet Express Pty Ltd went into voluntary liquidation, owing the Norfolk Island Administration \$569,075 in unpaid landing fees and services.¹¹² Since November 2003, Norfolk Jet had been the sole air service operator between the Island and the Eastern States.

- 2.113 After urgent discussions, on 7 June 2005, the Chief Minister of Norfolk Island, the Hon. Geoff Gardner, issued a media release assuring the public that regular scheduled Norfolk Jet commitments would be met by an interim, alternate charter arrangement with Alliance Airlines up until 17 June 2005. It was further announced that from 18 June 2005 Qantas would operate the flights using Air Nauru Boeing 737 aircraft chartered by the Norfolk Island Government.¹¹³

- 2.114 The Committee understands that the Norfolk Island Government underwrote a liability for prepaid Norfolk Jet Express tickets that
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109 Mr M. Hehir (Submission No. 23), p. 9.

110 Norfolk Action Group (Submission No. 24), p. 3.

111 Human Rights and Equal Opportunity Commission, 1999, *Territorial Limits: Norfolk Island's Immigration Act and Human Rights*, p. 10. See also Access Economics, 1997, *Norfolk Island: Economic Performance, Present Situation, and Future Economic Viability. Is There A Case For Change?*, pp. 15-16.

112 Hon G. Gardner, Chief Minister, "Norfolk Jet Express", Media Release, 2 June 2005.

113 Hon G. Gardner, Chief Minister, "Norfolk Jet Express", Media Release, 2 June 2005.

were honoured by Alliance Airlines and Air Nauru. The Committee, at the time of approval of this report, is concerned as to what source of existing revenue may have supported this recompense. The Committee is further concerned about any ongoing subsidisation of the airlines at the expense of other needed expenditure.

2.115 The Norfolk Island Chamber of Commerce has submitted that:

Efficient and effective access to the Island is critical to improve tourist numbers (thus preserving our major industry) and to stimulate and encourage business investment which in turn bolsters our economy... Business confidence will only come from the urgent restoration of viable airlines from the Sydney and Brisbane gateways.¹¹⁴

2.116 In an attempt to alleviate community concern, Norfolk Island Tourism Chairman, Jackie Pye recently stated:

We know we can get numbers up to sustainable and viable levels if one of the big carriers comes back onto the run, and we're confident that a workable deal can be reached to get our tourism industry humming again.¹¹⁵

New tourism strategy

2.117 The Committee notes the recent appointment of a new General Manager of Norfolk Island Tourism, Mr Steve McInnes. Mr McInnes has been asked to prepare a five-year plan to broaden marketing efforts in other parts of Australia and in New Zealand. He has identified his role as being:

... to grow and expand the appeal of the island, help cultivate the product mix, build yield and maximise tourism opportunities for both the island and the travel industry in New Zealand and Australia.¹¹⁶

2.118 The new tourism strategy of Norfolk Island seeks to attract a younger generation of tourists and change the focus of the traditional tourist market towards 'eco-tourism' and 'heritage-tourism'. Importantly, the Commonwealth and Norfolk Island governments have been working together to develop this strategy further. The Hon. Stephanie

114 Norfolk Island Chamber of Commerce (Submission No. 14), pp. 2, 13.

115 Travelbiz, *Norfolk Island eyes bigger aircraft with airstrip upgrade*, 29 June 2005, <http://www.travelweek.com.au/articles/c5/0c0316c5.asp>.

116 Etravelboard, *New Tourism Chief spearheads new era for Norfolk Island*, 23 June 2005, <http://www.etravelblackboard.com/index.asp?id=39246&nav=21>.

(Victoria) Jack, Norfolk Island Minister for the Environment, in a joint media release with the Hon. Greg Hunt MP, Parliamentary Secretary to the Minister for the Environment and Heritage said:

Tourism is Norfolk's major source of revenue and is currently reliant on the package tour market. The Norfolk Island Government can see great dividends for the economy in looking at new low impact environmental experiences for independent travellers.¹¹⁷

- 2.119 The initiatives announced in the joint media release include a Commonwealth Government commitment of \$1 million per annum to maintain and restore the Island's unique flora and fauna and, to maintain quality visitor infrastructure.
- 2.120 The Commonwealth Parliamentary Secretary also spoke of the possibility of further funding being available under the Australian Tourism Development Program or the Tourism and Conservation Partnership Program, and encouraged the Norfolk Island Government to apply for this assistance.¹¹⁸
- 2.121 Professor O'Collins, on her recent visit to Norfolk Island, commended the work being undertaken by National Parks in establishing walking and cycling paths and, creating "opportunities to attract more energetic tourists."¹¹⁹ Further, Professor O'Collins remarked that:

Tourism promotion needs to be widened and Norfolk Island marketed more vigorously to promote its environmental, cultural and historical features. This needs to look beyond tightly controlled group tours to more independent tourism, which will attract all ages. In order to improve access to this wider audience, continuing consultation and cooperation between government, special interest groups, and commercial tourist agencies are essential.¹²⁰

117 The Hon. Stephanie (Victoria) Jack, Minister for the Environment (Norfolk Island) and the Hon. Greg Hunt MP, Parliamentary Secretary to the Minister for the Environment and Heritage (Commonwealth), *Norfolk Ecotourism Potential*, Joint Media Release, 9 June 2005.

118 On 14 October 2005, a subsequent joint press release between the Commonwealth Minister for the Environment and Heritage, Senator the Hon. Ian Campbell, the Commonwealth Minister for Agriculture, Fisheries and Forestry, the Hon. Peter McGauran, MP and the Norfolk Island Minister for the Environment, the Hon. Stephanie (Victoria) Jack, announced a further \$240,000 to support Norfolk Island's rainforests and the unique Norfolk Island Pines.

119 Prof M. O'Collins (Submission No. 15), p. 2.

120 Prof M. O'Collins (Submission No. 15), p. 4.

- 2.122 The Committee commends the collaboration between the Commonwealth and Norfolk Island governments on eco-tourism and encourages further cooperation. The Committee is also of the view that further assistance ought to be provided by the Department of the Environment and Heritage to assist the Norfolk Island Government to further develop environmentally-sustainable tourism on Norfolk Island.

Conclusions

- 2.123 This chapter has presented the precarious economic position of Norfolk Island.
- 2.124 In the first instance, the economy is essentially dependent on a volatile market, namely tourism, which, in the last few years, has experienced serious downturns in both the numbers of tourists arriving and, the amount of revenue generated.
- 2.125 There is a significant question mark over the size of the economy, principally because Norfolk Island lacks adequate measures of gross product and inflation.
- 2.126 While the Norfolk Island Government has measured the economy's viability by 'balanced' financial statements, this has effectively been achieved by diverting funds which should have been allocated to depreciating infrastructure and essential services.
- 2.127 In conclusion, it is clear from this discussion that for Norfolk Island to achieve a position of financial sustainability, the tourism industry alone cannot provide sufficient revenue. It is equally clear that as Mr Johnson has submitted, "significant additional revenue needs to be raised to meet the considerable and rapidly growing financial pressures facing the Norfolk Island Government".¹²¹ This is the subject of the next chapter.

121 Mr L. Johnson (Submission No. 12), p. 10.

Norfolk Island sustainability

Introduction

- 3.1 Since self-government in 1979, the Norfolk Island Government and community have investigated various options to raise revenue and diversify the economy.¹ As examined in the previous chapter, numerous reports have cautioned against an economy primarily reliant on one industry – namely, tourism – and more particularly, one subject to extremes of volatility.² Yet, from the exploration of agricultural exports to the creation of an offshore finance centre, the Norfolk Island Government has not successfully diversified its economy or increased real cash flow. At the same time, it has become increasingly apparent that levels of government income have not matched levels of expenditure required to fund operations and services, and fund depreciated infrastructure.
- 3.2 In attempting to address this problem, a commonly-used strategy has been to commission reviews and economic feasibility studies. In this vein, the Norfolk Island Government initiated the *Focus 2002* review.
- 3.3 The original intention of the *Focus 2002* review was to examine all Norfolk Island Government current and potential revenue sources and all Government services, for appropriateness of provision and cost of

1 M. Hoare, 1999, *Norfolk Island: A revised and enlarged history 1774-1998*. Central Queensland University Press, p. 180.

2 See, for example, R.G. Gates, 1979, *Norfolk Island Economic Feasibility Study*, University of New England; C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment; C. Nobbs, 1983, *Which future for Norfolk Island?*; Commonwealth Grants Commission, 1997, *Report on Norfolk Island*; Access Economics, 1997, *Norfolk Island: Recent Economic Performance, Present Situation and Future Economic Viability. Is there a case for change?*; J. Howard and Associates, 1998, *Norfolk Island Administration, Strategic Review*.

delivery. For various reasons, not least of which are the nature of the legislature and the small population of the Island, the review ultimately gave inadequate consideration to revenue-raising. What little revenue reform was considered, concerned only existing assets, taxes and charges, that included charges for local phone calls, the sale of government assets, increased landing fee charges, increased hospital charges, increases to stock charges and, increased hire charges. The report's final recommendation was that an "intense investigation" be initiated into revenue-raising options.³

- 3.4 After an initial examination of what is currently required by the Norfolk Island Government in terms of increased revenue, this chapter provides a brief overview of some of the possible revenue-raising schemes, including the now 'laid aside' Norfolk Sustainability Levy (NSL). The chapter then outlines the challenges faced by the Norfolk Island Government and its Administration in implementing change. In the Committee's assessment, these include, among others:
- a) an insufficient population base from which to generate resources to fund adequate service delivery and replace depreciated infrastructure; and
 - b) the incapacity of the Norfolk Island Administration to implement a taxation system, which would have the complete confidence and compliance of the local community.
- 3.5 Accordingly, the Committee suggests that the only sustainable alternative left for the people of Norfolk Island is the adoption of the taxation and welfare system of the Commonwealth of Australia. The rest of the chapter details the implications and benefits for Norfolk Island, if it were incorporated into the taxation and welfare systems of the Commonwealth of Australia.

3 Norfolk Island Administration, *Focus 2002 – Sustainable Norfolk Island*, recommendations 18 to 30.

The current financial position

3.6 Over the last twenty years, the Norfolk Island Government has continued to seek alternative forms of revenue, often without questioning exactly how much is required to address current and future contingencies adequately, or, the capacity of the Island's Government to administer alternative revenue-raising schemes.

3.7 It is now generally agreed that "the core challenge is to raise millions of dollars in additional revenue each year."⁴ The Norfolk Island Minister for Finance, the Hon. Ron Nobbs, intimated that:

... the Island's dire financial needs would require an increase of 30 to 40 per cent of existing Government fees and charges to meet operational costs and provide for the required level of infrastructure replacement.⁵

3.8 More definitively, Mr Michael Hehir submitted that:

to be realistic, the Administration Budget of Norfolk Island ... needs to be in the range of \$30 million to \$35 million for the following reasons:

- Norfolk Island infrastructure such as roads [and telecommunications need] urgent upgrading;
- the hospital should preferably be rebuilt, or at least upgraded;
- school accommodation and facilities require improvement;
- repayment of Australian Government loans need to be budgeted for;
- preliminary viability studies need to be effected with respect to power (e.g. examination of alternative sources involving solar and wind power generation); and
- substantial advertising expenditure is required to reduce the fall off of tourism and encourage an increase in tourism to the Island.⁶

3.9 There is a clear need, then, for a long-term strategy in raising these additional funds.

4 Mr L. Johnson (Submission No. 12), p. 12.

5 The Hon. R. Nobbs, Norfolk Island Minister for Finance, 2005, *Overview of the Norfolk Sustainability Levy*, presentation made to the Norfolk Island community, p. 5. Based on 2004-05 Annual Report estimates, this would equate to between \$31 and \$34 million.

6 Mr M. Hehir (Submission No. 23), p. 6.

Internal revenue options

- 3.10 Various proposals have been devised on-Island to address the revenue short fall. These proposals fall into the following categories:
- proposals driven by a desire to achieve greater economic self-sufficiency for Norfolk Island;
 - proposals to introduce a broad-based consumption tax; and
 - proposals to tax land, personal income tax and capital gains.

Pursuing greater economic self-sufficiency

- 3.11 Island responses to the question of financial sustainability have been intrinsically linked to the question of self-government and independence. Proponents of what could be termed 'Norfolk independence' have vehemently pursued policies which call for greater economic self-sufficiency for Norfolk Island. In this vein, the Hon. Ric Ion-Robinson submitted that financial sustainability would best be achieved by:
- granting the Norfolk Island Government the right to lease the fishing and oil exploration rights in our 200-mile Exclusive Economic Zone (EEZ);
 - lifting the undemocratic restrictions the Commonwealth Government has placed on our university; and
 - helping, rather than obstructing, the Norfolk Island Government to establish Norfolk Island as an offshore financial centre.⁷
- 3.12 The debate surrounding these proposals has been well documented by both the Commonwealth and Norfolk Island governments.⁸ Among other subjects, the Australian Treasury has been concerned about the potential impact such ventures would have on Australia's revenue base, especially in relation to any opportunities for other Australian tax payers to use the Island to reduce their tax obligations.⁹
- 3.13 Although not mentioned by the Hon. Ric Ion-Robinson, further assistance for the Island's internet gaming would also fall under this category.

7 The Hon. R. Ion-Robinson (Submission No. 5), p. 1. On the question of the 'offshore centres' (such as training or call centres), see also Norfolk Action Group (Submission No. 24), p. 10.

8 See, for example, Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, pp. 42-45.

9 Note for file, meeting between officials of the Australian Treasury, the Department of Transport and Regional Services, and the Norfolk Island Administration, 2 May 2003.

- 3.14 A number of submissions were also in favour of privatising the Norfolk Island Government Business Enterprises.¹⁰
- 3.15 The Hon. Ric Ion-Robinson also canvassed solutions that sought financial assistance from the Commonwealth, notably:
- cancelling the debt for the Cascade Cliff; and
 - letting the Commonwealth Government pay for all airport upgrades.¹¹

The broad-based consumption tax

- 3.16 The Norfolk Island Government has been reluctant to tax personal wealth.¹² Not surprisingly, one of the most popular taxation reforms to be considered by the Norfolk Island Government has been the introduction of a broad-based consumption tax. Indeed, since 1990, this has been the principal proposal investigated by the Norfolk Island Government to increase revenue.¹³
- 3.17 The preference for a broad-based consumption tax is essentially premised on the idea that tourists, rather than residents, ought to be the primary source of government revenue. In evidence to the Committee, the Australian Treasury stated that:

There were people who were quite overt in their comments when we first went to the Island that we should be designing a tax that will fall predominantly on the tourists rather than on the islanders.¹⁴

10 See the Hon. R. Ion-Robinson (Submission No. 5) p. 1; Mr M. Hehir (Submission No. 23), p. 16; and Norfolk Action Group (Submission No. 24), pp. 8-9. See also suggestions made by the Australian Treasury in their *Discussion Paper: Taxation Options for Norfolk Island*, p. 8.

11 The Hon. R. Ion-Robinson (Submission No. 5), p. 1

12 See Australian Treasury, 2003, *Discussion paper: Taxation options for Norfolk Island*, p. 39.

13 In his presentation to the Norfolk Island community, the Minister for Finance noted 13 reports that had been commissioned to investigate tax reform, including: *Considerations of alternate revenue-raising options*, 1990; Commonwealth Grants Commission, 1997, *Report on Norfolk Island*; Access Economics, 1997, *Norfolk Island: Recent Economic Performance, Present Situation, and Future Economic Viability*; Norfolk Island Legislative Assembly appointed Taskforce, 1997, *Discussion paper on Goods & Services Tax*; Norfolk Island Legislative Assembly appointed Taskforce, 1998, *Report of Discussions with NZ Inland Revenue Department on the Implementation of a GST*; Norfolk Island Legislative Assembly – Public Discussion Paper, 1998, *Concepts of a Possible New Taxation Package for Norfolk Island*; Hon. Gary Robertson, MLA, 1998, *Private Members Bill for the Introduction of a Broad based Consumption Tax*; John Howard & Associates, 1998, *Norfolk Island Administration – Strategic Review*; Hon. Brian Bates, MLA, 1999, *Introduction of a Broad Based Consumption Tax (BBCT) or GST*; I. F. Toon Buffett, CEO, 2001, *GST or BBCT for Norfolk Island*; Norfolk Island Administration, 2002, *Focus 2002: Sustainable Norfolk Island – Economic Sustainability for the Norfolk Way of Life*; L. Johnson, 2003, *Budget/Financial Strategy – Securing the Future*; Australian Treasury, 2003, *Discussion paper: Taxation Options for Norfolk Island*.

14 Mr P. Colmer (Treasury), *Transcript of Evidence*, 4 August 2005, p. 11.

3.18 In April 2005, the Norfolk Island Government presented its proposal for a broad-based consumption tax, that which it titled the *Norfolk Sustainability Levy*, to the Island community:

The [Norfolk Island Legislative] Assembly considered and endorsed the concept of a [broad-based consumption] tax in context of a declining revenue base, the current economic climate, the significant budget deficit and, the island's future needs for capital improvements.¹⁵

3.19 In presenting the NSL to the Island community, the current Minister for Finance, the Hon. Ron Nobbs, cautioned that this was "the last possible option that the Norfolk community would find acceptable."¹⁶

3.20 This change to Norfolk Island Government revenue-raising was aimed at removing some inefficient taxes and charges and generating sufficient funds purportedly to deliver essential health, aged care, education, welfare and community services and upgrading infrastructure. The NSL was also designed to replace a number of existing charges which were not considered fully effective or, which impacted unreasonably on one sector of the community. The taxes to be removed (or reduced) included the Financial Institutions Levy, airport departure fees and the Accommodation Levy.¹⁷

3.21 The Norfolk Island community, however, voiced widespread opposition to the introduction of the NSL.

3.22 Officers of the Commonwealth Treasury, the Australian Taxation Office and the Australian Bureau of Statistics (the 'Australian Government Advisory Group') presented a report to the Norfolk Island Government detailing the following problems with the proposal:

- an adverse impact on tourism: more price sensitive tourists may choose to travel to destinations where the GST is reclaimable;¹⁸
- price increases without any compensation: whereas the Commonwealth Government's GST was offset with a reduction in personal income tax rates, the NSL did not offer Island residents similar concessions;¹⁹

15 Norfolk Island Government, *A Guide to the Norfolk Sustainability Levy*, 18 July 2005.

16 The Hon. R. Nobbs, Minister for Finance, 2005, *Overview of the Norfolk Sustainability Levy*, presentation made to the Norfolk Island community, p. 9.

17 Norfolk Island Legislative Assembly, *Hansard*, 20 April 2005, p. 175. Airport departure fees were to be reduced from \$30 to \$10 with the funds being directed to a Medical Reserve Fund.

18 Australian Government Advisory Group, *Norfolk Sustainability Levy*, p. 10; Mr M. Dickens, Letters to the Editor, *The Norfolk Islander*, 7 May 2005. Norfolk Island Chamber of Commerce, record of discussion with Finance Minister, 22 July 2005, *The Norfolk Islander*, 6 August 2005. Mr L. Johnson (Submission No. 12), p. 12.

- the financial cascading effect on prices for certain businesses: input tax credits for businesses sourcing inputs from other businesses were not to be introduced, which would have resulted in a flow-on effect;²⁰
- an absence of equity: as with other regressive tax regimes, the impact of the NSL would have been greater on the lower income earners in the Norfolk Island community who expend, on average, a higher proportion of their income on goods and services;²¹
- additional costs associated with the lack of a ‘compliance culture’ on-Island: not having been required to keep books and accounts previously, the Norfolk Island business sector would have required significant additional resources for an effective education program and administrative systems robust enough to ensure compliance;²²
- a lack of financial expertise and suitably qualified accountants on the Island;²³ and
- insufficient community consultation.

3.23 Most importantly, however, it was submitted that the NSL was “not likely to raise sufficient additional revenue.”²⁴ Indeed, only after significant pressure did Commonwealth Treasury officials provide the Committee with a ‘guesstimate’ of potential revenue to be raised by the NSL trial:

We think that it might raise something around a million dollars, but the bounds of uncertainty are fairly significant around that.²⁵

3.24 It was, therefore, expected that the revenue raised from the NSL trial would not compensate for the current budget deficit of \$2.2 million; and depending on how much was lost from the reduction in other taxes, the trial could produce a ‘nil-nil’ net return. Moreover, the rate at which the

19 Australian Government Advisory Group, *Norfolk Sustainability Levy*, p. 10; Mr J. Kelly (Submission No. 9), p. 2; Editorial Comment, *The Norfolk Islander*, 30 April 2005; Mr G. Plant, Letters to the Editor, *The Norfolk Islander*, 18 June 2005.

20 Australian Government Advisory Group, *Norfolk Sustainability Levy*, p. 9; Editorial Comment, *The Norfolk Islander*, 30 April 2005; Ms N. Cuthbertson, Letters to the Editor, *The Norfolk Islander*, 7 May 2005; Mr G. Plant, Letters to the Editor, *The Norfolk Islander*, 18 June 2005.

21 Australian Government Advisory Group, *Norfolk Sustainability Levy*, p. 11; Mr M. King, Letters to the Editor, *The Norfolk Islander*, 18 June 2005; Mr L. Johnson (Submission No. 12), p. 12.

22 Australian Government Advisory Group, *Norfolk Sustainability Levy*, p. 7; Mr J. Kelly (Submission No. 9), p. 2.

23 Australian Government Advisory Group, *Norfolk Sustainability Levy*, pp. 8-9.

24 Mr L. Johnson (Submission No. 12), p. 12.

25 Mr P. Colmer (Treasury), *Transcript of Evidence*, 4 August 2005, p. 13. The difficulty in estimating the amount to be generated by the NSL is directly attributable to the absence of economic data. In Mr Colmer’s view, “unless we have decent economic data, it is a fairly shallow exercise to try and consider the range of taxation options except at a very general level”, *Transcript of Evidence*, 4 August 2005, p. 9.

final NSL would be set was unclear, although some submissions canvassed the possibility of the levy being set between 15-25 per cent.²⁶

3.25 For these reasons, the Norfolk Island Chamber of Commerce, concluded that:

...the Assembly's current proposal for the NSL lacks adequate analysis, community input and education and will have an irreversible and devastating social and economic impact on our Island.

It is for these reasons that the Chamber has formed the view that in the event that the Assembly proceeds as perceived, it will do so in the face of widespread, strong and determined opposition to its proposal.²⁷

3.26 The Committee understands that, while the legislation still remains before the Assembly, a decision has been made to abandon the proposed NSL and to investigate other revenue-raising proposals.²⁸

Land taxes

3.27 Support for the introduction of land taxes is premised on the argument that such rates are seen as relatively easy to collect and maintain, but are also "very difficult to evade".²⁹ Mr Bill Sanders submitted that, whilst land taxes could appear to be an imposition on elderly landowners, the impact of this tax could accumulate to become a debt against their estates.³⁰

3.28 Mr Michael Hehir suggested, however, that land taxes should not be imposed across the entirety of Norfolk Island.³¹ Ordinary residential land, land used for primary production and land held continuously by Pitcairn descendants should be exempt, with the tax only falling on commercial properties.³²

26 See, for example, Mr M. Dickens (Submission No. 13), Attachment A, p. 1.

27 Norfolk Island Chamber of Commerce, "Position paper on Norfolk Island Sustainability Levy", *The Norfolk Islander*, 9 July 2005.

28 Norfolk Island Legislative Assembly, *Hansard*, 21 September 2005. See also Mr M. Hehir (Submission No. 23), p. 8 and Norfolk Action Group (Submission No. 24), p. 3.

29 Mr J. Kelly (Submission No. 9), p. 2.

30 Mr B. Sanders (Submission No. 1), p. 1.

31 Mr M. Hehir (Submission No. 23), p. 14.

32 Mr M. Hehir (Submission No. 23), p. 14.

Personal income tax

3.29 Opinions were divided about the merits of the introduction of an Island-based personal tax system. One submission endorsed a specific Norfolk Island tax system, where income between \$25,000 and \$60,000 could be taxed at 10 per cent.³³ Another proposed that Norfolk Island adopt a personal tax system to include the following characteristics:

- that the tax free threshold be significantly higher than Australia, say \$10,000 to offset high living costs, which would otherwise be covered by a Zone allowance;
- that the tax rate be progressive, but have a top marginal rate not exceeding 40 per cent;
- that the tax be administered by the Australian Tax Office, but exclusively for the benefit of NI and not be integrated into the Australian Tax System;
- that all businesses on NI including banks and other Australian based enterprises be subject to tax on NI but receive a deduction for any tax so paid, against Australian income.³⁴

3.30 Conversely, Mr John Kelly, the optometrist on Norfolk Island, was of the view that the implementation of a personal income tax would have a detrimental effect on tourism:

... increased wages ... mean that tour prices, accommodation and food have suddenly got more expensive. Increased price barriers see tourist numbers decline even further. More jobs are shed.³⁵

Capital gains tax

3.31 Mr Michael Hehir suggested that the Norfolk Island Government introduce a capital gains tax regime that differed from the Australian regime in the following ways:

- the rate of tax not be referable to income in the year it is levied, but be at a flat rate; e.g. 20 per cent;
- the capital gain cannot be offset against past or present trading losses;
- the usual exemption as to place of residence should apply;
- the base period be retrospective to 1 July 2003;
- non Norfolk Island assets be excluded.³⁶

33 Mr B. Sanders (Submission No. 1), p. 1. Mr Bruce Griffiths (Submission No. 2) agreed, stating that "this particular idea has considerable merit. It has the benefits of a flat tax and also some mild progressivity."

34 Mr M. Hehir (Submission No. 23), p. 14.

35 Mr J. Kelly (Submission No. 9), p. 1.

36 Mr M. Hehir (Submission No. 23), p. 15.

Conclusion

- 3.32 Despite the number of proposals developed to raise additional revenue on Norfolk Island, none have, to date, been implemented.
- 3.33 The Committee is not persuaded by arguments to increase Norfolk Island's economic self-sufficiency, by, for example, funding an offshore finance centre, especially given the potential propensity for Australian taxpayers to reduce their tax obligations. While this has been a longstanding project of certain sectors on the Island, there has never been a guaranteed source of revenue from the proposed project, or, adequate regulatory capacity to properly supervise the proposed project. The only likely outcome of the proposal would be the degrading of Australia's reputation in international monetary markets. The Committee emphasises that any new businesses on Norfolk Island be established on a secure and sustainable footing.
- 3.34 Similarly, the Committee cautions against the introduction of a regressive broad-based consumption tax that, ultimately, will raise insufficient revenue.
- 3.35 Finally, the Committee suggests that if land, personal income and capital gains taxes are to be implemented, it would be much easier for Norfolk Island to adopt a regime already in place in other States and Territories.

Capacity to raise and administer internal revenue-raising systems on Norfolk Island

- 3.36 Internal revenue-raising is effectively hampered by a series of challenges. In the first instance, Norfolk Island has an insufficient resource base. As indicated by the Census of Population and Housing, a total of 2047 people resided on Norfolk Island in 2001. Consequently, the Government can really only draw on a finite number of individuals for its revenue base. Mr Hehir submitted, that, in order to collect an estimated revenue of \$35 million per year, the approximately 1,400 taxpayers on the Island would need to contribute roughly \$25,000 each per year.³⁷ Mr Hehir, therefore, concluded that:

Norfolk Island cannot generate sufficient income with its present population to provide revenue to the extent that the Island will be [acceptably] self-sufficient.³⁸

37 Mr M. Hehir (Submission No. 23), pp. 7-8.

38 Mr M. Hehir (Submission No. 23), p. 8.

- 3.37 More importantly, however, the Norfolk Island Administration has limited capacity to implement and administer a tax regime of acceptable integrity. Evidence received by the Committee manifests the Norfolk Island Administration's incapacity to administer a modern taxation system for three main reasons:
- a) the wide-ranging responsibilities of the Administration and the perceived potential for conflicts-of-interest;
 - b) the absence of good budgetary practice, including forward planning; and
 - c) inadequate audit and review and, transparency processes.

Wide-ranging responsibilities and potential for conflicts-of-interest

- 3.38 The former Chief Executive Officer (CEO) of the Administration, Mr Luke Johnson, submitted, that, the unique nature of the responsibilities of the Norfolk Island Government and its Administration contribute to its revenue-raising difficulties. The Norfolk Island Government combines all three tiers of government responsibilities, which means that it must make decisions about a very large range of financial and policy issues, which must then be implemented by the Administration of Norfolk Island.³⁹
- 3.39 A previous Chief Executive Officer of the Norfolk Island Administration, Ms Robyn Menghetti, noted that a disproportionate amount of power resides within the Administration. Ms Menghetti noted that the Public Service on Norfolk comprises not only those who work for the Administration, but also includes those on the staff of various statutory bodies including the Norfolk Island Hospital Enterprise, the Norfolk Island Government Tourist Bureau, and the staff of the Norfolk Island Central School.⁴⁰ In Ms Menghetti's calculations, therefore, the total number of Norfolk Islanders "reliant on the public purse" equates to 295.⁴¹
- 3.40 The significance of these numbers for Ms Menghetti, lies in the proportion of the Norfolk Island electorate reliant on the Administration for their livelihood. Doubling the figure of 295 to include "one spouse for each employee" and including "additional ancillary roles", Ms Menghetti submitted that "the total number of people on the Island reliant on the Administration for their livelihood is conservatively 640."⁴² This

39 Mr L. Johnson (Submission No. 12), p. 8.

40 Ms R. Menghetti (Submission No. 25), Attachment A, p. 1. Presumably, those working for the Norfolk Island Gaming Authority could also be included in these calculations. See also Norfolk Action Group (Submission No. 24), p. 5.

41 Ms R. Menghetti (Submission No. 25), Attachment A, p. 1. Figures are based on the Norfolk Island Administration's 2000-01 Annual Report.

42 Ms R. Menghetti (Submission No. 25), Attachment A, p. 2.

represents 56.6 per cent of eligible voters on Norfolk Island, and 62.3 per cent of the actual voters at the 1 November 2001 elections for the Norfolk Island Legislative Assembly.⁴³

3.41 Mr Johnson, therefore, submitted that:

... given the broad responsibilities of the Norfolk Island Government and Administration, the current requirements on Norfolk Island concerning open meetings, conflicts-of-interest, freedom of information and privacy would benefit from being brought much closer to those that generally apply to all three tiers of government on the Australian mainland.⁴⁴

Absence of good budgetary practice, including forward planning

3.42 The Norfolk Island Government's annual budget is prepared by the Administration and presented to the Norfolk Island Legislative Assembly as an Appropriation Bill.⁴⁵ As a unicameral legislature, any review of the Budget occurs with the enacting body on an 'as required' basis. Changes to annual Appropriation Acts are achieved by the passing of supplementary Appropriations.

3.43 It was Mr Luke Johnson's opinion that:

The Administration has in place a structured process of receiving annual estimates of expenditure, developing annual budgets, preparing annual financial statements and independent auditing.⁴⁶

3.44 Among others, the Norfolk Action Group noted that the policy of successive Norfolk Island governments of balancing budgets has effectively eclipsed any effort to plan strategically for the future.⁴⁷ Mr Patrick Colmer of the Australian Treasury, similarly argued that the Norfolk Island Government tends "to respond to crises rather than make long-term planning."⁴⁸

3.45 It was submitted that the ability of the Norfolk Island Government to undertake rigorous budgetary processes is effectively hampered by two factors:

43 Ms R. Menghetti (Submission No. 25), Attachment A, p. 2.

44 Mr L. Johnson (Submission No. 12), p. 15.

45 To date, the Administration has not included a separate Treasury department. In its *NSL Development Paper* (paragraph 1.3.2, p. 5), however, the Norfolk Island Government announced the formation of a such a department.

46 Mr L. Johnson (Submission No. 12), p. 5.

47 Norfolk Action Group (Submission No. 24), p. 2.

48 Mr P. Colmer (Treasury), *Transcript of Evidence*, 4 August 2005, p. 9.

- the lack of appropriately (tertiary) qualified individuals within the Administration; and
 - a lack of adequate data collection.
- 3.46 Former Administration CEO, Mr Luke Johnson, argued that there is a lack of tertiary education and professional development within the Administration, which he notes, has “relied on recruiting key professional and management positions from off-shore.”⁴⁹ Mr Johnson estimated that there would be no more than 15 people currently in the Administration with tertiary qualifications.⁵⁰ Experience also shows that those with tertiary qualifications tend not to stay on-Island. In the Committee’s observation and, as evidence to the Committee suggests, the Norfolk Island Administration suffers from a high turnover of professional staff. This is problematic given that the Norfolk Island Government and the Administration require (at the very least) a financial adviser and an appropriately qualified engineer to advise on respective professional matters.
- 3.47 Furthermore, it has been often asserted that the lack of forward planning on Norfolk Island is closely connected to the long-term absence of any national income accounting statistics.⁵¹ On the basis that the Norfolk Island Administration’s reports do not contain sufficient useful information, some reports have recommended:
- the Norfolk Island Government collect annual statistics relating to the national income of the Island, and in particular, that regular population and housing censuses be carried out, and that this be extended to the business sector;
 - tourist surveys be conducted regularly and that they include questions designed to provide more information about tourist expenditure on an industry basis; and
 - the Norfolk Island Government introduce a system of forward planning of priorities related to capital expenditure, recurrent expenditure, recurrent revenue and borrowings.⁵²
- 3.48 The Australian Bureau of Statistics (ABS) submitted that it:

49 Mr L. Johnson (Submission No. 12), p. 4.

50 Mr L. Johnson, *Transcript of Evidence*, 4 August 2005, p. 51. See also Table 2.4 (chapter two of this report) for a breakdown of qualifications held by the population on Norfolk Island.

51 See for example, C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island*, Paper prepared for the Department of Home Affairs and Environment, p. 152.

52 C.J. Aislabie, W.J. Sheehan and B.A. Twohill, 1983, *An Economic Feasibility Study of Norfolk Island* Paper prepared for the Department of Home Affairs and Environment, pp. 3-4; See also, JSCNCET, 1995, *Delivering the Goods*, Recommendation 21, p. 159.

... does not collect statistics for Norfolk Island under the Census and Statistics Act under which we operate. The external territories are out of the scope for a big part of what we do, especially collecting economic, employment and prices data. The Act does allow us to collect population censuses for the external territories providing they are prescribed. Norfolk Island is not a prescribed external territory for the purpose of the population census. The ABS has no power or experience and do not undertake any data collection for Norfolk Island.⁵³

3.49 Norfolk Island is the only Commonwealth Territory not proscribed for the purposes of this Act.

3.50 The Commonwealth Treasury was concerned that without the necessary human and financial resources, the Norfolk Island community would continue to be suspicious of their Administration's ability and efficiency:

[Norfolk Island] is a very small society and there is a lot of concern on the island about personal information and protection and privacy. One of the major challenges for the Norfolk Island administration is to maintain community confidence that any information it collects will be treated properly, and I think that this is an enormous challenge.⁵⁴

[The Administration's required] resources are not only money and people, but also community goodwill. I think there is a fair degree of suspicion – I suppose that is the best word to use – amongst the community as to what will happen to their information. I think this is a very serious challenge. Whether it is achievable, I do not know – it is a very big challenge and it remains to be seen, although I am not overly optimistic.⁵⁵

Inadequate audit and review

3.51 Section 51 of the *Norfolk Island Act 1979* governs the audit obligations of the Norfolk Island Government and its financial arrangements. The efficacy of these measures, however, has been called into question. Though the Norfolk Island Government provides audited annual reports on all its activities it appears that there is no capacity on the Island for the conducting of performance audits on the Administration or the Government Business Enterprises. The Howard Report of 1998, for example, found that existing financial systems did not provide meaningful

53 Mr A. Johnson (Australian Bureau of Statistics), *Transcript of Evidence*, 4 August 2005, p. 10.

54 Mr P. Colmer (Treasury), *Transcript of Evidence*, 4 August 2005, p. 10.

55 Mr P. Colmer (Treasury) *Transcript of Evidence*, 4 August 2005, p. 11.

- budget and management information on which the performance of managers and entities could be monitored and reported.⁵⁶
- 3.52 This being the case, the Committee's first report on governance, tabled December 2003, recommended that the Commonwealth Auditor General be appointed as Auditor for Norfolk Island and conduct both finance and performance audits; that these audits be tabled in the Norfolk Island Legislative Assembly in a timely fashion, and that the Auditor General's report be tabled in the Federal Parliament.⁵⁷ The Commonwealth Joint Committee on Public Accounts and Audit (JCPAA) is required, under the *Public Accounts and Audit Committee Act 1951*, to review all reports of the Auditor General.
- 3.53 These specific recommendations were not endorsed by the Norfolk Island Government. In its response to the Committee's report, the Government noted that "the Commonwealth Auditor General would be likely to engage an accounting firm to audit Norfolk Island accounts, rather than undertake direct audits."⁵⁸
- 3.54 The Committee also recommended that the role of Norfolk Island Legislative Assembly committees be strengthened in the examination of financial estimates and, more specifically, that a standing committee be established within the Norfolk Island Legislative Assembly to review government expenditure and the reports of the Commonwealth Auditor-General.⁵⁹ The Norfolk Island Government "acknowledged a need for the establishment of a Standing Committee to Review Government Expenditure".⁶⁰ No such committee appears to have been yet created by the Island's Legislative Assembly. Moreover, no information as yet is readily available on the committees listed on the Assembly's website.⁶¹

56 J. Howard and Associates, 1998, *Norfolk Island Administration, Strategic Review*, p. 102.

57 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Norfolk Island Governance*, Recommendation 14, pp. 91-92.

58 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 11.

59 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Norfolk Island Governance*, Recommendations 22, pp. 92, 128.

60 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 16.

61 The "Committees" page of the Norfolk Island Legislative Assembly website (<http://www.norfolk.gov.nf/committees.htm>) lists the following committees/working groups: Finance Committee, Waste Management Committee, Employment Working Group, Tourism Working Group, Fisheries Consultative Committee.

Conclusion

- 3.55 The Committee notes these various challenges to taxation reform on Norfolk Island and increased revenue-raising and concludes that, under the present system, sustainable internal revenue-raising will continue to elude the Norfolk Island Government.
- 3.56 In relation to the potential for conflicts-of-interest within the Norfolk Island Administration, the Committee has previously recommended that:
- the jurisdiction of the Commonwealth Ombudsman, the *Freedom of Information Act 1982* (Cth), the *Public Interest Disclosure Act 1988* (ACT) be extended to Norfolk Island, and, that the Commonwealth Ombudsman deal with matters arising under the freedom of information and whistleblower legislation;⁶² and
 - the *Independent Commission Against Corruption Act 1988* (NSW) apply to the Norfolk Island Government, Administration and all statutory bodies and government business enterprises.⁶³
- 3.57 While the Norfolk Island Government has been investigating the development of ombudsman services and administrative review frameworks since 2003,⁶⁴ progress remains slow.⁶⁵
- 3.58 In response to the Committee's ICAC recommendation, the Norfolk Island Government submitted that it would be "costly and represent an over-reaction to what amounts to limited evidence of any problem in relation to allegations of 'corrupt conduct'."⁶⁶ The Committee does not agree that this would present any burden to the Norfolk Island community, given that the responsibility would rest with the Commonwealth Government. More importantly, the Committee does not accept the argument that levels of accountability and transparency that exist consistently across the rest of Australia, including remote indigenous communities, should not be applied to Norfolk Island. The Committee remains firmly of the view, that, these issues ought to be taken much more seriously by the Norfolk Island Government.
- 3.59 The Committee does not consider the budgetary processes, used by the Administration, as adequate. The deficiencies in the Norfolk Island
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62 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, Recommendation 13, p. 84.

63 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, Recommendation 6, p. 65.

64 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 3.

65 Prof. M. O'Collins (Submission No. 15) p. 3.

66 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, pp. 7-8.

Government's processes are highlighted by the approaches taken on King and Kangaroo Islands, where the Committee held private briefings and inspections earlier this year. In the Committee's opinion, both the King Island and Kangaroo Island councils employ budgetary processes with higher levels of review, monitoring and reporting (imposed under State government legislation) than those of Norfolk Island.

- 3.60 Unlike the local councils of King and Kangaroo Island, the Norfolk Island Administration has not yet adopted 'best practice' budgetary processes, including:
- the use of accrual accounting and budgeting;
 - a focus on agency reporting on planned outcomes (rather than program budgeting);
 - the preparation of financial statements in accordance with relevant accounting standards;
 - the presentation of information in such a way as to better measure performance;
 - reporting in compliance with the legislative requirements, such as those stipulated in the *Financial Management and Accountability Act 1997* (Cth) and the *Charter of Budget Honesty Act 1998* (Cth); and
 - the use of forward estimates, and strategic plans.
- 3.61 The Committee has noted the *Priorities Plan 2004-2007*,⁶⁷ tabled by the Norfolk Island Chief Minister, the Hon. Geoff Gardner, MLA in March 2005, listing the following twelve priority areas:
- maintenance and strengthening of self-government;
 - development of a 15-year Asset Management Plan;
 - finalisation of revenue/expenditure review and implement preferred options;
 - finalisation of land transfer initiative;
 - completion of community services review;
 - completion of airport upgrade;
 - completion of administrative/governance review;
 - completion of telecommunications strategy and implement recommendations;
 - resolution of crushing/quarrying and, settle an industry policy;
 - strengthening of tourism industry support and ensure "Unity 2005" targets are met;

67 Norfolk Island Government, 2005, *Priorities Plan 2004-2007*.

- completion of immigration review and adopt a population policy; and
 - commitment to, and commencement of, a long-term roads program.
- 3.62 While this initiative is commended, the Committee understands, and is concerned, that a number of reporting deadlines have already been missed.⁶⁸ In fact, the Committee refers to the Norfolk Island Government's well-established precedent of initiating numerous inquiries, reviews and reports, and too often failing to implement the resulting recommendations or take action.
- 3.63 The Committee has previously noted its concern with the *ad hoc* process by which annual reports are prepared and presented to the Legislative Assembly.⁶⁹ In the Committee's view, the Norfolk Island Government's argument that "delays [in presenting reports to the Legislative Assembly were] caused by significant personnel and management changes in recent years"⁷⁰ is further proof of the incapacity of the Administration to attract an appropriate level of qualified staff.
- 3.64 The Committee is also concerned by the inadequate collection of economic and statistical data, and by the exclusion of Norfolk Island from the ambit of the Australian Bureau of Statistics. The Committee suggests that Norfolk Island should be compliant and consistent with standards of the Commonwealth of Australia. The Committee is convinced that the Commonwealth's resumption of responsibility for the collection of census and statistical data would eradicate concerns on-Island about the protection of individuals' privacy.
- 3.65 Finally, the Committee reiterates its commitment to recommendations 17 to 24 of its 2003 report, *Quis custodiet ipsos custodes?*, which seek to reform the structure of government on Norfolk. It is clear to the Committee that as long as there are 'Executive Members' who act independently of each other, in the absence of any party politics, it will be almost impossible for the Norfolk Island Government to make hard decisions and implement meaningful reform.
- 3.66 It is clear to the Committee that, while the Norfolk Island Government is endowed with greater powers than any other Australian State, it has less administrative capacity than most Australian local councils or shires. Ultimately, therefore, the Committee is of the view that the Norfolk Island

68 The Asset Management Plan, for example, was to have been prepared by 31 August 2005, but is yet to be forwarded to the Department of Transport and Regional Services. The 'outcome review and revision of the plan' was scheduled for 20 October 2005.

69 See JSCNCET, 2003, *Quis custodiet ipsos custodes?* pp. 93-95 (including recommendation 16). See also Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 217.

70 See Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 12.

Government has been given responsibilities above and beyond its capacity to administer.

Adopting the taxation and welfare system of the Commonwealth of Australia

3.67 The alternative to increasing internal revenue is for Norfolk Island to adopt the taxation and welfare system of the Commonwealth of Australia.

Description

3.68 In its Taxation Options paper, the Treasury concluded that:

[g]iven the small population and the significance of the tourism industry to the economic viability of Norfolk Island, the best solution would appear to be for Norfolk Island to come into the taxation and welfare systems of the Commonwealth of Australia.⁷¹

3.69 As described by the Treasury, the Commonwealth taxation regime “applies to the income of individuals and companies, as well as to their final consumption. Linked with the taxation system are compulsory superannuation arrangements and the Medicare Levy.”⁷²

3.70 In return, the residents of Norfolk Island would be entitled to the benefits of the expenditure side of the Commonwealth Budget.

3.71 The Treasury noted that a number of decisions would need to be made should Norfolk Island choose to adopt this taxation and welfare system, for example:

- how Commonwealth taxes should be integrated with the existing Norfolk Island tax regime;
- what transitional arrangements should be established prior to moving from the Norfolk Island tax system to the Commonwealth tax system;
- which Commonwealth taxes should apply to Norfolk Island; and
- to what extent should State-type taxes and charges, including user charges, be levied on Norfolk Island.

Comparison with the Indian Ocean Territories

3.72 Treasury considered that some comparison could be drawn between Norfolk Island and Christmas Island, one of the Commonwealth’s Indian Ocean Territories.

71 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 38.

72 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 16.

- 3.73 Much like Norfolk Island, Christmas Island is a remote Australian External Territory, with a small population and some dependence on tourism. Unlike Norfolk Island, however, Christmas and Cocos (Keeling) Islands are classified as ‘non self-governing territories’ by the Department of Transport and Regional Services, having moved towards a policy of ‘normalisation’ in the 1980s. This policy sought to establish conditions and services similar to those in other States and Territories, and to ensure that no Island resident was worse off than residents in comparable remote communities in other parts of Australia.⁷³
- 3.74 In achieving this objective, the Indian Ocean Territories are subject to Commonwealth income taxes (but are exempt from Commonwealth indirect taxes), and receive funding and services from the Australian budget.
- 3.75 The Commonwealth collects all taxes and charges on the Indian Ocean Territories (except those raised by the local councils) and credits these to its Consolidated Revenue Fund. The Treasury detailed these taxes and charges as follows:
- Individuals and businesses ... pay Commonwealth income tax, company tax, fringe benefit tax, capital gains tax and the Medicare Levy. It is Commonwealth policy not to apply the GST, excise duty and customs duty. The Commonwealth also collects a range of State-type taxes and user charges,⁷⁴ applying the rates and provisions that apply in Western Australia. Commonwealth taxes apply at uniform mainland rates with the same rebates and concessions that apply to taxpayers in other remote areas of Australia, such as the zone tax offset (‘Special area’, zone A).⁷⁵
- 3.76 The Treasury noted that the Indian Ocean Territories are excluded from the Commonwealth’s indirect taxes:
- partly as compensation for the higher cost of freight and travel;
 - to assist the growth of the tourism industry; and
 - for administrative convenience.⁷⁶

73 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 18.

74 Treasury explained that “the State-type taxes include payroll tax, stamp duties, vehicle registration fees and charges, land tax, and debits tax – charges apply to tobacco and alcohol but petroleum is exempt. Other charges include liquor licence permits, boat registrations and firearm licences.” Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 19.

75 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 19. In relation to special zones, Treasury explained that “Residents of ‘special areas’ within the zones are entitled to a tax offset of \$1,173 plus an additional amount if the taxpayer maintains various dependents.”

76 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 16.

- 3.77 In return, the Commonwealth has assumed responsibility for the delivery of Commonwealth and State-type services to the residents and for the payment of local government grants, to the Christmas and Cocos (Keeling) Islands' Shire Councils. Most, but not all, Commonwealth legislation extends to the Territories and relevant Commonwealth agencies, including Centrelink and Customs, which have a direct responsibility for service provision in the Territories.⁷⁷ The Commonwealth also outsources the delivery of some services to:
- the Western Australian Government, for the provision of many State-type services;
 - other Commonwealth agencies for the provision of specific services;
 - the Shire Councils for the provision of services such as road maintenance; and
 - the private sector for services such as capital works.⁷⁸
- 3.78 The Commonwealth owns most of the public infrastructure and is responsible for maintenance and capital renewal funding of those structures.⁷⁹
- 3.79 Commonwealth government funding is further supplemented by revenue raised from local government fees and user charges, including sewerage charges, water connection fees, electricity charges, housing rents (for government housing) and, marine and airport charges.⁸⁰ The Shire Council also applies user charges, particularly general rates and garbage collection fees.⁸¹
- 3.80 At the Committee's public hearing, Mr Richard Magor, Acting General Manager, Territories Branch, Department of Transport and Regional Services, noted that the Indian Ocean Territories receive \$60 million to \$70 million in funding from the Commonwealth Government each year.⁸²
- 3.81 By contrast, the Norfolk Island Government currently raises \$24 million for similar purposes. As Mr Colmer states,
- The way that the Indian Ocean Territories are funded seems to highlight fairly starkly the low level of resources currently available on Norfolk.⁸³

77 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 18.

78 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 20.

79 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 20.

80 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 19. These user charges are credited to fund services on the Territories.

81 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 19.

82 Mr R. Magor (DOTARS), *Transcript of Evidence*, 4 August 2005, p. 17.

83 Mr P. Colmer (Treasury) *Transcript of Evidence*, 4 August 2005, p. 6.

Legislative requirements

3.82 To be included in the taxation and welfare arrangements of the Commonwealth, Treasury stated that a range of Commonwealth tax laws which presently exclude Norfolk Island from the tax base would require amendment.⁸⁴ However,

If the present policy of exempting Indian Ocean Territories from Australian indirect taxes is to be applied to Norfolk Island, the relevant legislation for those taxes would retain their existing exclusions for Norfolk Island.⁸⁵

3.83 In either case, a range of consequential amendments would also need to be considered. Obviously, any legislative amendment would need to be passed by the Commonwealth Parliament.

3.84 Legislative amendments would also be required to remove current Norfolk Island taxes, “avoid duplication and provide efficiencies in collection and administration.”⁸⁶

3.85 Treasury noted that legislative change is required to facilitate Commonwealth provision of government services, and that alternative administrative arrangements, such as outsourcing, may also be required.⁸⁷

Accessing Commonwealth expenditure

3.86 According to the Commonwealth Treasury, under the taxation and welfare arrangements of the Commonwealth of Australia, Norfolk Island could expect:

- direct outlays to fund Commonwealth and State-type services, and local government services:
 - ⇒ including school education, vocational education, health, public safety, welfare services, environment protection, utilities supply, public transport, roads and tourism;
- access to a range of services funded by the Commonwealth:
 - ⇒ including air and shipping services, postal services, telecommunications, broadcasting, immigration, customs, quarantine, fisheries management and meteorology; and
- entitlements under the Australian social welfare system:
 - ⇒ including the Aged Pension, Disability Support Pension, Youth Allowance, Newstart Allowance, Family Allowance,

84 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 20.

85 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 20.

86 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 17.

87 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 20.

Family Tax Payment, Parenting Payment and Childcare Assistance.⁸⁸

- 3.87 The Department of Employment and Workplace Relations noted that:
- ...should a decision be taken to introduce mainland taxation and social security, there are an estimated two hundred Norfolk Island residents who may be eligible for the Newstart Allowance, Disability Support Pension, Parenting Payment, Youth Allowance and Widow Allowance.⁸⁹
- 3.88 The Department of Family and Community Services also asserted that in addition to the services and programs funded by the Commonwealth, a range of other opportunities could be afforded Norfolk Islanders, should the Commonwealth's taxation system be extended to the Island. These included:
- access to community capacity building programs in conjunction with standard social security payments and programs; and
 - eligibility for initiatives under the Stronger Families and Communities Strategy, designed to help families, children and communities at risk.⁹⁰
- 3.89 Indeed, the Department of Family and Community Affairs was keen to assert the role of a "local representative or 'partner'" to lobby on behalf of the community, and noted the success of the Christmas Island Shire Council in attracting funding for a local child-care centre.⁹¹

Infrastructure

- 3.90 Chapter two of this report detailed the depreciating state of Norfolk Island's infrastructure. Areas highlighted by the CGC as being deficient included a harbour facility, the airport and electricity generation and supply. While the CGC considered school and hospital infrastructure, road building and maintenance equipment, street lighting and fire services equipment 'adequate', it was noted that these were in danger of degradation in the short term.⁹²
- 3.91 In its response to the Committee's Report, *Quis custodist ipsos custodes?*, the Norfolk Island Government agreed that "there are areas of social and economic policy, infrastructure development and administrative review

88 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, pp. 17-18.

89 Department of Employment and Workplace Relations (Submission No. 10), pp. 1-2.

90 Department of Family and Community Affairs (Submission No. 7), p. 3.

91 Department of Family and Community Affairs (Submission No. 7), p. 5.

92 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 141.

which require attention.”⁹³ The Norfolk Island Government further noted that:

... these matters are included in the Norfolk Island Government’s ongoing planning and are the subject of continued discussion within the Legislative Assembly and the broader community. Priorities for achieving the needs of the electorate must be set within available resources and the willingness of the community to contribute through taxes and charges.⁹⁴

- 3.92 By integrating Norfolk Island into the Commonwealth’s taxation and welfare system, the ‘available resources’ to fund infrastructure projects and maintenance would be significantly higher than at present. As is the case in the Indian Ocean Territories, the Commonwealth could resume responsibility for public infrastructure, maintenance and capital renewal.

The benefits for Norfolk Island

- 3.93 The Australian Treasury stated the Commonwealth taxation system would be more efficient, more equitable and, would entail an overall welfare transfer to Norfolk Island.

- 3.94 Improved efficiency would be achieved with the replacement of an inefficient set of taxes with a more efficient and dependable source of revenue. The Treasury stated that:

...any internal change in Norfolk Island’s revenue base would remain constrained by the small population base and the price vulnerability of its vital tourism sector.⁹⁵

- 3.95 Norfolk Island would also benefit from being incorporated into an established tax system, with a large base, offering greater administrative efficiencies, rather than administering a separate system, with a small base.⁹⁶ The Treasury added:

Having a mainstream tax administered from Australia along with all the other Australian taxes, I would have thought, would go a fairly long way towards reassuring people on the Island that their information was going to be protected.⁹⁷

93 Norfolk Island Government, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, 5 February 2004, p. 2.

94 Norfolk Island Government, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, 5 February 2004, p. 2.

95 Australian Treasury (Submission No. 6), p. 1.

96 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 21.

97 Mr P. Colmer (Treasury) *Transcript of Evidence*, 4 August 2005, p. 11.

- 3.96 Moreover, the Commonwealth's progressive income tax system would deliver greater equity than the current tax regime of Norfolk because that system relies largely on indirect taxes that apply irrespective of the capacity of individuals to pay.⁹⁸
- 3.97 Benefits would also be derived from residents' access to services funded by the Commonwealth budget, including health and aged care, social security and education. Vital infrastructure would also be maintained and upgraded through special purpose grants or loans from the Commonwealth.⁹⁹
- 3.98 In essence, adopting the Commonwealth taxation system:
... would be expected to provide benefits to Norfolk Island that are much more significant than the contributions its residents and economy make to [Commonwealth] revenue. That is, it would involve a welfare transfer from other Australians to Norfolk Island.¹⁰⁰

Areas of resistance

- 3.99 Integration with the taxation and welfare arrangements of the Commonwealth does not have universal support amongst the Norfolk Island community. Political editor of *The Norfolk Islander*, Mr Derek Gore, has expressed significant reservations:
Do not think it is a free ride. If Canberra takes over, different taxes and charges will replace the current ones. These may include land tax, council rates, personal tax, company tax, fringe benefits tax (which are paid if your business provides you with any personal benefits), capital gains tax (which is paid when you sell assets like land, houses and shares). Jobs could be lost as departments such as immigration disappear. Norfolk is likely to retain only a local council, just like Christmas and Cocos Keeling Islands.¹⁰¹
- 3.100 The Treasury recognised that Norfolk Island taxpayers entering the Commonwealth taxation system might find the detail of the arrangements "complex, especially upon transition".¹⁰² Treasury acknowledged the particular complexities of the superannuation system and capital gains tax. In Treasury's view, however, Norfolk Island taxpayers would

98 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 21.

99 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 21.

100 Australian Treasury (Submission No. 6), p. 1.

101 D. Gore, 2005. "Greatest threat to self-government: running out of money", *The Norfolk Islander*, 20 August 2005.

102 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 22.

eventually become used to “dealing with the parts of the system that commonly apply to them.”¹⁰³

- 3.101 In addition to individual taxpayers, Treasury cautioned that employers would be faced with administrative difficulties and additional compliance costs.¹⁰⁴

Conclusions

A long-term strategy

- 3.102 It is clear to the Committee that the strategies that have been used to date by the Norfolk Island Government have not, and will not, deliver long-term financial sustainability for Norfolk Island. Given the serious challenges outlined in the first half of this chapter, the only sustainable alternative for Norfolk Island is the adoption of the taxation system of the Commonwealth of Australia. In particular:

- removing ‘taxation’ from the wide-ranging responsibilities currently carried out by the Norfolk Island Government would allow the Government to better focus its attention on local policy matters which it can better address;
- imposing a centralised taxation regime with a large base would remove the problems associated with an insufficient resource base, the capacity of the Administration, and the unique governance arrangements on Norfolk Island, not least because there would be sufficient distance between the policy-makers and the general community;
- population and economic data would be centrally collected and would ultimately assist in the production of forward estimates and plans; and
- a more rigorous and uniform framework for audit and accountability would be imposed.

Securing Norfolk Island’s future

- 3.103 The Committee, through numerous recommendations made in its previous reports, has effectively outlined its vision for securing Norfolk Island’s future.
- 3.104 In these reports, the Committee has expressed its preference that the Commonwealth should resume responsibility for social security, health and aged care services, immigration, national census and economic

103 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 22.

104 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 22.

statistics collection, customs and quarantine.¹⁰⁵ The Committee has also previously recommended a phased approach to Norfolk Island law reform, to make it consistent with Commonwealth law.¹⁰⁶ The Committee is of the view that Commonwealth legislation, particularly in the areas of corporate law, consumer affairs and trade practices, competition, banking, financial services, broadcasting, superannuation, and insurance, should apply to Norfolk Island.

3.105 In addition to these Commonwealth-type functions, the Committee asserts its preference for the following State-type functions to be assumed by the Commonwealth:

- primary and secondary education;
- legal services, including the regulation of the legal profession, legal aid, the administration of courts and tribunals;
- criminal law, policing (which should remain in the domain of the Australian Federal Police), road traffic laws, and motor insurance;
- correctional services;
- child and family services, including domestic violence and counselling;
- regulation of the medical profession; and
- industrial relations, including employment conditions, workers' compensation and occupational health and safety.

3.106 It is also clear to the Committee that the Norfolk Island Government does not have the necessary funds or capacity to meet urgent infrastructure requirements and that these needs could be much better met under the umbrella of the Commonwealth Government, as is the case in the Indian Ocean Territories. Under this scenario, the Commonwealth would also become responsible for the airport upgrade, and thereby, should waive the existing loan between the Commonwealth and Norfolk Island governments.

3.107 In the Committee's estimation, the Commonwealth's resumption of responsibility over infrastructure would provide a stimulus to the local economy and employment for the duration of the program, and would help to offset the problem created by the collapse of Norfolk Jet Express. The Norfolk Island Government would be relieved of the financial and

105 See, for example, JSCNCET, 1995, *Delivering the Goods*; JSCNCET, 2001, *In the pink or in the red? Inquiry into health services on Norfolk Island*; JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into governance on Norfolk Island*; JSCNCET, 2004, *Norfolk Island: Review of the Annual Reports of the Departments of Transport and Regional Services and the Department of the Environment and Heritage*.

106 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into governance on Norfolk Island*, Recommendation 30.

administrative burdens of upgrading its infrastructure, and would provide the community with the opportunity to prioritise other economic expenditure being presently planned for urgent upgrades.

3.108 The Committee would trust that, as is the case in other remote areas of Australia, incorporation into the Commonwealth taxation system would ensure:

- an annual federal grant to the NIG for recurrent expenditure;
- a freight equalisation scheme, similar to that which applies to Tasmania, be extended to Norfolk Island.

Adoption of the taxation system of the Commonwealth

3.109 The Committee considers that the financial situation on Norfolk Island is sufficiently dire to warrant the recommendation of the Island's integration into the Commonwealth taxation and welfare system, in spite of the concerns expressed by some Island residents. The Committee is convinced that bringing Norfolk Island into the Commonwealth's taxation regime will mean the residents of Norfolk Island will have access to better quality services than are currently available.

3.110 This notwithstanding, the Committee notes that there are a range of options available to the Commonwealth Government to alleviate community concerns about integration. For example, the Commonwealth could consider:

- raising the tax-free threshold for Norfolk Island residents;
- a range of rebates, including the Special Zone A provisions which are intended to compensate taxpayers in remote parts of Australia; and
- phasing in the Commonwealth taxation and welfare system.

3.111 The Committee agrees with Treasury that implementing this taxation and welfare system will require considerable consultation between the Commonwealth and the Norfolk Island governments, and with the Norfolk Island community. Decisions will need to be made concerning:

- the exact taxes to be applied, and any special exemptions;
- those taxes on-Island to be repealed;
- legislative amendments to relevant Commonwealth and Norfolk Island acts;
- compliance training on Norfolk Island to advise residents of their rights and obligations under the Commonwealth system; and
- arrangements for the Commonwealth's delivery of services.¹⁰⁷

107 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, pp. 23-24.

- 3.112 The Committee concurs with Treasury that “it would be reasonable to require a lead time of a few years from the time a decision was made to have the new system up and running.”¹⁰⁸ The Committee notes that the transfer to the Commonwealth system in the Indian Ocean Territories was undertaken over a period of four years.
- 3.113 Given the likelihood of this lead time, the Committee suggests that transitional arrangements be made to ensure that Norfolk Island does not become impecunious in the interim period. The Committee is particularly keen to ensure that Norfolk Island receive sufficient funding to begin immediate work on the reconstruction of the hospital and that the school have adequate resources. Likewise, the Committee suggests that key services be funded adequately in this intervening period and, that the tourism industry similarly be supported.
- 3.114 In the absence of viable options, the Committee’s recommendations go to providing fairness, equity and justice for all residents of Norfolk Island, as citizens of the Commonwealth of Australia.

Recommendation 1

- 3.115 **The Committee recommends that a new taxation model be developed whereby Norfolk Island is gradually incorporated into the taxation regime of the Commonwealth of Australia.**

Recommendation 2

- 3.116 **The Committee recommends that, on acceptance of Recommendation 1, the Commonwealth make transitional financial arrangements to ensure the Norfolk Island Government is adequately funded prior to the implementation of the new taxation model. Particular emphasis should be on:**
- **replacing and/or maintaining depreciating infrastructure, notably the hospital and the school;**
 - **key service provision, specifically health, aged care and social services;**
 - **structural adjustment programs first, to sustain and increase the Island’s tourism industry, and second, to diversify the economy to the extent practicable; and**

108 Australian Treasury, 2003, *Discussion Paper: Taxation Options for Norfolk Island*, p. 24.

- **engaging in wide-ranging consultation and discussions with the Norfolk Island Government and with the Norfolk Island community.**

- 3.117 Accepting these recommendations also has consequences for Norfolk Island's representation in the Commonwealth Parliament. As in all other parts of Australia, Norfolk Islanders must have the right to express their opinions through a Federal elected representative. While certain reports have argued that Norfolk Island should be represented by one federal Member of Parliament,¹⁰⁹ currently, Australian citizens who are residents of Norfolk Island have the option of enrolling in either:
- an electoral division of a State for which they last had an entitlement to be enrolled, or in which any of their next of kin are enrolled, or in which they were born, or, with which they have a close connection or if none of these provisions apply;
 - in an electoral division of a Territory (namely, Canberra or, Solomon, Northern Territory).¹¹⁰
- 3.118 As at November 2005, 92 Norfolk Island residents were enrolled in the Australian Capital Territory, 56 in New South Wales, 35 in Victoria, 1 in Western Australia and 1 in the Northern Territory.¹¹¹
- 3.119 The Committee is of the view that, Norfolk Islanders would be more effectively represented by a single Federal Member of Parliament, and reiterates the recommendation made in its first report on Norfolk Island Governance, *Quis custodiet ipsos custodes?*, that the *Commonwealth Electoral Act 1918* be amended to provide for the inclusion of Norfolk Island in the Federal electorate of Canberra for the purposes of voting in Federal elections and referenda.¹¹²

109 See, for example, J. Nimmo, 1976, *Report of the Royal Commission into matters relating to Norfolk Island*, pp. 180-181; House of Representatives Standing Committee on Legal and Constitutional Affairs, 1991, *Islands in the Sun: The Legal Regimes of Australia's External Territories*, pp. 146-148; JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, pp. 141-144.

110 Section 95AA, *Commonwealth Electoral Act 1918*.

111 Advice from the Australian Electoral Commission, 21 November 2005.

112 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, recommendation 29, p. 144.

A sustainable relationship

- 3.120 The Committee believes its recommendations will ensure long-term sustainability and prosperity for Norfolk Island. While the Norfolk Island Government would see a reduction in some of its responsibilities and law-making functions, it would also be relieved of significant administrative and financial burdens. As this report demonstrates, the Norfolk Island Government and Administration are often limited in their capacity to administer these responsibilities.
- 3.121 It is not the intention of the Committee to appreciably diminish the role of the Norfolk Island Government. The Commonwealth Government will not be able to assist Norfolk Island properly without a local representative body which actively lobbies on behalf of the community. In this context, the Norfolk Island Government and its Administration are best placed to understand and represent their local community.
- 3.122 Most importantly, the Committee's recommendations will provide the Norfolk Island Government an opportunity to 'get its house in order'. No further powers should be transferred to Norfolk Island until such time as it demonstrates a clear capacity to administer more acceptably its remaining responsibilities.

Senator Ross Lightfoot
Chairman
21 November 2005



Supplementary remarks— Ms Sophie Panopoulos, MP

In 1997, the Commonwealth Grants Commission (CGC) noted that Norfolk Island’s financial dependence on the Commonwealth was “comparatively low”.¹ Norfolk Island’s adoption of the taxation and welfare system of the Commonwealth of Australia, however, will invariably lead to increasing dependency and over reliance on the Commonwealth purse, and may not necessarily lead to better outcomes for the people of the Island. Recommendation 1 of this report is therefore not supported.

These supplementary remarks point to the ability of the Norfolk Island Government to:

- raise sufficient resources internally;
- provide adequate standards of service delivery and infrastructure on the Island; and
- maintain the cultural uniqueness of the Island.

While there is a role for the Commonwealth Government to play, this ultimately needs to be determined by the people of Norfolk Island.

Sufficient internal revenue resources

One of the most significant findings of the CGC Report was that Norfolk Island had strong revenue raising capacity. In line with this finding, a number of submissions to the inquiry noted that Norfolk Island could manage with the resources available on-Island, and that incorporation into the taxation and welfare

1 Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 74.

system of the Commonwealth would have a series of negative impacts.² Mr Michael Zande, for example, submitted that:

... Norfolk can manage with "what we have". By this I mean that financially, we can manage our day to day financial commitments either from our existing taxation base or from any revision thereof ... Refinements, adjustments or modifications to that financial base is possible with our present system of internal Government.³

The Norfolk Action Group reported the findings of a recent survey of businesses on Norfolk Island, concerning possible options for increased internal revenue raising on Norfolk Island. The Group submitted that the top five responses to the survey were:

- Improving tourism;
- Making money by saving money in the public sector. Both measures – leasing of GBEs, and improving work practices – rated well;
- Retaining existing taxes. Departure taxes should be retained;
- A spread of revenue earners, including land, resources and services taxes; and
- Long-term possibilities, for example, Norfolk becoming an offshore training centre for other Pacific nations.⁴

The Norfolk Action Group remarked that businesses appeared to be more interested in a "smorgasbord" of internal revenue raising options and taxes, as opposed to a single "magic bullet" (such as the adoption of the Commonwealth's taxation regime).⁵ Moreover, the Group asserted that:

...there was wide acceptance that more needed to be done to ensure we 'paid our way' through current or alternative revenue raising measures.⁶

Submissions arguing against the adoption of the Commonwealth taxation system also cited increased compliance and implementation costs,⁷ a negative impact on tourism,⁸ and the potential decrease in the Island's strong work ethic.⁹

2 See Mr W. Sanders (Submission No. 1), Mr B. Griffiths (Submission No. 2), the Hon. I. Buffett (Submission No. 4), Mr J. Kelly (Submission No. 9), Mr M. Zande (Submission No. 21), and Norfolk Action Group (Submission No. 24).

3 Mr M. Zande (Submission No. 21), p. 2.

4 Norfolk Action Group (Submission No. 24), p. 6.

5 Norfolk Action Group (Submission No. 24), p. 6.

6 Norfolk Action Group (Submission No. 24), p. 6.

7 Mr. W. Sanders (Submission No. 1), p. 1.

8 Mr J. Kelly (Submission No. 9), p. 1.

9 Mr B. Griffiths (Submission No. 2), p. 2.

It would indeed be a curious outcome of this inquiry to suggest that Norfolk Island be incorporated into Australia's taxation regime. At a time when both major political parties in Australia are engaging in constructive debate on the current architecture of Australia's taxation system, it seems something of a ruse to suggest Australia should impose its taxation system – with the associated negative impacts on incentive and investment – onto the citizens of Norfolk Island.

Moreover, any revenues gained from taxing Norfolk Island residents would nowhere near cover outgoing costs.

Finally, to include Norfolk Island in the Australian taxation system without the consent of the people of Norfolk Island is ill-conceived annexation by stealth. Regrettably, Recommendation 1 does not even include consultation with inhabitants – surely an inadequate proposal for such broad-scale social and economic change.

The people of Norfolk Island might be better served through the Committee revisiting the comprehensive discussion in the CGC Report and giving due consideration to alternative avenues of financial stability for the people of Norfolk Island.

Adequate and appropriate standards of service delivery and infrastructure

A number of submissions pointed to the success of the Norfolk Island Government and Administration in delivering adequate and appropriate levels of service delivery, notwithstanding the challenges of living on a small, remote island.¹⁰ These submissions pointed to the ability of local governments to better understand their local communities and more effectively meet their needs, than larger, more centralised governments.

It was submitted that the Norfolk Island Government has been able to deliver a range of government services, including quality education and health services. For example, on a visit to the Island, the former Minister for Territories, Senator the Hon. Ian Campbell, noted the high matriculation rates and strong academic achievements of school students.¹¹

In relation to health services, Professor Maev O'Collins noted that:

10 See Mr B. Griffiths (Submission No. 2), the Hon. I. Buffett (Submission No. 4), Professor R. Wettenhall and Mr P. Grundy (Submission No. 11), Professor M. O'Collins (Submission No. 15), and Mr M. Zande (Submission No. 21).

11 Reported in Mr B. Griffiths (Submission No. 2), p. 1. See also Mr M. Zande (Submission No. 21), p. 1.

basic health services are caring and adequate, particularly when measured against the overall requirements and capabilities of a small community.¹²

Professor O'Collins stressed that Norfolk Island should only be expected to provide an appropriate level of health service. Professor O'Collins reported the view held on-Island that the local hospital did not necessarily need state-of-the-art equipment (requiring continuous upgrade and maintenance), when such facilities were available in other Australian States and Territories. Referring to the debate concerning the purchase of a Breast Screening Unit, for example, Professor O'Collins submitted "that it would be more cost-effective to cover the expenses involved for Norfolk Island women to receive periodic screening in Brisbane or Sydney."¹³

On the subject of health infrastructure, it is also worth pointing out that in the late 1960s – when Norfolk Island was totally under the authority of the Administrator – the Commonwealth Government drew up plans for the hospital's rebuilding and expansion and called for tenders for the project. No contracts were let. In the proceeding years, the Norfolk Island Government has spent significant sums in ongoing upgrades. Past Commonwealth inquiries have also highlighted this point to no avail.

Other existing infrastructure also appears to meet the needs of the Island adequately. In relation to electricity supply and the ongoing debate surrounding an open sea wharf, Mr Michael Zande submitted that:

We have an electricity generating system in place which although still oil fired, is in the current economic climate, the most efficient and cost effective available for a remote location such as Norfolk Island ...

Importers of freight and goods to the Island seem to be of the view that the existing lighterage service is still the best for Norfolk Island in that even if an extended wharf is built to allow for containerization (but one still exposed to the open sea), adverse weather conditions will continue to affect discharge of cargo as is the case with the lighterage service. The cost of the lighterage service is not the problem, it is the adverse effect of inclement weather which prevents or delays discharge of cargo.¹⁴

12 See Professor M. O'Collins (Submission No. 15), p. 4.

13 See Professor M. O'Collins (Submission No. 15), p. 4. See also Mr M. Zande (Submission No. 21), p. 1.

14 Mr M. Zande (Submission No. 21), p. 1.

Maintaining Norfolk Island's cultural uniqueness

The constitutional background of Norfolk Island is generally described as complex.¹⁵ With this in mind, we should be sensitive to local culture and people when discussing what action the Commonwealth might take to provide support to Norfolk Island as part of this Committee's report.

The Norfolk Island Government is clearly better placed to maintain and foster the Island's cultural uniqueness. As the Norfolk Action Group submitted, it is precisely Norfolk Island's remoteness and independence which has ensured the survival of the Island's heritage and culture.¹⁶

For many years, Professor Roger Wettenhall and Mr Philip Grundy have cautioned that "efforts to absorb Norfolk Island into the general governance arrangements of mainstream Australia were inappropriate" because "the political, social and economic position of Norfolk Island [is] vastly different from that of mainstream Australia".¹⁷

At a time when Australia promotes the preservation of the uniqueness of Aboriginal culture, it is a somewhat perverse notion that we should impose an Australian-style taxation system on Norfolk Island which could have dire consequences on the local economy and community, relegating Norfolk Island to a helpless welfare state. If Commonwealth taxes and welfare were to apply to Norfolk Island, then instead of near full employment, there would be a significant influx of welfare-dependency from afar who would simply want to move to an idyllic sanctuary.

Lessons from the Indian Ocean Territories

It is a regrettable fact of history that once prosperous island states on Australia's doorstep have become economic and social basket cases due to the removal of self-governance and total incorporation into Australia from too much interference from the Commonwealth at the expense of the Australian taxpayer.

A case worth mentioning is that of the Cocos (Keeling) Islands.

Where there was once full employment, there is now significant unemployment – an unemployment rate of 60%, and a raft of social ills.

15 Joint Standing Committee on the National Capital and External Territories, *Island to Islands: Communications with Australia's External Territories*, Chapter Three: Norfolk Island, paragraph 3.1.

16 Norfolk Action Group (Submission No. 24), p. 2.

17 Professor R. Wettenhall and Mr P. Grundy (Submission No. 11), p. 1.

Demonstrating the Commonwealth's inability to understand and meet local community needs, the Christmas Island Shire has submitted that:

The Commonwealth struggles to deliver efficient and effective community services, makes costly and ineffective arrangements with the State of Western Australia, has no clear planning about service provision and excludes the community from decision making. As a result, the Commonwealth has failed to acknowledge its greatest asset: the community. If the Commonwealth was committed to effective community service provision, and to developing community capacity to take initiative and be involved in decision making, tangible benefits would flow.

Community service delivery and community development are at the heart of the issue of better governance arrangements. Decision making about community service provision is a key place to start. Decisions in community hands about the best way to solve issues of community need in culturally appropriate and locally effective ways will create the best outcomes while developing community capacity in other ways. It would also engender much needed confidence that the community's future is in its own hands.¹⁸

Putting the Commonwealth's role in perspective

Despite the Norfolk Island Government's ability, and desire, to provide for its own community, it is clear that some assistance is required from the Commonwealth Government. Submissions noted the need for Commonwealth Government assistance in the form of grants or loans for capital works and infrastructure replacement.¹⁹

The Hon. Ivens 'Toon' Buffett also suggested that there be more collaboration between the Norfolk Island and Commonwealth governments. He submitted that:

Since the finalisation of the [CGC] Report, successive Federal Ministers responsible for the Island have stated that they believe the Report to be the most definitive in respect of the Island. Whilst there have been comments by both Legislative Assemblies and Commonwealth Governments that they must examine the Main Findings, this has not happened ...²⁰

18 Christmas Island Shire, Submission No. 10 to the JSCNCET Inquiry into current and future governance arrangements for the Indian Ocean Territories, pp. 154-155.

19 See Mr B. Griffiths (Submission No. 2), p. 2 and Mr M. Zande (Submission No. 21), p. 2.

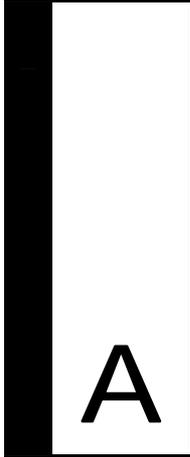
20 The Hon. I. Buffett, (Submission No. 4), p. 1.

Mr Buffett further submitted that:

Having examined the Main Findings 7 years on, I am personally of the view that substantial progress has been achieved and that what now remains is for the Norfolk Island and Commonwealth governments to sit down and discuss the 'outstanding matters'.²¹

An efficient and co-operative approach that the Committee and the Commonwealth should take is to revisit the 1997 CGC outcomes that have not yet been acted on. Healthy scepticism towards the numerous Commonwealth inquiries from some parts of the Norfolk Island community is likely to continue if a co-operative approach which acknowledges Norfolk Island's uniqueness is not adopted.

21 The Hon. I. Buffett, (Submission No. 4), p. 3.

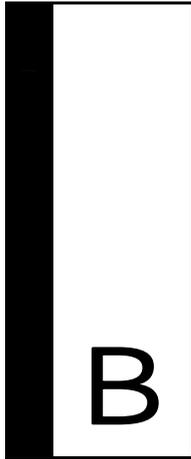


Appendix A

Submissions to the inquiry

No.	Received from
1	Mr Bill Sanders
2	Mr Bruce Griffiths
3	Confidential
4	The Hon. Ivens 'Toon' Buffett, MLA
5	The Hon. Ric Ion-Robinson
6	The Treasury
7	Department of Family and Community Services
8	Confidential
9	Mr John Kelly
10	Department of Employment and Workplace Relations
11	Professor Roger Wettenthal and Mr Philip Grundy, OAM, Centre for Research in Public Sector Management, University of Canberra
12	Mr Luke Johnson
13	Mr Mitchell Dickens
14	Norfolk Island Chamber of Commerce

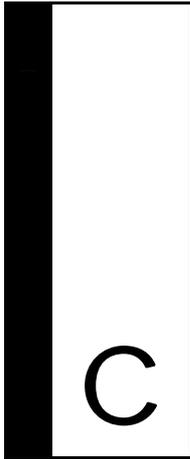
- 15 Professor Maev O'Collins
- 16 Ms Helen Pedel
- 17 The Australian Bureau of Statistics
- 18 The Treasury (Supplementary to Submission No. 6)
- 19 Department of Transport and Regional Services
- 20 Confidential
- 21 Mr Michael Zande
- 22 Mr John Smith
- 23 Mr Michael Hehir
- 24 Norfolk Action Group
- 25 Ms RJ Menghetti
- 26 Confidential
- 27 Confidential
- 28 Mr Charles Blackwell
- 29 Mr Peter Woodward



Appendix B

List of exhibits

No.	Description
1	P. Grundy and R. Wettenhall, 1977, "Norfolk Island versus the Nimmo Report", <i>Current Affairs Bulletin</i> , 54(5):18-25 (Related to Submission No. 28).
2	R. Wettenhall and P. Grundy, 1992, <i>Norfolk Island and the electorate of Canberra: 'Community of Interest'?</i> Report to the Norfolk Island Government (Related to Submission No. 28).
3	G.A. Pirotta, R. Wettenhall, L. Briguglio, 2001, Governance of Small Jurisdictions, <i>Public Organization Review: A Global Journal</i> , 1(2): 149-165 (Related to Submission No. 28).



Appendix C

List of public hearings and witnesses

Thursday, 4 August 2005 – Canberra

Australian Bureau of Statistics

Mr Anthony Johnson, Director, National Accounts Research

Department of Transport and Regional Services

Mr Richard Magor, Acting General Manager, Territories Branch

Mr David Kennedy, Acting Section Head, Norfolk Island and Northern Territory Section, Territories Branch

Department of the Treasury

Mr Patrick Colmer, General Manager, Indirect Tax Division

Mr Philip Bignell, Tax Design Specialist, Indirect Tax Division

Mr Luke Ross Johnson

Private briefings and inspections

Monday 6 June 2005 – King Island

King Island Council

Mr David Brewster, Mayor of King Island Council

Mr Andrew Wardlaw, General Manager of the King Island Council

King Island Port

Ms Diana Reed, Administration Manager

Mr Peter Bowling, Chairman

King Island Health Service

Ms Lorraine Nievaart, Director of Nursing

King Island Police Station

Sergeant Ian Mathewson, King Island Police Force

Constable Leonie Ridge, King Island Police Force

King Island Dairy

Mr Trevor Hughes

Monday 6 June 2005 – Kangaroo Island

Kangaroo Island Multipurpose Health Service

Ms Sara Mill, Multipurpose Health Service, Director of Nursing

Kangaroo Island Council

Mr Michael Pengilly, Mayor of Kangaroo Island Council

Mr Mark Dilena, Chief Executive Officer of the Kangaroo Island Council

Mr Tony Jarvis, Kangaroo Island Council, Corporate and Community Services Manager

Tuesday 7 June 2005 – Kangaroo Island

Kangaroo Island School

Ms Cate Telfer, Principal

Mr Paull Marlow, Vocational Education and Training
Coordinator

Mr Peter Philip, Vocational Education and Training Coordinator

Kangaroo Island Police Station

Sergeant Bob Eliot, Kangaroo Island Police Force

Kangaroo Island Desalination Plant and Port

Mr Roger Perry, General Manager Operations, SA Water