

Submission Commonwealth Grants Commission

Review of Financial Capacity of Norfolk Island 2006

Acknowledgement

In making this submission, the Group gave serious consideration as to whether it should be kept confidential and not made public largely due to comments regarding our belief that **the overriding issue facing the future of the Island, regardless of what governance model is put in place, is the fact that Norfolk Island simply does not have the intellectual capacity to address the challenges before it.** Whilst our observations and concerns in this regard are not intended to insult individuals in leadership roles, in a small community, we believe that these comments have the potential to be offensive to some, albeit unintentionally. On balance, we believe it is imperative that this issue **must be acknowledged and confronted through recommendations for the implementation of policies and strategies** by the Commonwealth and all government departments and bodies who will have input into the final decision regarding our future. It is for these reasons we believe that there is a greater good in making these comments public to ensure that our message is heard by those both directly involved or ancillary to the process that has been initiated by the Commonwealth with respect to our future governance arrangements, in the hope that they are used for the long term benefit of the Island's future sustainability.

1. Introduction

Following release of the Commission's Issues Paper CGC 2006/1 and subsequent meetings with Chairman Alan Morris and Assistant Secretary Catherine Hull during their visit to Norfolk Island between 8th and 11th March 2006, we make the following limited submission in response to the Commission's call for public input by 7th April 2006.

2. Scope of Inquiry

We believe that the scope of the Commission's Terms of Reference is too narrow given the significance of the proposed restructure of the governance arrangements on Norfolk Island. We understand that the Commission is not in a position to alter this fact and simply ask that the Commission ensure that this is highlighted as part of its findings and therefore makes appropriate recommendations regarding areas where its scope should be widened to ensure the best outcome for Norfolk Island.

The Commission (and the Commonwealth) should bear in mind that the next census for Norfolk Island is due to be conducted in August 2006. Our Group encourages the Commission to consider negotiating with the Commonwealth to defer its final report until the Census has been undertaken by the Norfolk Island Administration. It would be unfortunate for the Commission to use outdated information from the 2001 census when the 2006 census is scheduled for this year. Perhaps the Commission could suggest the Commonwealth provide additional resources to ensure that this is carried out and completed in a timely manner and to broaden the scope of the information normally collected.

Notwithstanding this, the Group believes that the Commission should maintain its schedule for an interim report by June 2006, using the 2001 census data which could be updated with the 2006 census data prior to finalising its report.

3. Integrity of Commission's conclusions

In light of the narrow scope of this Inquiry and given the benefit of history from the 1997 CGC Report this Group strongly believes that unless the Commission recognises, reports and provides appropriate recommendations for critical yet esoteric matters raised by this submission, in particular, the capacity of our political and administrative leaders to effect change, then regardless of the quality of the report from an academic viewpoint, its integrity must be questioned for failing to address one of the most fundamental reasons why the Island has reached the end of its sustainable life under the current governance arrangements.

4. Matters addressed by this Submission

In acknowledging the task of the Commission, the Group understands that many of the concerns raised with the Commission during its visit to Norfolk Island are simply outside its terms of reference and it will be important for the Group to ensure that these are directed to the appropriate body during the process of re-examining Norfolk Island's governance arrangements.

Matters which the Group believes are within the Commission's terms of reference and therefore, the subjects of this submission are:

1. The premise that "the Island operates at the average level of efficiency";
2. The notion of "comparable communities" and "special circumstances"; and
3. Understanding Norfolk Island's "capacity".

4.1 Average level of efficiency

The Group believes the Commission's conclusions in 1997 regarding "capacity" of the Island have proved to be inaccurate. Be it Economic, Financial or Administrative capacity, history has demonstrated that the assumptions made and conclusions drawn in the 1997 Report were grossly inaccurate, arising not so much from the models used by the Commission, but rather from the Commission's belief that Norfolk Island possessed the necessary political, professional, intellectual skills and capability to achieve the expectations contained in the 1997 Report. Sadly, history has shown it did not and hence the current situation. Since 1997 the situation has deteriorated further.

In 1997 the Commission found that:

"Our conclusion is that administrative capacity is the major factor limiting the Norfolk Island Government's ability to deliver services. The present arrangements are too complex for a community the size of Norfolk Island, and the lines of responsibility are unclear. Some simplification and clarification is essential." (Chapter 6 Para 106)

The Commission further went on to say:

"In considering any response to these general conclusions, it should be remembered that, for any small and isolated community such as Norfolk Island, there are two points that bear on what is practicable. They are that:

- the administrative capacity of the community is limited by the size of its workforce and by the level and range of expertise within it; and
- the theoretical approach relevant to large organisations (either businesses or bureaucracies) may not be effective for small groups with wide ranging responsibilities."

(Chapter 6, Para 112)

Nine years hence, very little has changed and in fact the situation has deteriorated in direct proportion with the complexity of issues to be dealt with. **Therefore it is incumbent on the Commission regardless of the scope of this Inquiry to ensure that these messages are not lost in the quest by the Commonwealth to fix the Island's problems without due consideration for the underlying causes. The Commonwealth MUST also take responsible action to ensure that the Commission's conclusions in 1997 are not once again disregarded in 2006 and the Commission MUST take responsibility to bring this, once again to the attention of the Commonwealth.**

By its own admission, the Commission did find in 1997 that "**Vocational Education and Training is at a much lower level than on the mainland and this is a threat to the long term viability of the Island's economy**" (Chapter 6, Para 31). It is a simple fact that our political and administrative leaders lack the necessary skills to deal with the economic, financial and administrative issues to provide for a vibrant economy.

These statements are not intended to be demeaning of those who have sincerely attempted to provide the necessary political or administrative leadership to develop the Island and its

economy, but rather the identification of the symptoms resulting from two contributing factors which have caused this phenomenon.

- 1) Acknowledged by the Chairman, Alan Morris during his recent visit to Norfolk Island, that no where in the world is such a small community (of approximately 1800 people) responsible for the range of Commonwealth, State and Local Government responsibilities. As history has shown, an impossible task; and
- 2) This small, very isolated community with a stagnant population base cannot and does not generate the necessary intellectual input and stimulus from the outside world. Therefore to expect "an average level of efficiency" is unreasonable and unrealistic.

It is therefore the Group's view that the Commission needs to factor into its current assessment the "lack of intellectual capacity" available on the Island and **recommend action to address this for the short, medium and long term sustainability of the Island.** For without this, the current process initiated by the Commonwealth Government will merely be a short term band aid solution.

It seems that whilst there have been many inquiries and reports' regarding Norfolk Island's "capacity", there has been no systematic consideration to the best ways of obtaining the expertise required by the Norfolk Island Assembly or Administration. Possibilities may include the contracting out of entire services and/or arranging service provision with either State or Commonwealth agencies.

Such recommendations must include the need for "**an above average level of education and training**" which is directly accessible on Island at **post secondary, tertiary and mature age levels.**

It is also the Group's view that without direct access to a range of above average education and training opportunities, the Island has little or no hope of dealing with the social, economic and other important issues concerning the governance of this Island, regardless of what model is finally imposed.

Serious training, mentoring, guidance and monitoring is essential for the Island's administrative and political leaders to ensure they have the necessary skills to deal with the economic realities of governing a unique small isolated community dependent on tourism for its survival.

4.2 Comparable Communities and Special Circumstances

The Group understands the Commission's explanation of how it goes about establishing "comparable communities" within Australia as part of its analysis. However, we are not sure that the Commission has a realistic appreciation for the fact that Norfolk Island **is significantly different** to other communities which the Commission believes are "comparable".

For example, in the 1997 Report, the Commission states that "Comparisons are made with like services provided in remote mainland centres of comparable size and, where relevant, on the Cocos (Keeling) Islands and Christmas Island." (Chapter 6, Para 1, p77)

If the Commission adopts the same approach for its current Inquiry, then the Group believes that any such comparisons will be incorrect.

For example during the Chairman's address to the public meeting on Norfolk on the 9th March 2006, he made the statement that it would be quite incorrect to compare Norfolk Island to Cocos (Keeling) Islands, in respect to hospital services. Additionally, if the Commission again uses "remote mainland centres of comparable size", without taking account of the "special circumstances" affecting Norfolk Island, then again our Group believes that the Commission's work will be flawed.

In fact based on our research we believe that Cocos and Christmas Island have no similarity to Norfolk Island which has a fairly vibrant economy (at least until recent years) with an enormous private sector capacity and a reasonable tourist market. These attributes do not apply to either Cocos or Christmas Islands. We understand further that in fact most of Cocos Island cannot speak English with the majority relying heavily on social security while those in work are largely teachers or public servants. We also understand that social security benefits provide those Islanders with a very good standard of living given their social and cultural aspects. Christmas Island has no real private sector and has approximately 200 Europeans on the Island with the remainder (approximately 1200) being Chinese and Malays.

If this research is accurate, then using these Islands as “comparable communities” will be questionable in many instances. As mentioned above, Norfolk Island does have a vibrant private sector for such a small community. It is difficult to identify any town or location in mainland Australia with a similar level of activity in a population of around 1800 people.

It is for this reason, we encourage the Commission to identify and analyse as part of its report, the two distinct economies which exist on Norfolk Island; one being the private sector economy and the other as the public sector economy largely because the impacts on each of the sectors, within the Island, will vastly differ depending on the level of intervention by the Commonwealth Government. For without this information and approach inappropriate decisions will be made based on inaccurate information.

In simple terms, should decisions be made, based on information provided by the Commission which results in the withdrawal of the private sector from the Island, Norfolk Island could then quite accurately be compared to the Cocos Island model.

In its 1997 Report, the Commission dedicated only 6 paragraphs to “Special Circumstances of Norfolk Island”. (Chapter 3, Para 59 – 64, pp28-29) These referred to the Island’s special quality of life, natural environment, crime, domestic violence, heritage, Pitcairn descendants and financial arrangements. No mention was made of the challenges, difficulties and issues which affect a very small isolated community. Hence, should the Commission adopt a similar approach for the current Inquiry; our Group believes the results will be flawed.

Like other Commonwealth Agencies, the impact of freight is not clearly understood by the Commission. The Commission is encouraged as part of its 2006 Report, to change its methodology and reporting in respect to the calculation of freight so that the true impost on the Island and its community can be accurately identified.

This could be done by identifying “disclosed” freight costs – those which are currently identified by the Commission and other Commonwealth Agencies and “undisclosed” freight costs. These could be calculated for a range of goods and services and thus providing “undisclosed” freight cost of all imported goods, or services which use imported goods (e.g. Electricity). Such calculations would need to take account of source to port and sea/air/postal freight costs, documentation fees, CABAF, lighterage, local cartage, waste management levy and customs duty. At the Norfolk Island end of the freight chain the waste management levy, lighterage and cartage amount to more than \$70 per cubic metre alone.

Undertaking different methodology, which takes account of Norfolk Island’s “special circumstances” would identify the fact that there are two levels of freight costs that need to be considered when taking into account “comparisons” with other communities or with mainland Australia. Every item which is brought to the Island has an additional “undisclosed” freight cost unlike other communities or mainland Australia. It is therefore incorrect to assume that only the “direct” freight costs be considered when making such comparisons.

Information is available for the Commission to validate its findings, in the form of freight manifests and the like. It may be simpler to establish the total freight delivered to the Island to establish a “tonnes per person per year”, apply the “general” cargo rate to calculate the freight dollars per year per person.

As a simple example, for 12 ships per year carrying 1000 tonnes each at an average freight rate of \$330 per tonne, that equates to \$4M. Add to this air freight of say 4,500kg per week at \$4 per kilo which equates to nearly \$1M per year and an overall cost of \$5M per year. Based on say 1000 income earners who reside on the Island that equates to a contribution each by them of \$5,000 per annum or \$2,800 per annum for every resident (based on 1800 residents).

Once this figure is known, the Commission can then establish what each person, living on Norfolk Island, contributes to the “freight” bill because of isolation. We suggest that this figure will be significant and should be regarded as a “very significant special circumstance” for the Island.

Factoring in tourists to the Island will only make minor alterations to these calculation, for example at the current tourist level of roughly 25,000 per annum, this would inflate the population by only 480 (effective full time figure) and reduce the per resident calculation slightly to \$1,755.

In 1997, the Commission stated:

“There are some cases where we consider the condition of particular items of infrastructure on the Island is below that found on the mainland or will become inadequate in the short term.

These include:

- School infrastructure
- Hospital infrastructure
- Road building and maintenance equipment
- Electricity supply machinery
- Waste disposal facility
- Street lighting infrastructure
- **Harbour and lighterage equipment and infrastructure**
- Airport infrastructure (especially the terminal); and
- Fire services equipment (especially tenders)”

(Chapter 6, Para 396) (Emphasis added)

In our opinion, the more important infrastructure needs are for **harbour facilities** to ensure delivery of goods and reduce the time and cost in unloading ships and better road building equipment and roads, to ensure the safe transport of people and goods.

It is senseless to think that since 1982, this community has had to carry the additional cost of nearly \$1M (in today’s terms) for the construction, demolition and reconstruction of temporary jetties at Ball Bay because there is **NO** suitable loading facility on the Island to cope with large equipment or heavy material.

Constructions of Temporary Jetties at Ball Bay	Estimate at today’s costs
1982 Construction & Demolition (Airport reseal)	\$100,000
1983 Construction & Demolition (Airport reseal)	\$100,000
1991 Construction & Demolition (Airport reseal)	\$100,000
1999/00 Construction & Demolition x 2 (Cascade Cliff)	\$200,000
2002 Construction & Demolition (Mt Pitt)	\$100,000
2005/06 Construction & Demolition x 3 (Airport reseal)	\$300,000
TOTAL	\$900,000

Our Group encourages the Commission to make strong recommendations as part of its 2006 Report in respect to the essential provision of a **deep water harbour** as it did in 1997 when it said:

“...the Commonwealth might consider whether it has **some obligation to provide** financial assistance to the Norfolk Island Government to assist it to overcome deficiencies pre-dating

self government, such as the safety problems associated with the Cascade Cliff and the ***inadequacies of the harbour facilities.***" (Chapter 10, Para 24) (Emphasis added)

In drawing its conclusions the Commission MUST emphasis and reiterate its 1997 recommendations in respect to a deep water harbour. For the long term sustainability of the Island, a deep water harbour is no longer just a desire for our economic well being, it is now essential and critical for our survival.

The Commission should also take into account that residents **must** travel to the mainland, on average, at least once a year for medical attention not available on the Island. Unlike mainland Australia, such travel can **only** be undertaken by air and **will** incur significant off-Island costs associated with such travel. The Commission should include in its assessment of "special circumstances" the **essential** travel costs which must be incurred yearly by people who live here.

Other "special circumstances" should include the significantly higher cost of living here for example, electricity, gas and telecommunications. To emphasis this point the Commission should take account of the fact that approximately 170 residents and general entry permit holders left the Island during 2005. This is approximately 10% of our population. What economy in the world can sustain this level of population movement which in itself increases an already high cost of living?

4.3 Understanding Norfolk Island's capacity

Whilst the Group understands that the Commission's calculations of "capacity" are based on economic rationale the simplicity of the situation needs to be understood.

The majority of people on Norfolk Island are struggling to make ends meet NOW. The Norfolk Island Government continues to raise taxes and charges (since the Commission's visit, the NIG has announced yet a further increase in electricity charges of 3 cents per kilowatt hour) in an attempt to "dig" its way out of the dire financial situation we find ourselves in.

For this community to recover, the vast majority of people living on the Island need TAXES AND CHARGES RELIEF NOT greater IMPOSITION.

It is difficult to articulate the severity of the situation in rational economic terms. Norfolk Islanders are extremely proud, but the financial stresses in family are increasingly evident through marriage and relationship breakdown and increases in social problems.

In 1997 the Commission said:

"If Norfolk's financial capacity were to be used by increasing taxes, care would be needed **to ensure that detrimental impacts were minimised. Any new tax structure should:**

- **not damage the tourist industry;**
- **not be detrimental to diversification of the economy;**
- be equitable in its impost so that contributions increased as income and wealth increased (this is not the case with the present taxation regime); and
- be imposed or administered in ways that kept avoidance to a minimum.

It would be a beneficial by product of a new tax structure if it generated information, through returns provided to the Norfolk Island Government that lead to a greater understanding, and therefore better management, of the Island's economy.

Another point to be borne in mind is that the taxes now levied on Norfolk are imposed at higher rates by mainland standards. **This suggests that raising those rates further could be detrimental to the economy.** At the same time, little use is made of taxes on income and wealth, including land. There are possibilities for broadening the range of taxes imposed. The consumption tax (GST) is one such possibility but it could be at least partly avoided by the more wealthy members of the community who could make their purchases off-Island. Unless there were some 'safety net' provisions, such as for food and medical services to be exempt, a consumption tax could also impose a greater percentage tax burden on those who can least afford it." (Chapter 10, Para 14-15) (Emphasis added)

These comments are even more relevant today as the Island's economy is much weaker than it was at the time of the 1997 Report. Notwithstanding that the Commission's terms of reference do not extend to Commonwealth type taxes, it would be irresponsible of the Commission not to draw these matters out in its final conclusions.

Therefore if the Commission's finds that there is additional taxing capacity on Norfolk Island, then our Group will struggle to accept the reality of this when real life day to day evidence suggests the contrary; that many in the community are in desperate need of financial relief.

Two additional points need to be raised in respect to the above quote from the 1997 Commission Report (viz Chapter 10, Par 14-15). Firstly it is essential that the gathering of any confidential information resulting from any new governance and administrative arrangements be vested in the hands of the Commonwealth. The Norfolk Island Government and Administration have frequently demonstrated to the Norfolk Island community, the lack of controls in respect to "confidential information" and therefore this community has little or no confidence that such responsibility can be vested locally. Secondly, any contemplation of the introduction of a consumption tax needs to be carefully considered in terms of its impact on the commercial sector. In the large majority of cases, such a tax would eliminate any slight advantage that retailers have over their mainland competitors. Unless these businesses can offer a competitive product to tourists, those valuable tourist dollars will be lost, as will local dollars as residents defer their spending until they visit the mainland. This would also be particularly profound for those retailers who have in place and rely on unique distribution agreements which are currently outside mainland control. These factors need to be carefully considered by the Commission and in fact all parties who will have input into any amended arrangements for the Island.

We are not sure how the Commission can find the correct economic rational to make the most accurate assessment of these issues, but at least we suggest that the Commission needs to establish some rational, on the ground and practical yard sticks, to test any assumptions against reality before finalising its report.

Norfolk Island Business Group
April 2006