

CHAPTER 5

PUBLIC FINANCES

1. Public sector activity on Norfolk Island is primarily the direct responsibility of the Norfolk Island Government, and is principally funded from revenues raised by that Government. The Commonwealth provides some direct funding for particular activities, and some indirect support. However, it raises no revenue on Norfolk Island. Consequently, the Norfolk Island Government is financially more independent than any of the external or mainland Territories, or indeed the States. The unusual arrangements on Norfolk Island are reflected in a very different mix of taxes and charges from any applying on the mainland.

2. Norfolk Island Government expenditures also reflect a different mix of services. To some degree, this mix results from the priorities of a small, relatively isolated community. It also results from the forms of resource shortage on the Island, such as fuel, power and water, which need particular management, and from the cultural, social and political traditions of the Island. It has been possible because the Commonwealth does not extend most of its legislation to the Island.

3. This chapter provides a systematic framework for addressing Norfolk Island Government expenditures and revenues as well as Australian public sector expenditures relating to Norfolk Island. It provides a basis for the analysis in the following chapters. It also provides a framework to assist consideration of matters of concern to the Island and the Commonwealth in their discussions, such as the level of Commonwealth financial assistance to Norfolk Island, the level of financial flows from Norfolk Island to the Commonwealth and the degree of financial self sufficiency of Norfolk Island. Finally, it provides a framework for comparing the mix of Norfolk Island revenues and expenditures with the mainland and other external Territories.

NORFOLK ISLAND GOVERNMENT REVENUES AND EXPENDITURES

4. The Norfolk Island Government has almost \$20 million in net assets, of which fixed assets are worth around \$13.4 million. At the end of 1995-96, the cash at bank, including term deposits, was \$6.5 million.

5. The Government operates on an income of \$15 million or more a year, and delivered a surplus before capital expenditure and provision for depreciation of \$2.0 million

Chapter 5

in 1995-96. It delivered surpluses also in the preceding two years. The depreciation provision is about \$1.1 million a year.

6. The consolidated position of the Administration's accounts over the three years to 1995-96 is shown at Table 5-1.

Table 5-1 NORFOLK ISLAND ADMINISTRATION'S CONSOLIDATED STATEMENTS^(a)

	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000
Consolidated Balance at end of year			
Assets			
Current	6 565	7 778	8 764
Fixed	14 605	14 083	13 414
Total Assets	21 169	21 861	22 178
Liabilities			
Current	1 630	1 790	1 934
Long Term	349	347	383
Total Liabilities	1 979	2 137	2 318
Net Assets^(b)	19 190	19 724	19 860
Income and Expenditure^(c)			
Income	13 515	14 928	15 942
Recurrent Expenditure	11 484	12 471	13 984
Income Excess before Depreciation	2 031	2 458	1 958
Depreciation ^(d)	1 126	1 116	1 132
Income Excess after Depreciation	905	1 342	826
Capital Expenditure			
By Administration (including GBEs)	1 163	1 400	1 437
Inflation (Norfolk Island Retail Price Index)			
	5.5%	3.4%	3.2%
Inflation (Australian CPI)			
	1.8%	4.5%	3.1%

(a) Excluding the Hospital and the Tourist Bureau.

(b) This figure includes only those assets of the Revenue Fund which are written off in the year of purchase.

(c) 1993-94 capital and recurrent figures are rounded to the nearest thousand.

(d) This figure is a notional one, not an actual provision.

7. Over the three years, the table shows a one third increase in the value of the reported current assets (cash at bank, debtors, materials and stocks) and an eight per cent decline in the value of fixed assets (buildings, plant and equipment, furniture and fittings). The balance of these two changes is an increase in net assets of 3.5 per cent.

8. Income has increased by 18 per cent, and expenditure by 22 per cent. These movements over three years are somewhat ahead of inflation, which was 12.6 per cent over the period, measured by the Norfolk Island Retail Price Index. However, such movements are not sufficient to establish any strong trend.

Structure of the Norfolk Island Government Accounts

9. The Government accounts are structured around three funds:

- the Revenue Fund, which supports most Government services and gathers revenue from general government sources;
- the Administrative Services Fund, which is not managed as a totality, but provides a framework for each GBE to account separately for its operations; and
- the Trust Fund, which holds monies for management of longer term liabilities, such as suspense accounts for products or services yet to be provided, provision for long service leave and legal aid.

10. There is also a Loan Fund, in which any borrowing by the Government would be managed.

11. The GBEs in the Administrative Services Fund cover a variety of activities, some of which are expected to return a dividend to the Revenue Fund, some to be budget neutral and others to be subsidised. All the GBEs keep their accounts on general commercial accounting principles. They are not formally distinct bodies from the Norfolk Island Government:

Expected to return a dividend

- the Liquor Supply Service sells alcoholic beverages to the retail trade and the public;
- Postal Services provide mail services for the Island and philatelic sales;
- Norfolk Telecom provides local and international telecommunication services;

Expected to be budget neutral

- the Electricity Service provides government, business and residential electricity services;
- the Lighterage Service transports goods to and from visiting vessels;
- Norfolk Island Airport maintains the airport and provides runway and terminal services;

- the Water Assurance Scheme manages the reticulated sewerage scheme and monitors underground water quality;
- the Workers Compensation Scheme Fund provides workers compensation insurance cover;

Expected to be subsidised from the budget

- KAVHA Restoration manages the historic areas under a joint Norfolk and Commonwealth agreement¹;
- the Bicentennial Integrated Museums; and
- the Norfolk Island Healthcare Fund.

12. Two government services, the Norfolk Island Hospital Enterprise and the Tourist Bureau fall into a similar category to the GBEs, but are managed and operated as statutory bodies. Both maintain their own accounts, separate from those of the Government. Both receive a subsidy from the Revenue Fund.

13. The financial positions of all the funds and the GBEs are shown in summary in Table D-3 in Attachment D. The figures are drawn from the published accounts of the Norfolk Island Government and of its statutory bodies.

The Revenue Fund

14. The Revenue Fund is the main fund for management of the Government's finances.

15. **Revenue.** Figure 5-1 shows that taxes accounted for 57 per cent of the Revenue Fund's income in 1995-96, with Customs Duty alone providing nearly half of this. GBEs provided another 26 per cent. Figure 5-2 gives a breakdown of the 'Other taxes' sector, showing that this group was dominated by two taxes – the Financial Institutions Levy and Departure fees.

16. **Expenditure.** As shown at Figure 5-3, the social group of functions – education, health and welfare – comprised 33 per cent of expenditure in 1995-96, although this figure would be substantially higher if the gross hospital expenditures were included, as the data on which the figure is based include only the subsidy from the Revenue Fund to the hospital enterprise. Administration was the single largest area of expenditure at 21 per cent.

17. Details of expenditure on the smaller functions are shown at Figure 5-4.

¹ KAVHA also receives a Commonwealth subsidy.

Figure 5-1 REVENUE FUND – REVENUE, 1995-96

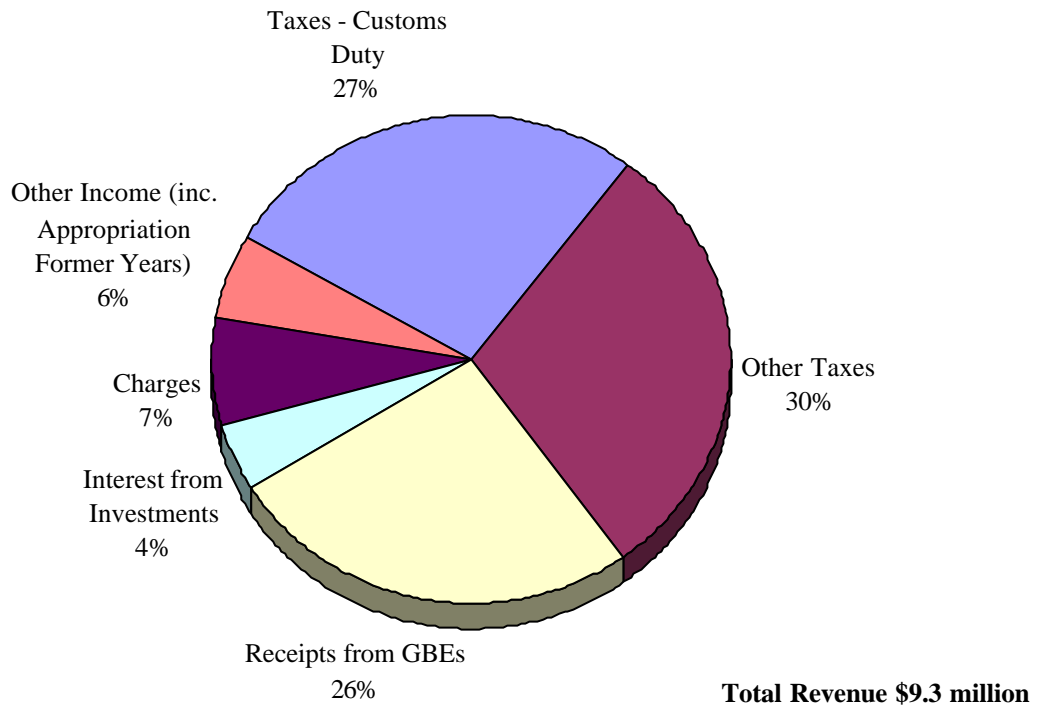


Figure 5-2 REVENUE FUND – OTHER TAXES, 1995-96

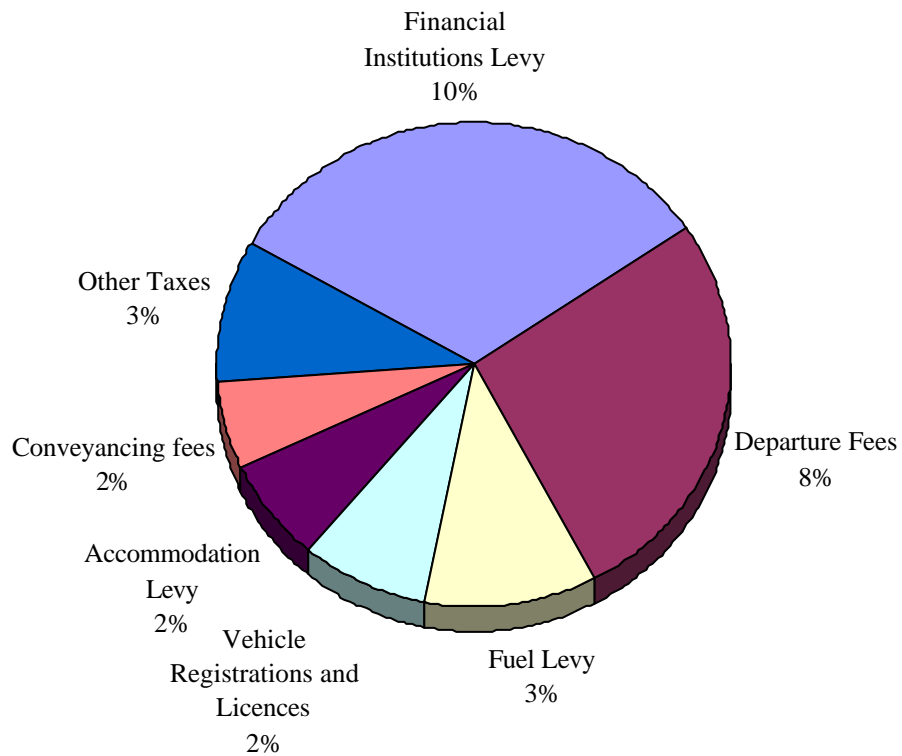


Figure 5-3 REVENUE FUND – EXPENDITURE 1995-96

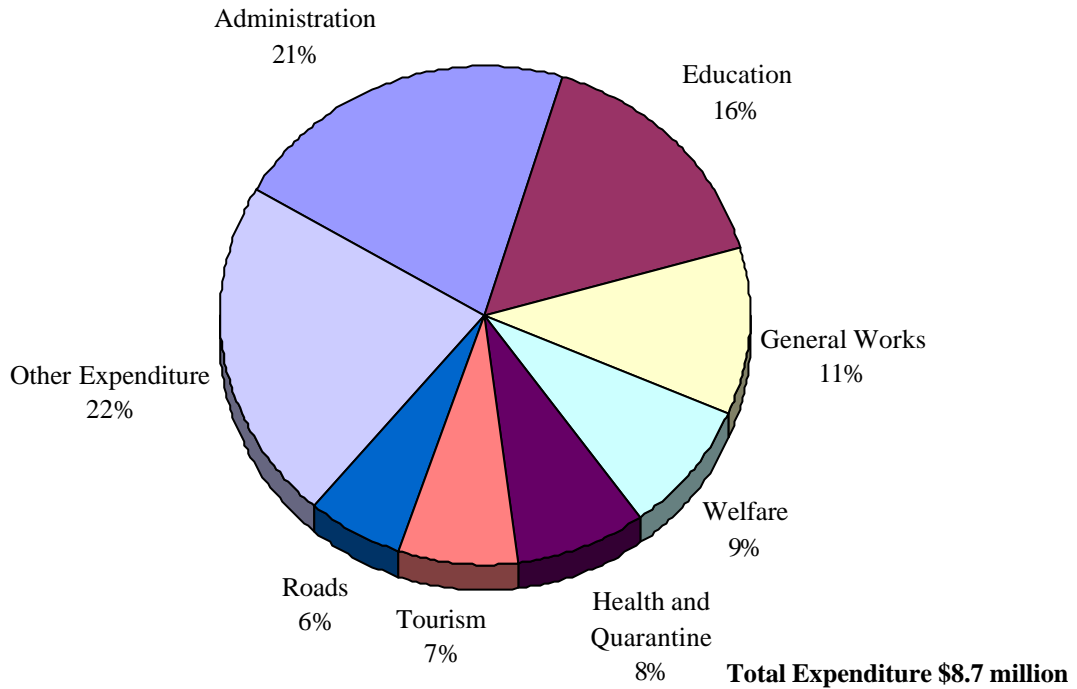
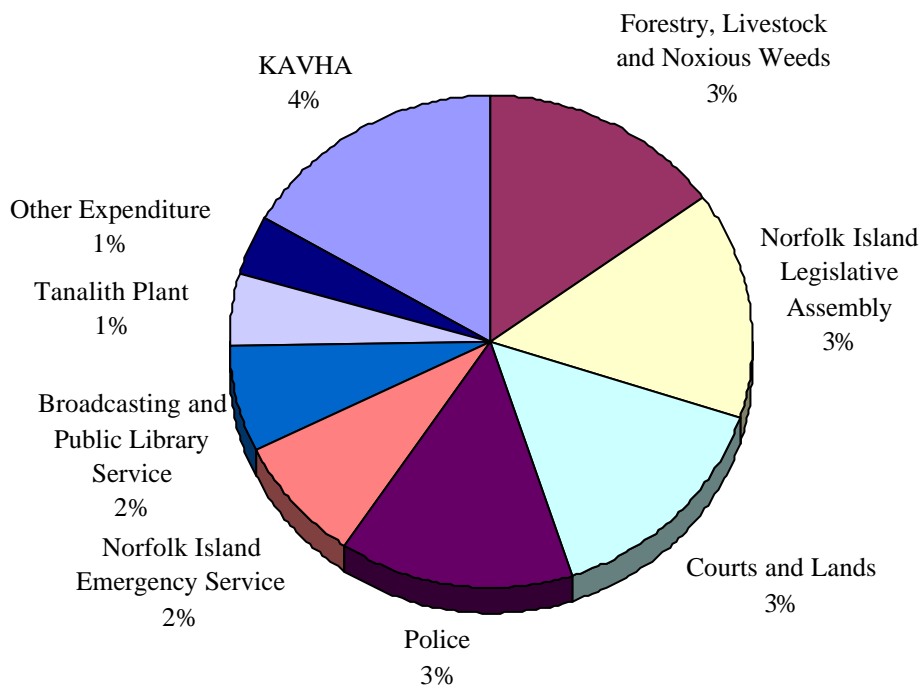


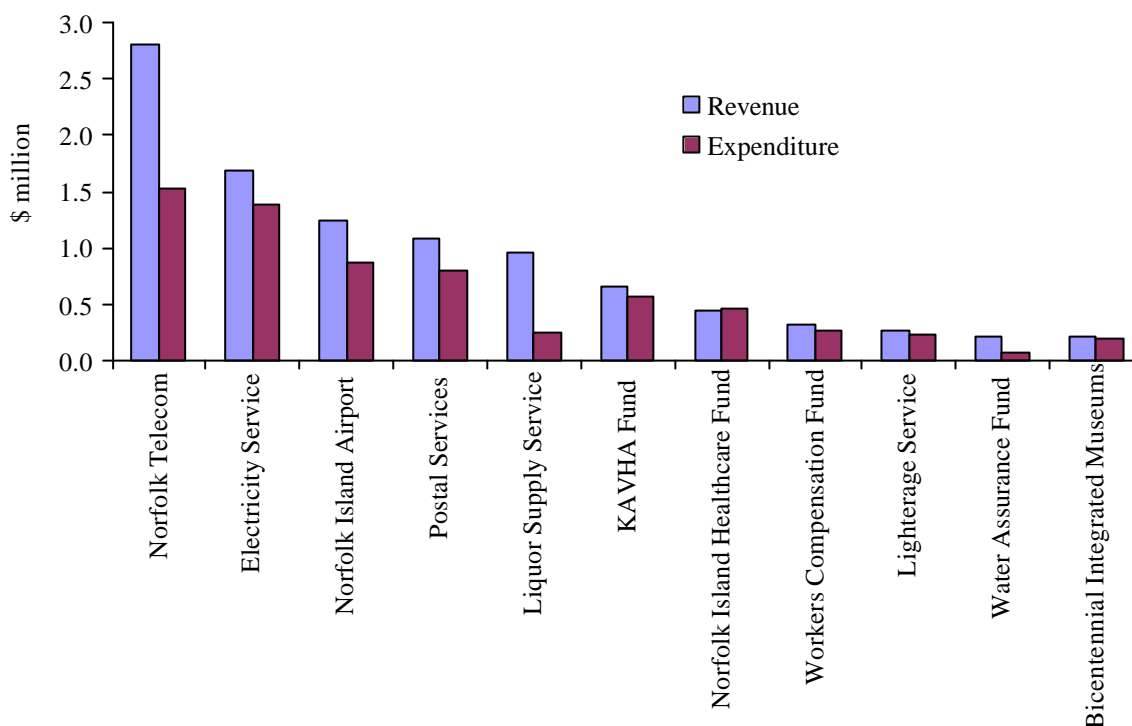
Figure 5-4 REVENUE FUND – OTHER EXPENDITURE, 1995-96



The Administrative Services Fund

18. The trading position of each GBE in 1995-96 is shown at Figure 5-5, drawn from their accounts reported in the Administrative Services Fund in the Government Accounts.

Figure 5-5 THE ADMINISTRATIVE SERVICES FUND – GOVERNMENT BUSINESS ENTERPRISES 1995-96



19. Norfolk Telecom, the Electricity Service, the Norfolk Island Airport, the Postal Services and Liquor Supply Service, in that order, had the largest turnovers in the year. However, if the total income² of the Liquor Supply Service were considered, it would rise to second in the list, after Norfolk Telecom. As shown at Figure 5-6, in 1995-96 the GBEs provided substantial payments, totalling \$3.1 million, to the Revenue Fund.

20. Excluding payments for services, six of the GBEs either provided dividends to the Revenue Fund, or received subsidies from it, as shown in Figure 5-7.

² That is, the full value of sales, rather than net of the cost of sales.

Figure 5-6 GOVERNMENT BUSINESS ENTERPRISES – TOTAL RETURNS TO THE REVENUE FUND 1995-96

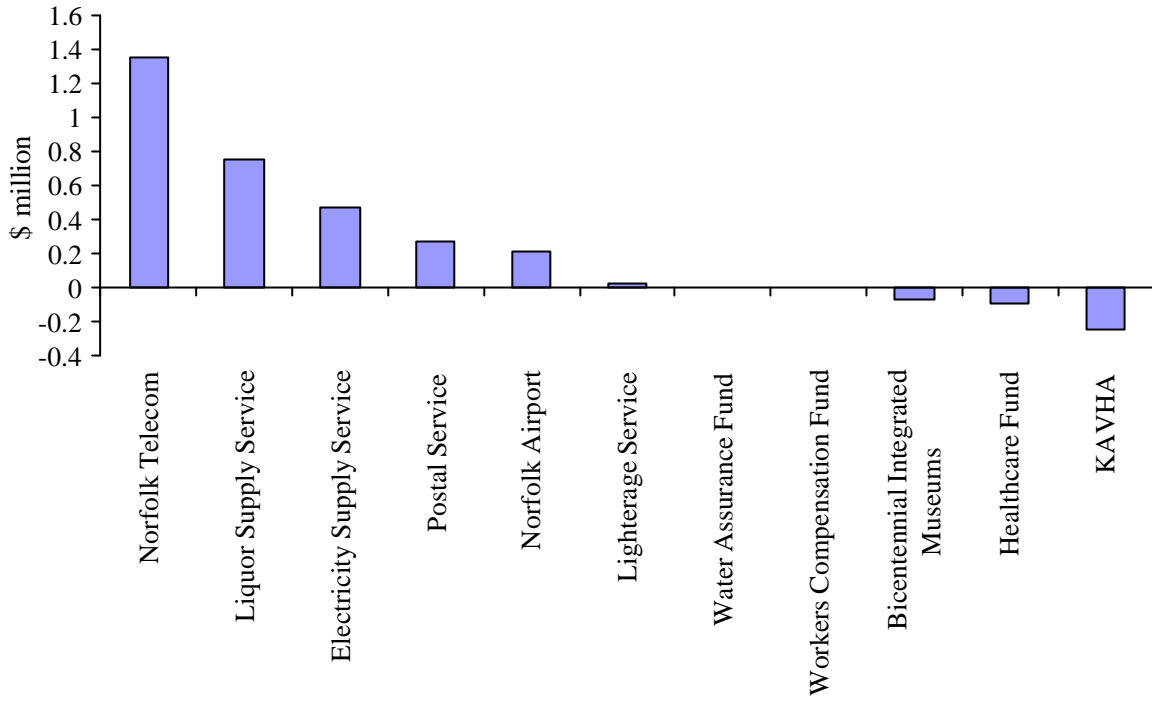
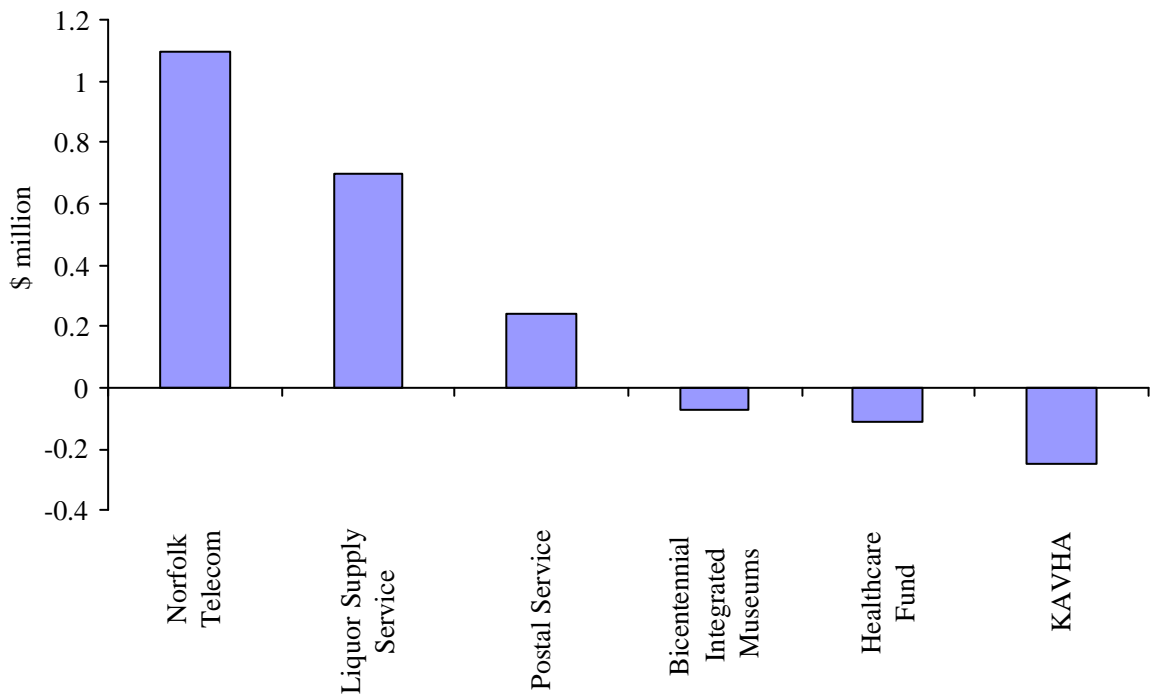


Figure 5-7 GOVERNMENT BUSINESS ENTERPRISES – DIVIDENDS AND SUBSIDIES 1995-96



21. The financial relationship between the Revenue Fund and each of the GBEs is shown in Table 5-2. About one third of the payments to the Revenue Fund were for expenses it incurred on behalf of the GBEs.

Table 5-2 TRANSACTIONS BETWEEN GOVERNMENT BUSINESS ENTERPRISES AND THE REVENUE FUND, 1995-96

GBEs	To Revenue Fund						From Revenue Fund (Subsidy)
	Dividend	Payments for Services				Total	
		Fee ^(a)	Rent	Interest ^(b)	Capital repaid		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Liquor Supply Service	700	20	30			50	750
Electricity Supply Service		80		45	349	475	475
Norfolk Telecom	1 100	90	15	17	134	256	1 356
Norfolk Airport		70	146			216	216
Lighterage Service		20		7		27	27
KAVHA							248
Bicentennial Museums							75
Water Assurance Fund		10				10	10
Healthcare Fund		10				10	10
Postal Service	240	20	12			32	272
Workers Compensation Fund		10				10	10
Total	2 040	330	203	69	483	1 085	3 126

(a) Fees for management and accounting services.

(b) Interest on capital subscribed by the Revenue fund between 1970 and 1978.

The Trust Fund

22. The Trust Fund provides suspense accounts for Revenue Fund purposes, for stamp orders and for phone cards. The Revenue Fund tops up the Trust Fund according to the Government estimate of outstanding liabilities at the end of the financial year. These top ups are shown as Revenue Fund expenditure for that year.

Chapter 5

23. In the following financial year, the outstanding liabilities are met from the Trust Fund suspense accounts. Any unused amounts are returned to the Revenue Fund as appropriations for former years.

24. The suspense provision for general liabilities of the Revenue Fund arising from the 1994-95 financial year was \$846 118, of which \$814 909 was used and the remainder returned to the Revenue Fund. A provision of \$821 928 was made for liabilities arising from the 1995-96 financial year.

25. The Trust Fund also holds provisions for long service leave, although not other employee entitlements, and for legal aid. In previous years, it was also used for some project activities, but during 1995-96 these were transferred to the Revenue and the Administrative Services Funds.

The Corporate Bodies

26. **Hospital.** The Hospital accounts for its own revenue and expenditure as set out in Table 5-3. It runs at a loss and is subsidised by the Revenue Fund. Both the loss and the subsidy increased over the period 1993-94 to 1995-96. When the subsidy is included, the Hospital operated at a small surplus in all three years.

Table 5-3 NORFOLK ISLAND HOSPITAL ACCOUNTS

	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000
Revenue			
Hospital	993	940	886
Dispensary	289	310	346
X-Ray	31	32	29
Laboratory	58	72	79
Dental Clinic	114	129	153
Physiotherapy	0	10	10
District Nursing Service	0	6	6
Mawson Units	0	10	10
Total Revenue	1 486	1 509	1 519
Expenditure			
Hospital	1 115	1 270	1 314
Dispensary	199	204	221
X-Ray	23	28	23
Laboratory	72	77	86
Dental Clinic	121	153	159
Physiotherapy	0	17	28
District Nursing Service	0	9	11
Mawson Units	0	7	10
Total Expenditure	1 529	1 763	1 851
Deficit	-43	-254	-333
Subsidy from Revenue Fund	289	264	505
Surplus after subsidy	246	10	171

27. Overall, the Hospital enterprise expenditures over the three years increased by 21.1 per cent, which is higher than the rate of inflation. The services associated with the hospital increased by 29.7 per cent, more than double the rate of inflation. Expenditures on the Hospital itself were contained to an increase of 17.8 per cent.

28. **Tourist Bureau.** The Tourist Bureau accounts for 1994-95 and 1995-96 are set out in Table 5-4. Although the Bureau operates as a separate entity from the Government, it receives most of its funding by way of grants from the Government, amounting to 87 per cent in 1995-96.

29. The Bureau operated in surplus in 1994-95 and with a small deficit in 1995-96. The increases in operating expenses, wages and salaries, together with the increase in the Government grant, were well ahead of inflation for 1995-96. They suggest a planned increase in activity in that year.

Table 5-4 NORFOLK ISLAND TOURIST BUREAU ACCOUNTS

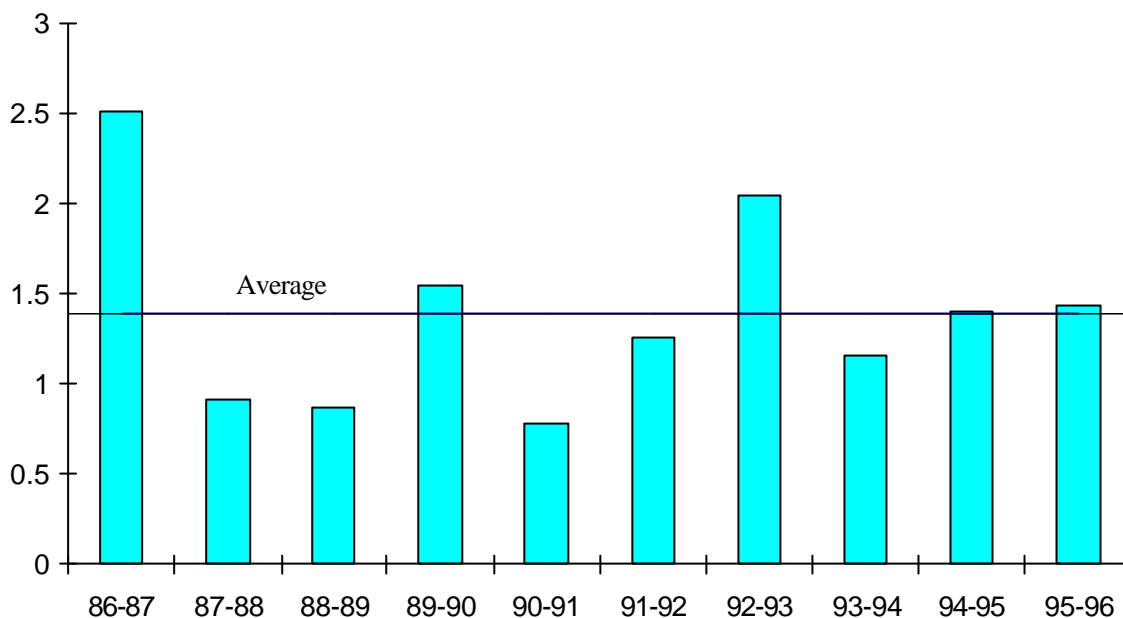
Description	1994-95	1995-96
	\$'000	\$'000
Revenue		
Sales	40	47
Advertising fees	47	26
Commission- Departure Fees	37	40
Commission- Other	17	19
Sundry	0	1
Interest Received	1	1
Total Revenue	142	133
Expenditure		
Purchases	30	38
Less Change in stock	-7	-8
Customs Duty	1	1
Operational Expenses	423	483
Wages and Salaries	232	260
Total Expenditure	678	774
Deficit	-537	-641
Subsidy from Revenue Fund	553	605
Surplus/Deficit after subsidy	16	-36

The Capital Program

30. Over the ten years 1986-87 to 1995-96, the average annual capital expenditure recorded in the Norfolk Island Government accounts, excluding the hospital and the tourist bureau, was \$1.4 million (although this includes expenditures of less than \$1000 recorded as capital). Expenditure from year to year has been highly variable, from around half to approaching twice the average amount. Figure 5-8 illustrates this variability.

31. A 'lumpy' capital expenditure history such as this, with no strong overall patterns or trends, arises in a small economy because of the periodic need for particular investment in the equipment and infrastructure of one or more of its services. The underlying pattern is more evident in spending on the individual services. The more detailed analysis at Table 5-5 shows that most services have one or a few years of expenditure substantially above the average, with others well below.

Figure 5-8 TOTAL CAPITAL EXPENDITURE BY THE NORFOLK ISLAND GOVERNMENT 1986-87 TO 1995-96^(a)



(a) Excluding the hospital and the tourist bureau.

Table 5-5 CAPITAL EXPENDITURE BY NORFOLK ISLAND GOVERNMENT, 1986-87 TO 1995-96

Service	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95	95-96	Ave
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue Fund	1 382	571	508	588	424	684	346	565	677	616	636
Liquor bond	3	43	25	9	6	7	1	1	1	5	10
Postal service	5	6	99	9	1	2	2	6	7	66	20
Electricity	846	69	69	621	44	8	190	235	223	452	276
Telecom	193	193	165	319	239	323	1 436	95	300	223	349
Lighterage	88	27	2	1	21	1	1	1	44	32	22
Airport					33	34	49	155	105	13	39
Water Assurance.						183	5	89	24	10	32
KAVHA							14			10	2
Museums				4	7	11	6	14	17	8	7
Workers Comp						3		2	1	1	1
Healthcare									1	1	0
Total	2 517	909	868	1 551	775	1 256	2 050	1 163	1 400	1 437	1 393

Source: These data have been taken from the Administration's *Summarised Consolidated Income and Expenditure Statements Period 1987-96*, November 1996.

Chapter 5

32. Some facilities are not included in the figures, for example the hospital. Further, because it covers only a ten year time span, the table does not necessarily reflect the full average long term capital expenditure needed by the Government for the services listed. A life cycle analysis, or projection over 30 years or more, would be needed to establish this.

The Balance Sheet

33. The accumulated funds of the Administration are set out in the consolidated balance sheet and summarised in Table 5-6 for the period 1991-92 to 1995-96.

34. The table does not include the assets of the Hospital or the Tourist Bureau. Nor does it include the assets of the Revenue Fund, because this Fund is reported on a cash basis. Revenue Fund assets had a value of \$920 000 at 30 June 1997 for vehicles, mobile plant, furniture and fittings and other equipment. The asset register does not include buildings, land, roads, bridges or public places. The Administration expects to include and value these items as part of a proposal to move to a version of the relevant Australian Accounting Standard from 1 July 1998.

35. The total value of assets, excluding those outlined above, increased by seven per cent over the five years, compared to inflation over the same period of almost 17 per cent. This represents a decline of almost ten per cent in their real value.

36. Over the five years, increases in the assets of the Revenue Fund, KAVHA and the Workers Compensation Scheme accounted for over two thirds of the dollar increase in total value of the Administration's assets. The major infrastructure assets of Norfolk Telecom, the Electricity Service and the Water Assurance Scheme showed a modest increase in dollar value, though less than inflation. The assets of the Airport showed a small decline in dollar value, amounting to a real decline of over 20 per cent.

Table 5-6 ADMINISTRATION ACCUMULATED FUNDS

	1991-92	1992-93	1993-94	1994-95	1995-96	Change 1991-92 to 1995-96
	\$'000	\$'000	\$'000	\$'000	\$'000	%
Revenue fund	642	383	249	594	1 195	86
Liquor supply service	540	540	540	540	540	0
Postal service	31	21	21	42	22	-29
Electricity service	2 065	2 117	2 283	2 527	2 315	12
Norfolk Telecom	2 347	2 560	2 790	2 747	2 549	9
Lighterage service	208	187	182	165	193	-7
Norfolk Island airport	8 222	8 180	8 235	8 169	7 921	-4
Water assurance fund	4 512	4 584	4 640	4 722	4 796	6
KAVHA fund ^(a)	-6	55	42	20	97	36
Bicentennial integrated museums	19	16	1	7	19	0
Workers compensation scheme ^(b)	-7	24	141	186	223	829
Healthcare fund ^(c)	na	na	66	4	-8	na
Trust fund	0	0	0	0	0	0
Total	18 572	18 668	19 190	19 724	19 860	7
Inflation (Norfolk Island Retail Price Index)	2.8%	0.9%	5.5%	3.4%	3.2%	16.7%

(a) Change is calculated from 1992-93, as liabilities exceeded assets in 1991-92.

(b) The Workers Compensation Scheme Fund commenced in November 1991. The 1991-92 figure represents eight months of operation. Change is calculated from 1992-93, as liabilities exceeded assets in 1991-92.

(c) Before 1 July 1993, the Healthcare Fund was reported as part of the Hospital Enterprise.

37. The movements in the value of total assets are principally a result of changes in cash held at the bank and changes in the value of fixed assets. These changes are set out in Tables 5-7 and 5-8.

38. **Cash balances.** The Administration's cash holdings increased by 41 per cent over the five years to 1995-96. This reflects a sharp upturn in the last two years. The major component of this is an increase of almost \$1.2 million in the cash holding of the Airport over those two years. The next contributor is the Revenue Fund, with an increase of

\$900 000. Over half of its increase is due to capital repayments in 1995-96 from the Electricity Service and Norfolk Telecom³.

Table 5-7 NORFOLK ISLAND CASH BALANCES, 1991-92 TO 1995-96

	1991-92	1992-93	1993-94	1994-95	1995-96	Change 1991-92 to 1995-96
	\$'000	\$'000	\$'000	\$'000	\$'000	%
Revenue fund	554	238	214	566	1 144	106
Liquor supply service	236	182	254	184	261	11
Postal service	84	57	192	47	60	-29
Electricity service	267	375	400	656	272	2
Norfolk Telecom	1 191	598	490	582	119	-90
Lighterage service	2	38	24	12	0	-100
Norfolk Island Airport	462	1 014	1 573	2 110	2 752	496
Water assurance fund ^(a)	0	115	163	298	420	265
KAVHA fund	129	126	133	140	246	91
Bicentennial integrated museums	4	0	0	6	2	-50
Workers compensation scheme ^(b)	0	0	113	132	155	37
Healthcare fund ^(c)	71	na	66	2	18	-75
Trust fund ^(d)	1 610	1 410	752	989	1 038	-36
Total	4 610	4 152	4 375	5 723	6 487	41

(a) Change calculated from 1992-93.

(b) Change calculated from 1993-94.

(c) Adjusted in 1991-92 to include the Healthcare Fund. Before 1 July 1993 the Healthcare Fund was reported as part of the Hospital Enterprise.

(d) Adjusted in 1991-92, 1992-93 and 1993-94 to show the Island Fund against the Revenue Fund. The Island Fund was closed in September 1994 and the balance transferred to the Revenue Fund.

Source: The Administration of Norfolk Island, *Financial Statements*, Year ended 30 June 1996.

39. **Fixed assets.** Table 5-8 shows that over the five years to 1995-96 Norfolk Island Telecom and the Electricity Service increased the value of their fixed assets well

³ See Table 5-2.

ahead of inflation, reflecting a continuing investment in infrastructure. The Airport shows a real decline in the value of its assets. This reflects in part the terminal redevelopment project that was planned in 1995-96, but has not yet proceeded. Overall, the value of the administration's fixed assets declined by nine per cent in dollar terms, or over 25 per cent in real terms.

40. *The assets position.* The build up in cash holdings is somewhat ahead of the reduction in value of fixed assets in dollar terms. This would allow the Revenue Fund and the Airport to fund a great deal of capital expenditure without reducing their cash reserves below a prudent level.

Table 5-8 ADMINISTRATION FIXED ASSETS^(a)

	1991-92	1992-93	1993-94	1994-95	1995-96	Change 1991-92 to 1995-96
	\$'000	\$'000	\$'000	\$'000	\$'000	%
Electricity service	1 442	1 448	1 518	1 574	1 859	29
Norfolk Telecom	1 132	2 254	2 125	2 191	2 158	91
Lighterage service	101	81	70	104	120	19
Norfolk Island airport	7 500	6 893	6 445	5 817	4 944	-34
Water assurance fund	4 488	4 425	4 443	4 394	4 330	-4
Workers compensation scheme	3	2	3	3	2	-33
Healthcare fund	na	na	0	0	1	na
Total	14 665	15 103	14 605	14 083	13 414	-9

(a) The GBEs not shown in this table have their fixed assets vested in the Revenue Fund. Revenue Fund fixed assets are not shown in the Administration's financial statements.

A NORFOLK ISLAND FISCUS

Interpreting the Accounts

41. Our interest in the accounts is what they show about the delivery of services, their cost and how they are funded. The structure and presentation of the Norfolk Island Government accounts sometimes make it hard to reach conclusions. For example, the financing of some services is split between the Revenue Fund and GBEs or corporate bodies, and there are extensive interactions between the various Funds. In addition, there is funding from the Commonwealth for some matters. If the true cost of service delivery is to

be made clear, all the relationships need to be untangled and related expenditures drawn together.

42. To provide a framework for this, the Commission has developed a fiscus. Because of its focus on services, the fiscus deals with recurrent expenditures and capital expenditures separately.

What is a Fiscus?

43. A fiscus brings together all the public sector revenues and expenditures relating to a community, irrespective of the agency responsible for them. All revenues are collected together, and so are all expenditures. Other presentations, such as the Commonwealth and Norfolk Island consolidated accounts, use net figures for public enterprises and other elements — revenues after operating expenditures are what is taken into account. To this extent these presentations, unlike the fiscus, do not state the total volume of money passing through the public purse.

44. The fiscus for Norfolk Island provides financial data to assist the Commission to answer the Terms of Reference of the inquiry. In constructing the fiscus, we have sought to answer a number of questions.

- (i) How much does the Norfolk Island Government spend on each of its services (including infrastructure) and what revenues does it raise?
- (ii) What Commonwealth expenditures are undertaken on the Island?
- (iii) What is the total impact on the Commonwealth budget of the existence of Norfolk Island, in terms of both expenditure and revenue?
- (iv) How financially self reliant is the Norfolk Island Government and what contribution does the Commonwealth make?
- (v) How do the levels of expenditure and revenue raised on Norfolk Island from all sources and by both governments compare with those of the mainland and other external Territories?

Developing the Fiscus

45. The fiscus sets out:

- to show revenues where they are generated;
- to show expenditures where they are spent; and
- to exclude transfers between funds or accounts which have no net impact on revenues or expenditures.

46. This means, for example, that Commonwealth subsidies to KAVHA are not shown as Norfolk Island Government revenue, but as Commonwealth expenditure. It means also that revenue generated from GBEs is shown against the GBEs, and expenditure within the Revenue Fund on management and accounting for the GBEs is shown against the Revenue Fund.

47. A further issue complicates the putting together of a fiscus. The accounts of other jurisdictions are at present compiled on a cash basis, but the Norfolk Island Government accounts on a partial accrual basis. Despite the advantages of accrual accounting, it has been thought better to maintain comparability and to adjust the Island accounts to put them on a cash footing. All differences are fully reconciled to the Island's published financial statements; the reconciliations are shown at Tables D-7 to D-10 in Attachment D.

48. The analysis has been based on:

- Norfolk Island Government Financial Statements;
- Program Budget Papers of the Territories Office, Department of the Environment, Sport and Territories;
- submissions to this inquiry;
- responses by Commonwealth Departments and Agencies to a Territories Office Survey; and
- Commission material developed in the course of its normal work.

49. The rest of this chapter outlines the main features of the analysis. A full description of the fiscus and how it has been derived is in Attachment D.

50. To make the interrelationships as clear as possible, the fiscus presentation is separated into four groups of tables showing:

- income gathered by the Norfolk Island Government and its related statutory bodies on the Island, and expenditures by them;
- Commonwealth revenue raised related to Norfolk Island;
- Commonwealth expenditure actually on the Island (that is, contributing to its economy); and
- Commonwealth expenditure related to Norfolk Island, but making no direct contribution to its economy.

A FISCUS PRESENTATION OF THE NORFOLK ACCOUNTS

Norfolk Island Public Recurrent Accounts

51. **Revenues.** Table 5-9 presents the Norfolk Island public revenues adjusted in accordance with the fiscus. The table shows a total revenue of \$18.5 million for 1995-96, higher by \$2.5 million than that shown as the Island's income in the consolidated accounts (see Table 5-1).

52. The explanation of the difference is that the fiscus:

- includes all monies gathered by the government and its associated statutory bodies (for example, the gross sales of the liquor supply service);
- excludes monies sourced from the Commonwealth; and
- classifies the 'appropriations for former years' as an expenditure offset rather than a revenue, since it is a 'refund' from the Trust Fund of Revenue Fund expenditure.

53. Both this presentation and the Government accounts show the heavy reliance of the Norfolk Island public sector on income from the GBEs and statutory bodies, at over 60 per cent of total revenues.

Table 5-9 FISCUS — NORFOLK ISLAND PUBLIC REVENUES

	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000
Revenue Fund Income			
Customs Duty	2 041	2 343	2 518
Financial Institutions Levy	833	813	891
Departure Fees	570	702	731
Fuel Levy	167	299	302
Company Fees	54	51	47
Accommodation Levy	77	189	197
Stamp Duty On Cheques	24	23	20
Absentee Landowners Levy	62	67	59
Liquor Licence Fees	55	55	55
Conveyancing Fees	111	108	157
Tattersalls Lotteries, Commission	45	64	81
Vehicle Registrations and Licences	204	214	219
Interest from Investments	189	278	409
Other Charges	430	392	472
Total Revenue Fund Income	4 862	5 599	6 159
Administrative Fund Income (GBE's)			
Liquor Supply Service	2 146	2 296	2 519
NI Postal Services	686	797	1 085
NI Electricity Service	1 576	1 645	1 686
NI Telecom	2 376	2 821	2 814
NI Lighterage Service	266	278	281
NI Airport	1 228	1 203	1 249
Water Assurance Fund	207	216	220
KAVHA Fund	6	13	17
NI Bicentennial Integrated Museums	95	111	127
Workers Compensation Fund	323	295	317
NI Healthcare Fund	323	317	338
Total Administrative Services Fund (GBEs) Income	9 232	9 992	10 653
Statutory Bodies			
NI Hospital	1 486	1 509	1 519
Tourist Bureau		142	134
Total Statutory Bodies	1 486	1 651	1 653
Total Revenue	15 580	17 242	18465

54. *Recurrent expenditures.* Table 5-10 shows the Norfolk Island public recurrent expenditures adjusted by fiscus principles. At \$16.4 million for 1995-96, total expenditures are higher by \$2.4 million than those shown in the consolidated accounts (Table 5-1) because they include the hospital expenditures, the tourist bureau expenditures and the Liquor Supply Service cost of sales, but exclude all subsidies to GBEs.

Table 5-10 FISCUS — NORFOLK ISLAND PUBLIC RECURRENT EXPENDITURES

	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000
Revenue Fund Expenditure			
Administrative	1 477	1 555	1 789
Health (incl. quarantine)	79	90	85
Education	1 203	1 235	1 280
Welfare	704	691	749
Courts & Lands	122	109	283
Police	183	193	195
Broadcasting and Public Library Service	113	110	131
NI Legislative Assembly	401	407	287
Tourism	469	31	28
Roads	314	240	249
Forestry, Livestock & Noxious Weeds	314	228	276
Tanalith Plant	62	73	83
General Works	639	751	796
NI Emergency Services	17	142	150
KAVHA Fund	0	0	0
Other Expenditure	6	25	74
Suspense Account Provision – Recurrent	31	62	106
Appropriation Former Years	-55	-40	-47
Total Revenue Fund Expenditure	6 079	5 902	6 514
Administrative Fund Expenditure (GBEs)			
Liquor Supply Service	1 438	1 577	1 764
NI Postal Services	628	587	768
NI Electricity Service	1 019	1 108	1 257
NI Telecom	1 009	1 424	1 401
NI Lighterage Service	178	209	210
NI Airport	405	333	663
Water Assurance Fund	69	51	77
KAVHA Fund	211	254	177
NI Bicentennial Integrated Museums	166	184	183
Workers Compensation Fund	195	237	267
NI Healthcare Fund	382	519	450
Total Administrative Fund Expenditure (GBEs)	5 700	6 483	7 217
Statutory Bodies			
NI Hospital	1 529	1 763	1 851
Tourist Bureau		678	774
Total Statutory Bodies	1 529	2 441	2 625
Total Expenditure	13 308	14 826	16 356

55. *Norfolk Island capital expenditures.* The Norfolk Island capital expenditures shown in Table 5-1 do not need any adjustment for the fiscus.

56. *The bottom line.* The comparison of public expenditures and revenues at Table 5-11 confirms that the underlying financial position of the Norfolk Island public sector is a consistent surplus.

Table 5-11 FISCUS — THE NET FINANCIAL POSITION OF THE NORFOLK ISLAND PUBLIC SECTOR

	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000
Revenue	15 580	17 242	18 465
Expenditure			
Recurrent Expenditure	13 308	14 826	16 356
Capital Expenditure	1 163	1 400	1 437
Total expenditure	14 471	16 226	17 793
Surplus	1 109	1 016	672

COMMONWEALTH REVENUES AND EXPENDITURES

Commonwealth Revenues from Norfolk Island

57. The Commonwealth raises no tax direct from Norfolk Island. However, income tax and indirect taxes are paid by some people giving Norfolk Island as their postal address, and some revenue is gained from fishing in the Exclusive Economic Zone. Other sources identified as contributing to the Commonwealth revenue are income tax on the earnings of companies exporting to or operating on Norfolk Island, and Telstra charges to Norfolk Island for telecommunications. Estimates of amounts involved are in Table 5-12. These estimates are indicative only, as specific data are mostly not available.

Table 5-12 FISCUS—COMMONWEALTH REVENUES RAISED FROM NORFOLK ISLAND

Function	Agency	1993-94	1994-95	1995-96
		\$'000	\$'000	\$'000
Income Taxes				
On company profits ^(a)	Australian Taxation Office	180	180	180
On Telstra profit ^(b)	Australian Taxation Office	48	48	48
On individuals ^(c)	Australian Taxation Office	300	300	300
Total income taxes		528	528	528
Other Revenues				
Indirect Tax Paid By NI Visitors to Mainland ^(d)	Australian Taxation Office and Australian Customs Service	480	480	480
Fishing Licences ^(e)	Department of Primary Industry	50	41	59
Total other revenues		530	521	539
Total		1 058	1 049	1 067

- (a) Estimated for banks assuming \$6.5 million in Norfolk Island Government bank accounts, and household savings at the same rate as Australia (giving approx \$4 200 for each household for 802 households), then applying a three per cent real rate of return for the banks and 30 per cent tax. For the rest of the business sector, assumed to be equally as large.
- (b) Estimated at 30 per cent tax on a margin of 20 per cent on annual charges of around \$800 000.
- (c) From ATO *Taxation Statistics 1994-95*; this is the amount of tax paid on taxable incomes totalling \$1.9 million.
- (d) Estimated on the basis of \$100 spent each day by each visitor, 3.5 per cent on average of Norfolk Island residents in Australia, tax at average of 21 per cent. Long term Norfolk Island residents of Australia are excluded.
- (e) AFMA advice, except 1993-94, which is estimated as the average of the next two years.

58. One submission quoted calculations in an article *The Colony that pays its way* in an edition of the Norfolk Island News in 1991. That article gave an estimate about three times larger than the above. However, most of the amounts involved would appear to relate to total amounts entering the mainland, whereas Table 5-12 calculates the Commonwealth tax take on such amounts. We have taken no account of indirect taxes that would have been paid to the Commonwealth by Australian residents holidaying on Norfolk Island had they holidayed instead on the mainland. For this reason, and because the personal income tax estimate relates to income earned on the mainland from assets held on the mainland, the totals in Table 5-12 are almost certainly over estimates.

Commonwealth Expenditures on Norfolk Island

59. ***Recurrent expenditures.*** The Commonwealth government spends money on a range of services that relate to Norfolk Island. Some of these expenditures actually occur on Norfolk Island, and so benefit the Norfolk Island economy. They include, for example, the salaries of the Administrator and officers seconded to Norfolk Island, but exclude the salaries of Territories Office staff based in Canberra. They also exclude services by Commonwealth Departments such as Defence Medivac flights which, while of direct benefit to the Island, do not involve expenditures there.

60. On this basis, the Commission estimates that the Commonwealth spent an average of \$3.5 million a year on Norfolk Island over the three years to 1995-96. Details are at Table 5-13. Of the total of \$3.5 million, an average of \$980 000 a year was spent in support of matters that are the direct responsibility of the Norfolk Island Government.

Table 5-13 FISCUS – COMMONWEALTH EXPENDITURE ON NORFOLK ISLAND

Function	Agency	1993-94	1994-95	1995-96
		\$'000	\$'000	\$'000
Commonwealth Support for Norfolk Island Responsibilities				
Administration	Territories Office	476	331	635
Courts	Attorney Generals	0	6	4
Culture	National Library of Australia	4	5	8
Employment & Training	DEETYA	0	128	347
Emergency Services	Emergency Management Aust.	5	26	8
Welfare	Dept of Health, Family Services and Dept of Social Security	6	6	5
Air Services	Airservices Australia	97	49	66
	Commonwealth Grant for Airport	45	0	0
KAVHA	Commonwealth Grant to KAVHA Fund ^(a)	185	189	196
Total Norfolk Island responsibilities		817	738	1 395
Commonwealth Responsibilities				
Policing	AFP ^(b)	221	98	113
Communications	Telstra	330	318	242
	IPS Radio & Space Services	20	20	20
Culture	Dept of Communications and Arts	0	0	3
	Dept of Veteran's Affairs	0	5	0
Defence	Dept of Defence	765	0	0
Veteran's Pensions	Dept of Veteran's Affairs	829	870	805
Primary Industry	AFMA	1	5	8
	AGSO	5	12	13
Environment	Environment Priorities & Coordination Group	0	0	61
	Bureau of Meteorology	240	246	277
	Environmental Protection Group	0	0	3
National Parks	Parks Australia	462	366	659
	Commonwealth Grant to KAVHA Fund ^(a)	185	189	196
Total Commonwealth Responsibility		3 058	2 130	2 400
Total		3 875	2 869	3 795

(a) Split 50/50 in line with the joint responsibility for KAVHA.

(b) This is approximately 30 per cent of full policing expenditure, the part attributable to Federal policing.

61. The remainder was spent on matters of Commonwealth responsibility. The single largest element of these expenditures was by Veteran's Affairs, followed by Parks Australia and the Territories Office.

62. While all of these expenditures were undertaken to meet Commonwealth obligations on the Island, some of them may occur there only because Norfolk Island is a convenient location. These expenditures, totalling \$560 000 in 1995-96, are Communication (\$261 752), Defence (\$0, but \$765 000 in 1993-94), Primary Industry (\$21 247) and the Bureau of Meteorology (\$277 038).

63. *Capital expenditures.* The most recent capital expenditure by the Commonwealth was in 1993-94 for the new police station. The Commonwealth contributed \$140 000 and the Norfolk Island Administration \$160 000. The AFP also contributed \$15 000 of surplus furniture to fit out the station. The amounts involved are included in Table 5-13. Some other amounts in Table 5-13 include capital elements, for example for Emergency Services and Communications, but these have not been separately identified.

64. Earlier expenditures were \$2.5 million in 1991 for airport runway upgrading, and \$2.1 million towards the reticulated sewerage system commissioned in 1991.

Commonwealth Expenditures related to, but not on, Norfolk Island

65. In addition to expenditures on Norfolk Island, the Commonwealth undertakes a range of activities which are of direct benefit to the Island, although not to its economy. They include emergency evacuations and that part of the activities of the Territories Office which relate to representation of Norfolk Island affairs on the mainland. Estimates of expenditures on these activities are in Table 5-14. These expenditures averaged just under \$500 000 a year.

Table 5-14 FISCUS – COMMONWEALTH EXPENDITURE RELATING TO, BUT NOT SPENT ON, NORFOLK ISLAND

Function	Agency	1993-94	1994-95	1995-96
		\$'000	\$'000	\$'000
Administration	Territories Office	185	301	198
	Dept of PM & C	1	1	1
Medivac Flights	Dept of Defence	100	100	100
Immigration/Foreign Affairs	Dept of Foreign Affairs and Trade	120	120	120
	Dept of Immigration & Multicultural Affairs	1	46	8
Total		407	568	427

The Commonwealth Bottom Line

66. As shown in Table 5-15, the Commonwealth deficit in relation to Norfolk Island averages around \$2.9 million a year.

Table 5-15 THE NET POSITION OF THE COMMONWEALTH

	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000
Revenue from Norfolk Island	1 058	1 049	1 067
Expenditure in relation to Norfolk Island			
Expenditure on Norfolk Island			
on Norfolk Island responsibilities	817	738	1 395
on Commonwealth responsibilities	3 058	2 130	2 400
Total on Norfolk Island	3 875	2 869	3 795
Relating to Norfolk Island	407	568	427
Total Expenditure	4 282	3 437	4 222
Deficit	-3 224	-2 388	-3 155

Commonwealth Expenditures Indirectly Benefiting Norfolk Island

67. The Commonwealth provides a range of benefits to all residents of Australia, although some would not be apparent in the daily life of their community. These benefits include the defence, foreign affairs and trade umbrellas, and also diverse matters such as international cooperative arrangements on many activities, management of Australia's Exclusive Economic Zone, weather forecasting, and national broadcasting. As these benefits are mostly intangible, they have not been included in the above analysis. However, for indicative purposes, it is perhaps worth noting that Norfolk Island's share of the defence, foreign affairs and trade umbrellas would be some \$1.0 million each year, allocated on a per capita basis. This has not been included in the expenditures shown in Table 5-11.

68. Norfolk Islanders benefit from their access to mainland services, such as education and health, when they are resident there. However, they also pay taxes during their residency, which benefit the mainland governments. No attempt has been made to quantify the effect, both because such transactions do not directly impact on the Norfolk Island economy, and because of lack of suitable estimates.

THE COMPLETE FISCUS PICTURE FOR NORFOLK ISLAND

69. Tables 5-9 to 5-15 are summarised in Table 5-16. It shows that the total expenditures by governments on Norfolk Island exceed the revenue they raise by an average of \$2.6 million a year. This reduces to \$2 million a year if revenue and expenditures not raised or spent on the Island are included. While the Norfolk Island Government is in

surplus, the Commonwealth is in deficit with regard to the Island, and the overall position therefore reflects a net public sector deficit.

Table 5-16 SUMMARY FISCUS FOR NORFOLK ISLAND

	1993-94	1994-95	1995-96
	\$'000	\$'000	\$'000
Revenue			
Norfolk Island public revenue	15 580	17 242	18 465
Commonwealth Revenue from Norfolk Island	1 058	1 049	1 067
Total Revenue	16 638	18 291	19 532
Expenditure			
On Norfolk Island			
Norfolk Island public recurrent expenditure	13 308	14 826	16 356
Norfolk Island public capital expenditure	1 163	1 400	1 437
Commonwealth expenditure (Norfolk Island responsibilities)	817	738	1 395
Commonwealth expenditure (Commonwealth responsibilities)	3 058	2 130	2 400
Total on Norfolk Island	18 346	19 094	21 588
Relating to Norfolk Island (Commonwealth)	407	568	427
Total Expenditure	18 753	19 662	22 015
Balance (Deficit)			
On Norfolk Island	-2 766	-1 852	-3 123
On and off Norfolk Island	-2 115	-1 371	-2 483

The Financial Independence of Norfolk Island

70. On the mainland, much of the activity of State, Territory and local governments is funded by grants from the Commonwealth. The extent to which governments rely on higher levels of government in this way is known as the *dependency ratio*. A lower ratio indicates a greater financial independence.

71. Greater financial independence is not always advantageous, because the dependency ratios in part reflect mechanisms for the justified transfer of funding between jurisdictions and between levels of government. Such transfers allow governments to address areas of particular need.

72. Table 5-17 gives some benchmark figures for the mainland and for Christmas Island. By comparison, the Norfolk Island Government has a dependency ratio of about eight per cent on recurrent expenditure⁴. However, no other jurisdiction has had Commonwealth taxing powers devolved to it as has Norfolk Island. If the Commonwealth were to withdraw these powers (which bring in revenue of at least \$3.2 million a year for

⁴ From Table 5-16, total recurrent expenditure in 1995-96 on Norfolk Island Government responsibilities is \$17.751 million, of which \$16.356 million is by that government, and \$1.395 million by the Commonwealth.

customs duty and departure taxes alone), and if it were to return the equivalent revenue in the form of grants, Norfolk Island's dependency ratio would rise to 28 per cent. This would still be a comparatively low figure.

Table 5-17 DEPENDENCY RATIOS^(a) — SOME BENCHMARKS

Dependency ratio	Christmas Island 1994-95	Australian average 1994-95	Northern Territory 1994-95
	%	%	%
State recurrent	34	44	78
State capital	89	25	31
Local government total	88	16	36

(a) The dependency ratio is the percentage of expenditure funded by higher levels of government, through general revenue and specific purpose payments (or, in the case of Christmas Island, direct funding).

73. As an indication of the levels of assistance jurisdictions receive through the system of grants, Table 5-18 shows the per capita grants received by the States, Territories and Christmas Island from the Commonwealth in 1994-95.

Table 5-18 COMMONWEALTH RECURRENT AND CAPITAL GRANTS TO CHRISTMAS ISLAND AND THE STATES, PER CAPITA, 1994-95

	CI ^(a)	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Recurrent	3 115	1 473	1 484	1 650	1 799	1 924	2 211	1 759	6 180	1 645
Capital	8 481	164	119	149	132	222	152	100	420	153

(a) The Christmas Island grants include notional General Revenue Grants and actual Special Purpose Payments.

Revenue and Expenditure Comparisons

74. The fiscus can be used as a framework for comparing the pattern of Norfolk Island revenue raising and expenditure with that of other jurisdictions. Such comparisons do not necessarily imply that one pattern is better than any other. Differences can be due to many factors, including physical and geographical characteristics, population composition, concentration and dispersion, and remoteness. They can of course also be due to policy.

75. Attachment D includes comparative material for Christmas Island and mainland Territories, as well as Norfolk Island and the mainland overall. This material underlies the analysis in the following chapters.

CONCLUSIONS

76. The Norfolk Island Government has been in surplus in recent years. The Commonwealth has been operating in deficit in relation to the Island. Net revenues and expenditures associated with the Island from all public sources show a small net deficit.

77. Norfolk Island is not substantially dependent on Commonwealth revenues. This is partly because of the range of taxing powers the Commonwealth has devolved to it.