

## CHAPTER 2

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### APPROACH TO THIS REPORT

1. The terms of reference ask the Commission to report on whether the Norfolk Island Government has the capacity to provide, at an appropriate level, the range of government functions, including infrastructure, for which it is now responsible. They also ask whether it has the capacity to provide a broader range of services.

2. The approach we have taken to answering these questions is to:

- set the scene by describing Norfolk Island's geography, history, demography, and social and political development (Chapter 3), by discussing the nature of its economy (Chapter 4) and by examining its public sector finances (Chapter 5);
- examine levels of service and infrastructure and discuss how, making allowance for Norfolk Island's special circumstances, they compare with services provided elsewhere (Chapter 6);
- discuss the ability of the Norfolk Island Government to raise revenue through taxes, charges and other community contributions, given the Island's economic capacity and the income and wealth of its population (Chapter 7);
- draw conclusions about Norfolk Island's economic and financial capacity to provide services and infrastructure appropriate to its circumstances (Chapter 8);
- examine the Island Government's administrative arrangements and how they affect its capacity to provide services and infrastructure (Chapter 9); and
- summarise our responses to the terms of reference (Chapter 10).

3. This chapter discusses the range of government functions we have considered and how judgements might be made on whether they are, or could be, provided at an appropriate level. It sets out what we mean by the term capacity — economic, financial and administrative — and how we have made judgements about it. It outlines how we have assessed the contribution by the Norfolk Island community to the provision of

services. Finally, it describes how we have used this information to respond to the terms of reference.

### ***Government Functions***

4. To make this report as useful as possible, it covers all functions or services normally provided by governments on the mainland, regardless of the level of government providing them — Commonwealth, State or local — and all sources of revenue usually accessed by governments on the mainland. For this reason, the analysis has not been confined to those functions, services or income sources actually in place on Norfolk.

5. Distinguishing the level of government providing the service on the mainland is not relevant to the situation on Norfolk Island because, under Sections 51 and 122 of the Constitution, the Commonwealth can legislate to give the Norfolk Island Government whatever powers it wishes. While some distinctions based on level of government have been made to assist the analysis, they should not be interpreted as indicating the division of responsibilities that we see as appropriate for Norfolk Island.

6. We have considered what Government services are provided on the Island, at what standard they are currently provided, how these compare to services provided elsewhere and whether they are needed and at what level. We have made these judgements against the special circumstances of Norfolk Island, taking into account its physical, demographic, economic, social and cultural characteristics. The extent to which a service is presently provided on the Island may not be the best indicator of the need for that service. It may or may not reflect a decision that this is the appropriate level of service.

7. In general, revenue collections depend on both capacity and choice. We have considered what the contribution of the Norfolk Island community to service provision (mainly revenue raised by the Island Government) is at present, and what it could be if the efforts made by other communities were applied to the income and wealth characteristics of the Norfolk Island community. The present approach to revenue raising on the Island may or may not be the most appropriate.

### ***Comparing Government Services***

8. We think that to inform future decision making, the Norfolk Island and Commonwealth Governments and the Norfolk Island community might find it useful to have the following questions answered in relation to each function.

- What is the service and how is it provided on Norfolk and elsewhere — what are the facts?
- How does the service on Norfolk compare with that provided in similar Australian communities?

9. For services on Norfolk that are provided on the mainland by the Commonwealth, the comparisons have been made with the level of those services on the mainland. For services that are provided on the mainland by either the State or local

government sector, the task of comparison becomes a little more difficult. Comparisons have been made with whatever area or areas we think best provide a starting point. As the Island's circumstances are unique, such points of comparison may be inappropriate in some way and any comparison will invite judgements about its usefulness.

10. We are mindful that some members of the Norfolk Island community see no point in comparisons between Norfolk and elsewhere. Nevertheless, we believe that such comparisons have value, provided necessary allowances are made for the special circumstances of the Island. Information on whether a service on Norfolk Island is above or below the standard provided elsewhere could help its Government and community to reach conclusions about the appropriateness of their services. Of course, there may be good reasons why a service is above or below that provided elsewhere. For example, if the community values education highly, it may choose a higher level of education services. Equally, if there are no unemployed, there is no reason to provide employment assistance programs at levels made available where there is unemployment.

11. On the other hand, a service may be above that provided elsewhere purely for historical reasons. There may have been a need in the past, but that need may no longer exist, although the service level has not been reviewed and reduced. Another possibility, if the service is costing more, is that it is not being provided in the most efficient way. There may be ways of meeting particular needs that are cheaper, but just as good or even better. Without making comparisons and reviewing service delivery methods and levels of provision, governments and communities cannot be sure that they are satisfying their needs for government services in the best way.

12. Of course, governments cannot reach such conclusions without taking into account the wishes of the community. Those wishes will be better informed if communities have good information about the alternatives available so they can judge their needs and wants against them.

13. The States and other Australian Territories have made considerable use of comparative information provided in Commission reports to make adjustments to their services and revenue raising practices. Such comparisons can be considered analogous to benchmarking, which is an internationally accepted method used by governments and the private sector to see whether a service or a product is produced in the most efficient and effective way. It can be a powerful tool for good decision making.

### ***What is an Appropriate Level of Services for Norfolk Island?***

14. In its inquiries into the finances of the States, the Commission makes recommendations on how Commonwealth general revenue grants should be shared. Those recommendations seek to ensure that each State has the financial capacity to provide the average level of services, assuming it does so at an average level of operational efficiency and makes an average effort to raise revenue from its own sources.

15. In general, such inquiries are concerned with the questions of what it would cost each State to provide the average, or standard, level of services and what revenues each State would raise if it made the average effort to raise revenues. Assessing the differing

circumstances of each of the States that result in different patterns of demand for services and different abilities to raise revenue is therefore central to the Commission's work.

16. The methods adopted in those inquiries are designed to look at what is necessary to give equal financial capacity, not to produce the same results. The Commission's work is based on the federal structure within the Australian Commonwealth and on the proposition that States are entitled to decide on the range and level of services they provide and on the range and level of taxes and charges they impose. At the same time, the methods ensure, as far as possible, that a State cannot influence its share of the Commonwealth grants by changing its own policies on services provided or taxes imposed.

17. However, a question that does not arise in State inquiries is whether a service is provided at an appropriate level. The level of service provided by each State is taken into account in calculating the average, or standard, level of service, but the Commission is not required to pass any judgement on what individual States do, and does not do so.

18. For this inquiry, the terms of reference ask us to advise on the appropriateness of the present level of government services on Norfolk, and the contribution the community is making towards those services. In this respect, this inquiry is different from State inquiries, and we have needed to modify the Commission's normal approach.

19. The mainland average revenue raising policies and practices relating to the range and level of services provided, or even the policies applied to selected communities, are not necessarily those that are appropriate for Norfolk Island. There are many factors to be taken into account in judging what is appropriate. Our views on that issue have been influenced by what we have seen and heard on Norfolk Island, and what we know of the mainland and of the other Island Territories. We have judged what services are needed, and what revenue collections are possible based on:

- the demographic, social and cultural characteristics of the Norfolk Island population;
- the economic and financial capacities of the Island;
- the location and physical characteristics of the Island;
- the costs these characteristics impose on service provision;
- the capacity of the Island to raise revenue from its own sources and the effort it is making compared to other more-or-less comparable communities; and
- the range and standard of services provided in more-or-less comparable communities.

20. In evaluating our report, Governments will no doubt also wish to take into account:

- the preferences of the Norfolk Island population;

- the policy requirements that arise from the Island's special character and circumstances;
- the right of all Australian citizens to diversity in service provision — it is a cornerstone of all federations that, within their responsibilities and capacities, communities have the right to adopt different policies in the pursuit of their own priorities;
- the extent of independence desired, that is, the extent to which the Norfolk community may wish to manage and support its own affairs without outside assistance or constraints;
- the extent to which Norfolk Island residents wish to be treated as all other Australians, that is, to receive the same level of Commonwealth services as all other Australians and to accept the same financial and other obligations;
- individual equity, that is, the equal treatment of equals, so that all community members on similar incomes or in similar financial and social circumstances, pay the same taxes and receive the same level of services;
- social obligations, that is, the responsibility of a community to ensure that its less well off members are provided with acceptable minimum levels of services and social support;
- protection of minority interests, that is, the need for governments to govern for all and to ensure that the needs of minorities are not overlooked; and
- national interest, that is, the common interests of the whole Australian people.

21. In practice, objectives such as these are often in conflict and governments have to find a balance between them.

22. A range of views exists on the Island on how an appropriate level of services might be judged. One view presented to us was that all Australians, whether they are born on Norfolk Island or not, should be treated equally and the same standard of services be made available. This may be a reasonable approach in terms of deciding the appropriate standard of services usually provided by the Commonwealth Government. However, it could not be applied in relation to State and local government type services because these differ among States on the mainland, although all States have the same financial capacity to provide such services. States choose a mix of services that they consider appropriate to the characteristics and wants of their communities.

23. Another view was that the present level of services is largely appropriate because, in a small community such as Norfolk, Ministers are soon made aware of community dissatisfaction with government performance through personal contact, as well

as through the ballot box. The difficulty with this view may be that the majority could be relatively satisfied with levels of services, while minorities who are not satisfied are being ignored.

24. One submission argued that the best way to decide whether the services and infrastructure provided on Norfolk Island are appropriate is to ask the community to formally express its view at referendum. We do not believe that the Grants Commission should seek to have a referendum conducted on what is, or is not, an appropriate level of service provision across the wide range of functions performed by government. The Norfolk Island Government could choose to conduct a referendum and has done so successfully on a range of matters in the past. However, the practicality of framing a large number of questions in a way likely to elicit helpful responses about the full range of services that governments provide would be exceedingly doubtful.

25. Moreover, there are two governments with responsibility for service provision on Norfolk Island and one obviously has a wider constituency than the Norfolk Island community. It would be unreasonable to expect the Commonwealth Government to consider only the needs and wishes of the Norfolk Island people when faced with decisions that had the potential to affect the whole of the Australian community and economy.

26. In answering the question of what is appropriate, we have had to make judgements. Our approach has sought to strike a balance between local needs and equity for all Australians, and between local independence and national interests. In doing so, we have distinguished between services generally provided by State or local governments and those generally provided by the Commonwealth.

- For *State and local government type services*, a balance could be achieved if Norfolk Island residents were free to choose the range and level of services that they wished to support by particular taxation regimes, provided the Island had the same financial capacity to provide services as the States and local governments. Although national goals are often agreed between the Commonwealth and the States and supported by the Commonwealth through the use of specific purpose payments, some diversity is desirable to cater for local needs and different social priorities.
- For *services provided elsewhere by the Commonwealth*, the balance is very much towards a national standards approach, with little if any scope for local communities to exercise their own discretion. There is a question about how far this standard approach should apply to Norfolk Island. But even if it were to apply in full, this would not necessarily mean that the Commonwealth should provide these services. The Norfolk Island Government might well be the appropriate provider, as long as it had the necessary financial and administrative capacity. Moreover, it might be possible to vary the level of service provision to recognise local conditions or different needs, with no disadvantage to Australian residents, be they living on Norfolk Island or elsewhere in Australia.

### **What is Meant by ‘Capacity’?**

27. Capacity reflects what can be done or what an economy or government has the ability to do, given its underlying strengths and weaknesses. Capacity is not usually equivalent to what is actually being done and may vary over time as contributing factors change.

28. **Economic capacity.** Economic capacity can be thought of as the Island’s potential for producing wealth, both now and in the future. For this inquiry, it has been assessed by examining the Island’s economic history, previous attempts to diversify its economic base, its existing levels of economic activity and its future economic viability (including its potential for economic diversification). In assessing this capacity, we have drawn on information from other inquiries, including a study by Treadgold<sup>1</sup> and the recent work by Access Economics<sup>2</sup>, but we have also made our own estimates.

29. **Financial capacity.** This relates to the extent to which the Norfolk Island Government is able to raise revenue, from whatever source, to fund services. It has been estimated by examining the Island’s ability to obtain revenue from:

- the tax bases it is presently using;
- the range of tax bases normally used on the mainland; and
- more broadly based or global tax bases, such as income, assets, and consumption.

30. As a starting point, it has been assumed that Norfolk Island has the same ability to access tax bases as the mainland. However, this assumption is modified where circumstances are thought to exist which prevent Norfolk Island from imposing a tax or a standard rate of tax.

31. We have also looked at the voluntary efforts of the community to provide or contribute towards the provision of services that would otherwise be government responsibilities. Measurement and comparison in this area are difficult because there are little data available, but voluntary effort is an essential and growing aspect of service provision on the mainland. On Norfolk Island, it appears to be of particular cultural significance and has a bearing on the tax effort of both the Island and Commonwealth Governments.

32. The Island’s capacity to provide appropriate services and infrastructure now and in the future has been examined by comparing:

- what is spent now with what is raised from taxes and charges; and
- what needs to be spent to provide appropriate services and infrastructure and what could be raised if existing capacity were used to raise taxes and charges.

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<sup>1</sup> M.L. Treadgold, *Bounteous bestowal, The economic history of Norfolk Island*, Pacific Research Monographs 18, National Centre for Development Studies, ANU 1988.

<sup>2</sup> Access Economics, *Norfolk Island: Recent Economic Performance, Present Situation and Future Economic Viability. Is There A Case For Change?*, Canberra, March 1997.

33. The Commonwealth's present contribution to service provision on the Island has been measured using information provided by the Department of the Environment, Sport and Territories. A question is what, if any, Commonwealth contribution to services and infrastructure might be justified in the future. The appropriate Commonwealth contribution to recurrent services could be estimated using the Commission's usual methods. Unfortunately, sufficient data are not available to enable such a calculation to be undertaken with any confidence. Nor have we been able to make a judgement about the size of any appropriate contribution by the Commonwealth to Norfolk's infrastructure requirements.

34. *Administrative capacity.* This relates to the extent to which political and administrative arrangements support existing and future responsibilities. Administrative capacity has been examined by looking at the processes of government and service provision on the Island in terms of how efficiently and effectively the Norfolk Island Government administers its current responsibilities. How administrative capacity might be enhanced in the future has also been considered. The phrase administrative arrangements is taken quite broadly to cover:

- arrangements with the Commonwealth;
- the political system;
- the legislature;
- Norfolk Island law;
- machinery of government, including local executive government;
- the public sector, including government enterprises;
- other service delivery arrangements;
- financial administration; and
- accountability arrangements.

### *Answering the Terms of Reference*

35. We have attempted to meet the needs of the Norfolk Island and Commonwealth Governments as set out in the terms of reference and as expressed during the inquiry. In the last chapter, we therefore summarise our judgements about the Norfolk Island Government's capacity to meet its obligations associated with current and possible future government functions and to provide, at an appropriate level, the range of government functions, including infrastructure, for which it has responsibility now, or may have responsibility in the future. We also provide our views on how the Norfolk Island Government might go about developing its strategic plan and where the *Norfolk Island Act 1979* might be changed.