

**Norfolk**



**Island**

**THE GOVERNMENT OF NORFOLK ISLAND**

**SUBMISSION TO COMMONWEALTH GRANTS COMMISSION  
INQUIRY 2006**

**INTRODUCTION**

The Norfolk Island Government (NIG) understands that the Commonwealth Grants Commission (CGC) is proceeding with its Review of the Financial Capacity of Norfolk Island (2006) under the draft terms of reference published in March 2006. Those terms of reference require the Grants Commission to consider “the circumstances of the Island”.

Therefore, in making this submission the Norfolk Island Government considers it important to remind the CGC and the Commonwealth Government as to Norfolk Island’s social, administrative and political development and the special circumstances which impact on service delivery.

**Preamble to Main Findings – Commonwealth Grants Commission Report 1997**

“Norfolk Island is unique. In judging the services, infrastructure needs and revenue raising on the Island, account must be taken of the demographic, social and cultural aspects of the community, the location and physical characteristics of the Island and its economic and financial capabilities (Chapter 2, para 19)”

This situation has not changed.

**Preamble to *Norfolk Island Act 1979***

“...AND WHEREAS the residents of Norfolk Island include descendants of the settlers from Pitcairn Island:

AND WHEREAS the Parliament recognises the special relationship of the said descendants with Norfolk Island and their desire to preserve their traditions and culture:

AND WHEREAS the Parliament considers it to be desirable and to be the wish of the people of Norfolk Island that Norfolk Island achieve, over a period of time, internal self-government as a Territory under the authority of the Commonwealth and, to that end, to provide, among other things, for the establishment of a representative Legislative Assembly and of other separate political and administrative institutions on Norfolk Island.”

This desire has not changed.

## **BACKGROUND TO INTERNAL SELF-GOVERNMENT**

The CGC Report in summarising Commonwealth Policy on Norfolk Island since 1979 reported that the Commonwealth followed the recommendations of the Nimmo Royal Commission (1976):

“The Commission envisages the transfer to the Assembly of most of the present sources of revenue in the Island. It is admittedly a unique method of providing revenue for a local government body, but the Island’s unique and individualistic character warrants it. There is no sense in disturbing a revenue raising system that is efficient and effective and a colourful feature of the history of one of Australia’s territories by dividing the sources of revenue between the Assembly and the Commonwealth”. (Chapter 3 para 20)

**This is what the current terms of reference given to the CGC requires the CGC to do. That is, divide the sources of revenue between the Assembly and the Commonwealth.**

### **Inadequacy of CGC Terms of Reference**

The NIG is of the opinion that the draft terms of reference for the current CGC inquiry are incomplete and inadequate. In particular, NIG is disappointed that despite its request to the Commonwealth Minister for Finance and Administration in March 2005, the CGC has not been charged with reviewing its 1997 Report but instead has been given terms of reference which will result in an unbalanced assessment of the financial capacity of Norfolk Island if it only has regard to local and state revenue and expenditure (taxes and charges).

Despite there being no formal response by the Commonwealth Government to the 1997 Report and advice to the NIG that there were no individual findings of the Commission which were being pressed by the Federal Government, the Report was at the time, and continues to be, a significant tool for the advancement of self-government for Norfolk Island. The report was considered by the NIG and the community of Norfolk Island to be a fair and balanced assessment of the administrative and financial capacity of the Island but had consideration to the important social and cultural aspects of this unique community.

At the time of preparing this submission, it is unclear whether the 2006 draft terms of reference are in fact the final terms of reference referred by the Minister for Finance and Administration to the CGC.

If the draft set out in the Issues Paper CGC 2006/1 are in fact the final terms of reference then the Norfolk Island Government believes that they are too narrow and can only lead to a conclusion by the CGC that Norfolk Island does not have the capacity to fund the wide range of services it now provides through traditional state and local taxes and revenue measures.

In light of the fact that Norfolk Island administers three tiers of government (equivalent to local, state and Commonwealth in the mainland context) it is inevitable that there is an overlap between its equivalents of state and local taxes with Commonwealth-type taxes. In the circumstances, the CGC will be unable to make an

adequate assessment if the terms of reference remain limited to consideration of the "...capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments ...". A full assessment would require proper consideration of the whole role of NIG, including the revenue and expenditure to administer Commonwealth-type responsibilities.

## **EXTENSION OF COMMONWEALTH LEGISLATION**

### **Commonwealth Grants Commission Report 1997:**

"In 1979 the then Minister for Home Affairs, the Hon. R.J. Ellicott QC MP, rejected one of the main recommendations of the Nimmo Report that, except in special cases, all laws, which applied to other parts of Australia generally should also apply to Norfolk Island. He noted that:

"... this does not require Norfolk Island to be regulated by the same laws as regulate other parts of Australia." (Chapter 3 para 19)

Nothing in the limited information so far released by the Commonwealth on its governance proposals sets out a clear case for overturning this decision, nor for the extension of a vast range of bureaucratic Commonwealth legislation and regulation to Norfolk Island.

## **SPECIAL CIRCUMSTANCES (UNIQUENESS OF NORFOLK ISLAND)**

Norfolk Island's demographic and geographic characteristics, its culture and traditions and the current economic conditions have an impact on its revenue and expenditure.

Norfolk Island's special circumstances and uniqueness were acknowledged by the CGC in its 1997 Report (see Main Findings) and the preamble to the *Norfolk Island Act 1979* both of which are set out on page one of this submission.

### **Population**

Norfolk Island's population is multi-cultural; it includes descendants of the settlers from Pitcairn Island, new settlers from Australia and New Zealand and at the last census in 2001, 49 people were from other countries. Norfolk Island's permanent population is generally around 1500 persons with approximately 46% being of Pitcairn descent. Its itinerant population is variable and is dependent on the economic circumstances of Norfolk Island as many are employed in the hospitality/tourism industry.

The population remains fairly constant due to immigration controls. Immigration, though a Commonwealth function, is administered by Norfolk Island under its own legislation (*Immigration Act 1980*), the primary objective of which is to protect the rights and expectations of Island residents and to preserve the environment of Norfolk Island and the way of life of its permanent residents.

Control of immigration has been a successful method to ensure that the population has not drained Norfolk Island's natural resources, or impacted on its environment or

social welfare. It is the means by which unemployment is controlled. If an itinerant worker does not have employment then they are required to return to their own country of residence.

However, Norfolk Island continues to undergo demographic changes that will increase the costs of providing social welfare, medical and hospital costs. The NIG has tried to minimise the impact by amendments to its *Social Services Act 1980*, designed to eliminate potential abuses and to target benefits to those in greatest need. Until the Commonwealth removed their right, all persons who settled in Norfolk Island no matter what their country of citizenship were, subject to qualifying periods, permitted to vote and stand for election to the Norfolk Island Assembly. This was the first of the unique circumstances of Norfolk Island which the Commonwealth changed without due regard to the desires of the people of Norfolk Island.

### **Geography/Ecology**

Norfolk Island is geographically isolated, its closest neighbours are New Zealand, around 1000 kilometres to the south and New Caledonia, approx 800 kilometres north. Australia is around 1600 km to the west, while the nearest major cities to Norfolk Island are Auckland and Brisbane.

The natural environment is unique, with most of its flora and fauna endemic to the Island. Most notable are the Norfolk Island pine and the white oak (the largest hibiscus in the world), both of which are large trees.

The planning regime controls developments, buildings and land use. There has been a major revision to planning since the CGC report of 1997, with a wholly new Norfolk Island Plan and more sophisticated planning and development regime. This would need to be re-assessed if land rates and taxes were introduced because limitations have been placed on subdivisions to try to maintain the rural aspects of the Island. Land rates and taxes would probably result in the substantial changes to land use because of limited opportunities and financial rewards for rural activities. Currently, land holdings are small with only two holdings over 50 acres and many owners of rural land could be classified as asset rich but income poor.

Under previous Commonwealth administrations, ill-considered subdivisions were approved, with many long narrow blocks running from a road to a creek or valley. These were poorly designed and often had limited infrastructure services. Such subdivisions ceased after self-government, but many of the blocks involved still complicate sensible land use and planning decisions.

Land rates and land taxes will impact on the landholdings of Norfolk Islanders. Land is important to Norfolk Islanders and is passed from generation to generation. Land holdings (assets) are not considered when assessing a person for an aged pension. Norfolk Island's aged pension is means tested only. There are no reciprocal rights to information from other States and Territories so Norfolk Island is only able to assess means in Norfolk Island thus it is possible for the system to be abused by persons resident in Norfolk Island who maintain income-generating assets elsewhere.

### **Tourism and air services**

Tourism remains Norfolk Island's largest industry despite a significant downturn as a result of extreme price competition in the Australian domestic and Trans-Tasman markets, airline collapses and international events.

Significant NIG resources are being applied to maintain regular passenger transport and airfreight services to Norfolk Island, through the operation of air charters. Continually expanding Commonwealth requirements have greatly increased costs of operation of these services and the Norfolk Island Airport, placing cost pressures on tourism and damaging competitiveness. NIG is vigorously pursuing commercial airlines in an attempt to secure long-term reliable air services to and from Australia.

The treatment of Norfolk Island as an "international" destination by the Commonwealth requires much higher levels of expenditure on staffing and equipment in relation to security, emergency services and airport infrastructure. This international designation also raises the costs for domestic carriers, which are required to use international terminals and must therefore either tow aircraft or move passengers between terminals. Passengers are also compelled to undergo checks for quarantine, customs, immigration and security. Ironically, international airlines are excluded from operating the Norfolk Island/Australia route, which is defined as "domestic" for the purposes of airline access.

On the other hand, if Norfolk Island was classified by the Commonwealth as a "domestic" destination, 10% GST on tickets could negatively impact on price competitiveness.

### **Freight Costs**

Norfolk Island is reliant on regular air passenger transport to bring mail and airfreight and a shipping service for all other freight. Australia Post continues to forward all "airmail" parcel post by sea, with only Express Post sent by air. All Norfolk Post mail leaves Norfolk Island by air.

Norfolk Island does not have a harbour but has two jetties, one at Cascade to the north and one at Kingston to the south. Construction of a deep sea harbour has been suggested since 1789 but has never moved beyond feasibility planning. Despite the CGC recommending in 1997 that the Commonwealth consider whether it has some obligation to provide financial assistance to the Norfolk Island Government to assist it to overcome the inadequacies of the harbour facilities this has not occurred. NIG is currently looking at other proposals which would assist in improving freight handling without the huge cost of a harbour.

As a result of safety issues, the Kingston jetty which is within the Kingston and Arthurs Vale Historic Area was closed causing difficulties with unloading sea freight when sea conditions prevented unloading at the Cascade Jetty. The Commonwealth has recently approved funding for restoration work to be done on the Kingston jetty which is a Commonwealth asset.

Norfolk Island's remoteness from Australia and New Zealand has a resultant impact on the cost of freight on the importation of food, goods, plant, equipment and fuel. Freight costs impact on the cost of service delivery, building and construction, indeed everything that is done and provided in Norfolk Island. Increased fuel costs impact on the cost of electricity generation that is currently diesel powered.

Telecommunication costs are high which impact on business transactions and distance education. NIG is in the process of implementing the recommendations of a major telecommunications consultancy, which should reduce the costs of telecommunications carriage and will result in the establishment of a GSM mobile phone network.

Costs of sea and air transport also impact on the cost of recruitment for both the public and private sectors when relevant skills are not readily available in Norfolk Island.

## **LEVEL AND STANDARD OF SERVICES**

### **How is this determined?**

NIG regards the range and standard of services provided in Norfolk Island as appropriate in terms of equivalent Commonwealth, state and local government services having regard to Norfolk Island's demographic, social and cultural characteristics. As in other jurisdictions, current economic conditions are also a major factor in determining levels of service provision.

The NIG is concerned that the level and standard of services provided in Norfolk Island will be assessed by the CGC against "comparable Australian average levels". The NIG contends that there is no comparable Australian community. There is no other community, State or Territory that administers the three tiers of government. Standards of current Norfolk Island services and revenue raising have been developed in a model which integrates all three tiers of government. The draft terms of reference fail to allow for this integration and are likely to result in unbalanced consideration based only on state or local comparisons.

For the CGC and indeed the Commonwealth Government to determine (dictate) a level and standard of service for Norfolk Island would be contrary to what is done for other Australian States and Territories. It is clear that service delivery standards and practices in States are not determined by the Commonwealth. The Commonwealth through the recommendations of the CGC provides a share of Commonwealth Government revenue to each State/Territory to give "... States the capacity to provide the same standard of service but it does not require them to do so." ('The Impact of Equalization on Service Delivery' Catherine Hull and Bob Searle, CGC)

In fact, the CGC 1997 Report stated:

"there is little reason why the NIG should not be free to choose the standard at which they are provided."

See also (Chapter 10 para 4)

In light of these arrangements in place with States and territories, the NIG rejects the proposition that the Commonwealth Government should dictate the manner in which revenue is expended and what standard of service delivery the NIG should provide for the residents of Norfolk Island.

The CGC in its 1997 Report found:

“Norfolk Island is politically and financially more self sufficient than Australia’s other Territories, or, for that matter, the States. The Commonwealth does not generally provide services to Norfolk Island residents and the Island does not participate in Commonwealth-State revenue sharing arrangements. The Island has a greater degree of self-government than State and local governments on the mainland, having powers to raise revenues and provide services usually the responsibility of the Commonwealth. ... the Island Government raises its own customs duties and a departure tax, and is fully responsible for health and education without Commonwealth financial support.”

### **Appropriate and community-based services**

Under the internal self-government model in place since 1979, NIG has developed a wide range of programmes to deliver services appropriate to the special needs and circumstances of the Island community. These include education, health, social welfare, aged care, environment, police and law enforcement, workers compensation, culture and arts, among many others.

Most of these services are delivered at costs to the community well below mainland levels and in a manner that is appropriate for the special circumstances of the Island. For example, aged pensions and other welfare payments are delivered on a much simpler model than the bureaucratic and complex Australian system. There is a much closer examination of need and a relating of assistance (including associated public and community supports) to the whole needs of aged and disadvantaged persons, not just to income support.

There is a common misperception that Norfolk Island does not provide a range of social services benefits comparable with those in mainland Australia. The Norfolk Island scheme is in fact quite comprehensive and includes pensions and benefits including:

- Age benefit
- Invalid benefit
- Widowed person benefit
- Special benefit
- Orphans benefit
- Handicapped children’s benefit
- Supplementary children’s benefit
- Long-term care benefit
- Hospital and medical assistance
- Exemptions from certain taxes and reductions in Administration charges.

Details of these payments are provided in the Norfolk Island Pension Entitlements Summary at Appendix 1. Current rates of payment are detailed in Norfolk Island Government Gazette 55/2005 (Appendix 2).

It should be noted that NIG also provides a wide range of public infrastructure including electricity supply, telecommunications, postal services, roads, waste management, parks and gardens, airport and airline services.

NIG has attempted to maintain and improve services to meet changes in community standards and to mirror improvements in comparable jurisdictions. For example, the 1997 CGC report commented on the lack of vocational education and training opportunities. Since then, this has been addressed through improvements to programmes offered at the Norfolk Island Central School, which currently offers full-time courses in information technology and hospitality. Students are also offered course choices including building construction, retailing, child studies and tourism.

In commenting on the effects on service provision from proposed changes to Norfolk Island governance by the Commonwealth, the Chief Minister said in a media statement on 21 February 2006:

“... Norfolk Islanders would suffer losses of service if the Commonwealth carried out its proposal “to provide an equitable level of service delivery compared with Australian communities of a similar size”. “It is precisely this sort of mentality which has resulted in reductions or total loss of services in so much of rural and regional Australia”, Mr Gardner said. “I challenge the Minister to find a remote community of 1900 people in Australia which can offer the quality and range of services we provide for Norfolk Island”. Mr Gardner said that these included:

- A fully functional hospital operating 24 hours a day which offered emergency, surgical, maternity, dental, physiotherapy, counselling and aged care services, with an ongoing program of visits by prominent specialists;
- A high-achieving public school offering quality education from reception to Year 12;
- Over 90% of all public roads sealed and maintained;
- Numerous well-maintained parks, gardens, beaches and community recreation facilities;
- Five free-to-air television networks, a community radio station, one AM and five FM radio networks: and
- A well-patronised public library.

Mr Gardner said that the Commonwealth proposals would put these services at risk, and in the name of equity would create other undesirable outcomes. “These might include the introduction to Norfolk of some of the ‘benefits’ of the Australian model not now experienced here such as hospital waiting lists, widespread unemployment and welfare dependency”, the Chief Minister said. “...it seems that the Commonwealth has not learned from its obvious failures in other external territories and is determined to impose its discredited bureaucratic controls on Norfolk Island”.

NIG submits that in looking at the financial capacity of Norfolk Island to fund service delivery, the CGC should take account of the many differences in the manner in which those services are delivered, the range of services provided and the tailoring of services to meet the special needs of a small and remote community with unique cultural and social requirements.

## **NORFOLK ISLAND GOVERNMENT AND ADMINISTRATION STRATEGIC PLANNING**

There have been major advances in Norfolk Island strategic planning since the election of the 11<sup>th</sup> Legislative Assembly in October 2004.

The Assembly established a Priorities Plan, setting out 12 strategic priorities for its three-year term. A copy of the Priorities Plan is attached at Appendix 3, together with

a statement by the Chief Minister setting out the progress achieved at the mid-point of the planning period (Appendix 4).

The Assembly plan was complemented by a much more detailed Administration Management Plan, setting out priorities in all areas falling within the responsibility of the Administration of Norfolk Island. The most recent Administration Management Plan is at Appendix 5.

NIG also commissioned two major independent consultancies, which reported in 2005 on:

- Structural reform of service delivery and administration to improve efficiency and effectiveness;
- Initiatives to broaden economic diversity and enhance economic growth; and
- Revenue requirements and recommended measures to restructure taxation and increase public revenues.

Subsequently, NIG and the Commonwealth commissioned another consultant to prepare a report on asset management, including a 15-year forward plan for asset replacement. That report is in its final draft form and its recommendations will be incorporated in NIG budget strategy from 2006-07 forward.

Many of the recommendations from the consultancies are in the process of being implemented. NIG has also developed a document setting out its strategic priorities in the light of the current economic situation and the governance changes foreshadowed by the Commonwealth. NIG believes that these strategic directions will result in a sustainable future for the Norfolk Island economy and community. Key elements are:

#### **Reinvigorate the Norfolk Island economy**

- Promote tourism as a high priority, with emphasis on both existing markets and new initiatives, including tourism centred on culture, history, education and ecology, with increased emphasis on the use of the internet and information technology
- Secure airline services and encourage new commercial airlines
- Assist the tourist and retail industries to adapt to changed markets with new or improved products and services
- Diversify the Island's economic base with innovative new industries and projects, including many already under consideration in areas such as broadening tourist accommodation choices, maritime services, renewable energy and telecommunications
- Implement short-term revenue and expenditure reforms to improve current budgetary situation
- Develop and implement a long-term business plan incorporating measures to manage recurrent revenue and expenditure, as well as long-term capital expenditure
- Develop new consultative processes between the business and government communities to share information and plan for future growth
- Seek expert advice both from within the Norfolk Island community and from outside specialists.

*Economic growth will foster business, enhance employment and improve government income (to deliver community services). Neither of the Australian Government options provides evidence of economic recovery for Norfolk Island.*

### **Structural reform**

- Restructure the public sector and government business enterprises to enhance and streamline the delivery of the services and to maximise community income from public assets and businesses
- Restructure the revenue base through implementation of a broad-based consumption tax and removal of some existing taxes and levies
- Review the consultant's report, then implement an Asset Management Plan to ensure sustainable improvement and protection of community infrastructure
- Review legal and policy constraints on competition within the economy, and implement changes to encourage and support innovation and new investment
- Research and learn from successful economic and social models in other small communities, island states and international organisations.

*Structural reform in government services will contain public expenditure. Taxation reforms will increase income for community services and infrastructure. This will mean the maintenance of self-government, with reform of some of its method of delivery.*

### **Engage in constructive dialogue with the Commonwealth**

- Work closely with Commonwealth officials and organisations (such as the Grants Commission and Australian Bureau of Statistics) to ensure that the priorities and preferences of the Norfolk Island community are central to the dialogue process already commenced
- Seek to ensure that the changes already foreshadowed in the Commonwealth result in programmes and services that recognise the important differences between the Norfolk Island society and economy and “comparable” areas of Australia
- Address the concerns and issues raised by the Minister for Territories, Local Government and Roads while also ensuring protection of the uniqueness and autonomy of Norfolk Island.

## **FINANCIAL CAPACITY**

Full financial results for government activities may be found in the consolidated financial statements for 2004-05, which are attached at Appendix 6.

### **Revenue**

For many years, NIG has tried to reduce the reliance of the Norfolk Island economy on tourism and to diversify its revenue streams but many of these attempts have been frustrated by the Commonwealth Government (e.g. Offshore Finance Facility; Interactive Gaming; Online University). The Commonwealth has also declined to give Norfolk Island access to an exclusive economic zone for fishing and mineral rights.

The CGC in 1997 found that Norfolk Island had the revenue raising capacity to generate over 60% more revenue than it did at that time. NIG has increased some taxes since that time, and has undertaken a series of studies into alternative revenue-raising options and methodologies. It has sought substantial public input including the

issue of a community-wide issues paper. NIG accepts that there is capacity to raise additional revenue from the Norfolk Island community, and is taking action to do so. Following advice from Commonwealth departments, it has determined that a broadbased consumption tax is the most desirable and equitable new taxation measure to achieve revenue needs.

The NIG is currently in the process of implementing a broadbased consumption tax (NSL – Norfolk Island Sustainability Levy). Legislation is before the Legislative Assembly, and will be debated at the April sitting. NIG intends that initially the NSL will be introduced for a trial period at a low percentage to assist the NIG to determine baseline data on the size of the Norfolk Island economy and the revenue results of such a tax. It is intended that an appropriate level of the NSL will then be determined which will achieve revenue targets and permit reduction or abolition of other taxes, including customs duty, cold bed tax and Financial Institutions Levy.

### **Expenditure**

NIG commissioned a major independent consultancy to advise on expenditure, including the efficiency and effectiveness of public sector organisational structure and work practices. This has resulted in a rigorous review of public expenditure, and steps put in place to contain costs in public employment. Major savings have been achieved through a freeze on new employment, liberalised conditions for employees to take leave without pay and revised overtime provisions which have cut overtime payments significantly. Acting on the advice of the consultants, the Minister for Finance has also developed comprehensive plans for corporatisation of government business enterprises and restructuring of the public sector, which are currently under consideration.

### **Infrastructure**

The Commonwealth did not assess the standard of Norfolk Island's public infrastructure at the commencement of self-government, and many of the public assets passed into NIG responsibility were in degraded condition at that time. The CGC reported in 1997 that

“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.”

Subsequent Commonwealth assistance was only provided by means of an interest free loan to make the Cascade Cliff safe. The NIG has been servicing this loan in accordance with the Loan Agreement. Funding was granted in 2005 to make urgent repairs to the Kingston Jetty which is a Commonwealth asset within the Kingston and Arthurs Vale Historic Area (KAVHA). Apart from this no assistance has been given toward harbour facilities.

Commonwealth assistance was provided to fund a private consultant to assist in researching and preparing the Asset Management Plan, mentioned above. The work involved in identifying and assessing all assets of the Norfolk Island Government and Administration has proven to be complex, but the task of producing a final Asset Management Plan is almost complete. That Plan will then form the basis of a 15-year forward financial plan for the maintenance, upgrading and replacement of the wide

range of assets involved, including buildings, plant and equipment, roads and airport runways, among many others.

Expenditure requirements identified in the Asset Management Plan will be addressed in the 2006-07 budget, which is now in preparation and will be presented to the Legislative Assembly for consideration in the near future.

Roads in Norfolk Island are Commonwealth owned and have been maintained by the Administration. There was no attempt to upgrade the roads prior to self-government and a request by the NIG for assistance with road repair and upgrading in 2005 was declined by the Commonwealth. Recent Commonwealth announcements on governance changes have been heavily influenced by projections of expenditure of more than \$80m on roads over 15 years, with over \$30m to be spent in the first year. These figures relate to only 67km of roads, meaning that in the first year projected expenditure would be almost \$0.5m per km, with \$1.3m per km to be spent over 15 years.

NIG submits that these figures are grossly inflated and apparently based on a standard of urban road provision unsuitable and unnecessary for Norfolk Island. Norfolk Island roads compare favourably with those in small and remote Australian communities, with over 90% of all public roads sealed and regularly maintained. NIG is completing a separate assessment of road needs and expects the annual figure to maintain and improve its network of public roads to be no more than \$2 million. A recent engineering assessment provided to NIG was that total replacement cost of the 67km of roads (many of which are not in need of immediate replacement) would be approximately \$15 million.

#### **COMMENTS AGAINST CGC DRAFT TERMS OF REFERENCE**

- (i) *what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island government operates at the same level of efficiency as State and local governments.*

NIG has indicated above why it rejects the concept of “average levels of service” as being appropriate for the special circumstances of the Norfolk Island community. It contends that the levels of State-type services provided are in most circumstances superior to those in similar mainland communities. NIG bases its recurrent and capital expenditure budgets on provision of services at the level expected by the Norfolk Island community and respectfully suggests to CGC that these should form the basis of its assessment of the appropriate costs for its report.

It is conceded that in the past NIG budgets have not allowed sufficient allocations for depreciation and/or asset replacement. This is being addressed as part of current planning for asset management and will from 2006-07 be fully incorporated into NIG budgets and forward planning for both revenue and capital expenditure.

- (ii) *the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.*

As indicated above, Norfolk Island's economy is heavily dependent on the tourism industry, with the majority of tourists falling into age and income demographic sectors that are extremely price-sensitive. The Island's principal markets are Australia and New Zealand, meaning that it is competing against domestic destinations currently served by discount airlines with airfares at far lower levels than are achievable on sectors to Norfolk Island. Within the South Pacific, most competing destinations have extremely low wage structures.

Norfolk Island's main competitive advantage is that it imposes low levels of taxes on tourist operators, retailers and accommodation houses. Imposition of taxes of the types levied by State and local governments in Australia would be likely to severely damage the competitiveness of the Norfolk Island tourist industry, resulting in a severe downturn in tourism and the probable collapse of the Island's economy.

In relation to the taxes detailed in the CGC Issues Paper, NIG is strongly opposed to direct taxes on employment provision, and is of the view that a payroll tax would severely reduce employment opportunities in the Norfolk Island community. Land taxes and land rates would need careful examination to determine the effects which would occur to the unique pattern of traditional land tenure and the likely negative impacts on Norfolk Island cultural, family, religious and inheritance values.

- (iii) *the amount of financial assistance needed from the Australian Government to allow the Island to meet the cost of providing the services mentioned above (including the actual cost of servicing its existing loan agreements) having regard to the Island's capacity to raise revenue also mentioned above.*

NIG is of the view that it already has the capacity to raise sufficient revenue to provide services at an appropriate level. It appreciates the assistance of the Commonwealth in providing interest-free loans for some capital works, and is servicing those loans in accordance with the loan agreements. While there might be a need for further such loans for future major projects, NIG notes that the Commonwealth places strict restrictions on its ability to borrow to fund important public infrastructure. This precludes NIG from raising capital within its own community through the issue of infrastructure bonds or other government-guaranteed securities, thus greatly reducing the potential to raise substantial local revenue.

- (iv) *how much local government funding the Australian Government might provide to Norfolk Island on a basis consistent with local government funding applying in the rest of Australia.*

NIG believes that the revenue-sharing arrangements with Australia should be based on the levels of taxes now generated by the Commonwealth from Norfolk Island residents and business operations, and the cost of services provided to Commonwealth entities by the Administration of Norfolk Island. Since the full range of Australian taxes do not apply in Norfolk Island, and collection of those, which do apply, is in a

different from mainland procedures, NIG does not seek full access to Commonwealth revenue-sharing arrangements.

It is respectfully suggested that CGC should undertake assessment or estimate of the Commonwealth taxes collected from Norfolk Island individuals and businesses and of the cost to NIG of providing services to the Commonwealth as a basis for its response to draft term of reference (iv).

#### **ADDITIONAL INFORMATION**

NIG would be happy to provide any further information required by CGC to assist in completing its inquiry, or to meet with officers to discuss this submission. While not specifically addressed in this submission, some further items are appended to provide detail of programmes and charges which might be of assistance to the CGC. These are:

- Appendix 7: Current rates of customs duty under the *Customs Act 1913*
- Appendix 8: Norfolk Island Government Gazette 31/2005, incorporating current rates of fees and charges

April 2006