

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