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# Official Committee Hansard

## SENATE

SELECT COMMITTEE ON STATE GOVERNMENT FINANCIAL  
MANAGEMENT

**Reference: Commonwealth, state and territory fiscal relations and  
state and territory government financial management**

MONDAY, 1 SEPTEMBER 2008

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**SENATE SELECT COMMITTEE ON  
STATE GOVERNMENT FINANCIAL MANAGEMENT**

**Monday, 1 September 2008**

**Members:** Senator Ian Macdonald (*Chair*), Senators Boyce, Bushby, Forshaw and Polley

**Substitute members:** (As per most recent Senate Notice Paper)

**Participating members:** Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Brandis, Bob Brown, Carol Brown, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Eggleston, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Furner, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Kroger, Lundy, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Pratt, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

**Senators in attendance:** Senator Boyce, Senator Bushby, Senator Ian Macdonald

**Terms of reference for the inquiry:**

To inquire into and report on:

Commonwealth and state and territory fiscal relations and state and territory government financial management, including:

- a. Commonwealth funding to the states and territories – historic, current and projected;
- b. the cash and fiscal budgetary positions of state and territory governments – historic, current and projected;
- c. the level of debt of state/territory government businesses and utilities – historic, current and projected;
- d. the level of borrowing by state/territory governments – historic, current and projected;
- e. an examination of state/territory net government debt and its projected level – historic, current and projected;
- f. the reasons for any government debt including an analysis of the level and efficiency of revenue and spending;
- g. the level of investment in infrastructure and state-owned utilities by state and territory governments;
- h. the effect of dividends paid by state-owned utilities on their ability to invest;
- i. present and future ownership structures of current and former state-owned utilities and the impact of ownership on investment capacity; and
- j. the effect of investment by state-owned utilities on Australia's capacity constraints.

**WITNESSES**

**CHRISTIAN, The Hon. Neville Charles, Minister for Finance, Norfolk Island Government..... 1**  
**MAYWALD, Mr Peter Robert, Secretary to Government, Norfolk Island Government..... 1**  
**WILSON, Mr Barry Thomas, Finance Manager, Norfolk Island Government..... 1**



**Committee met at 9.33 am****CHRISTIAN, The Hon. Neville Charles, Minister for Finance, Norfolk Island Government****MAYWALD, Mr Peter Robert, Secretary to Government, Norfolk Island Government****WILSON, Mr Barry Thomas, Finance Manager, Norfolk Island Government**

**CHAIR (Senator Ian Macdonald)**—I declare open this final public hearing of the Senate Select Committee on State Government Financial Management. The committee was established by the Senate on 14 February to inquire into the fiscal relationship between the Commonwealth and the states and territories, as well as into state and territory financial management. These are public proceedings, although the committee may agree to a request to hear evidence in camera if the witnesses would like to do that. I remind all witnesses that this is a committee of the parliament and that they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of the evidence given to the committee, and any such attempt may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If there are any questions which you object to answering, you should indicate that and the committee can consider it.

I welcome our witnesses today, who represent the Norfolk Island government. For the benefit of Mr Maywald and Mr Wilson, I mention that the Senate has resolved that a public servant shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. The resolution prohibits only questions asking for opinions on matters of policy but does not preclude questions asking for explanations of policy or factual questions about how and when the policies were adopted.

I want to thank you all for coming. I know it is not always easy to get to Australia or, indeed, Canberra. It is a long way from home, but we are interested in what you have to tell us. Thank you very much for your submission, which was very detailed and very useful. Mr Christian, would you like to make an opening statement and then we will proceed with questions from the committee.

I should perhaps at this stage apologise for the two absent committee senators. Senator Forshaw has a conflicting defence committee matter on this morning, and Senator Polley, who was intending to be with us, has called in ill, so you are left with Senator Bushby, Senator Boyce and me. The others will of course read the transcripts, will have read your submissions and will certainly be part of the ultimate report of the committee. If you would like to make an opening statement, Mr Christian, we would be very pleased to hear that.

**Mr Christian**—The Norfolk Island government's submission consists of three main parts. They are, firstly, a submission setting out a brief factual summary of the structure of Norfolk Island's economic and political structure and key Norfolk Island programs. Secondly, we have attachments comprising the Econtech reports of 2006 and 2008 and a table of selected recommendations from past external reports on Norfolk Island. Thirdly, there is the letter to the chairman of the committee addressing some of the inaccurate evidence given to the committee by previous witnesses. We do not intend to reiterate the information in those documents but will be happy to answer questions after this opening statement.

On the subject of the Norfolk Island government's financial reserves, the Norfolk Island government is a careful and successful financial manager. All financial accounts are prepared in accordance with relevant international reporting standards, are subject to independent external audit, are tabled in the legislative assembly, and are published and made available for the relevant Commonwealth ministers and departments. In response to a question from the committee, the Attorney-General's Department provided a document showing cash at bank and total liabilities. That document provides a partial picture and is misleading. It is like evaluating your personal wealth by looking at your bank balance and the total of your mortgage without considering any other financial reserves, your investment property or the value of your other assets.

I now table a more meaningful, comprehensive summary of the Norfolk Island government's audited financial statements for the past five financial years. This document shows, amongst other things, current assets, current liabilities, net current reserves and total net assets and reserves. This document clearly illustrates that Norfolk Island has been and remains viable and financially sustainable. The documents highlight some figures at the end of the 2006-07 and 2007-08 financial years, although the figures for 2007-08 have not yet been audited. The position in Norfolk Island at the moment is that we have current assets totalling \$18 million and net assets of \$32.4 million.

I will now talk about capital expenditure and infrastructure maintenance and replacement. There has been much criticism of Norfolk Island for allegedly not providing sufficient funds to replace or improve public infrastructure. I now table a document setting out in simple tabular form the extent of infrastructure spending that the Norfolk Island government has budgeted for the 2008-09 financial year. This document shows the expenditure on infrastructure maintenance, infrastructure replacement and other capital expenditure. For simplicity, we have summarised just the revenue fund and four main areas of service delivery where infrastructure spending is significant. They are: roads, electricity, telecommunications and the airport. The actual infrastructure spending budgeted for this year would be higher again if the tabled amount included all other services, such as, for example, the school, the hospital and other public buildings.

Key to this document is that, in 2008-09, 31 per cent of all of our expenditure will be on infrastructure and capital items. Some of the analysis provided to your committee has totally missed this point by focusing only on capital expenditure in the revenue fund. That fund is essentially the clearing house through which we fund our major service delivery areas of education, social welfare, health and tourism promotion. The majority of the infrastructure and capital expenditure occurs in the government's business enterprises. In summary, the table shows that budgeted expenditure for this year includes the following: infrastructure maintenance, \$3.2 million, which is 10.7 per cent of total expenditure; new infrastructure, \$3.25 million, which is 11 per cent of total expenditure; and capital expenditure, \$2.7 million, which is nine per cent of total expenditure.

Some of the significant infrastructure initiatives that the Norfolk Island government is embarking on over the next year include airport projects like the runway and safety area, or RSA, car park upgrades, terminal extensions, new fire stations and new fire tenders. They are principally to allow Norfolk Island to be compliant with Australian and international requirements. We are also about to enter into an arrangement which will provide high-speed

broadband and fibre-to-the-node connectivity across the island. We have had to rely on the French supported South Pacific Island Network, or SPIN, which is a French government initiative linking its Pacific Island territories. Norfolk Island has been given the opportunity to join into the principal backbone. We have had to do that because on a number of occasions when I have requested support from the Commonwealth to extend fibre optic undersea cable to Norfolk Island I have been unable to gain their support.

I now turn to strategic planning. Most elements of the initial stage of the 2007-09 strategic plan have been progressed. A full whole-of-government review of the strategic plan is now underway. Some significant elements of forward planning include the feasibility study on a new port and harbour, the diversification of tourism to include cruise ship visits and planning for a new hospital aged-care facility. That is about it for our opening statement.

**CHAIR**—Thanks very much, Mr Christian. Do Mr Maywald or Mr Wilson want to add to that?

**Mr Wilson**—No.

**Mr Maywald**—We are grateful to the committee for seeing us late in your proceedings and we are very grateful to the committee staff, who have facilitated us coming here. Thank you very much for having us.

**CHAIR**—Mr Maywald, what does the Secretary to Government do?

**Mr Maywald**—I was afraid you would ask me that. It is somewhere between being cabinet secretary and the person who makes the coffee. It is a very small government, of course. We have two main support staff for the five ministers: me and a research assistant. We give policy advice. We act as the executive to the equivalent of cabinet meetings, answer ministerial correspondence, carry out research and do a lot of liaison with Australian government ministers and Australian government departments. So it is a very diversified job.

**CHAIR**—Do you have a financial background or qualifications at all?

**Mr Maywald**—No, my educational qualifications are in economics and politics, and I am still an officer of the Commonwealth Ombudsman. My main career work has been in anticorruption and in administrative review. I have worked for the Ombudsman, and for human rights.

**CHAIR**—For the Commonwealth Ombudsman?

**Mr Maywald**—Yes, the Commonwealth Ombudsman, and I was assistant commissioner for equal opportunity in South Australia before that. So it has largely been administrative review and policy.

**CHAIR**—But you are not now working for the Commonwealth Ombudsman?

**Mr Maywald**—I am on leave without pay from the Commonwealth Ombudsman.

**CHAIR**—Okay. Mr Wilson—you are the manager of finance, I can see.

**Mr Wilson**—I am the Finance Manager for the administration on Norfolk Island. I have been the Finance Manager for 25 years, and have been in the public service for 32 years. Basically, I look after the finances of the government administration. I account for the income and the expenditure.

**CHAIR**—Are you the under treasurer, or secretary of the department of treasury, in Commonwealth terms?

**Mr Wilson**—You could say that.

**CHAIR**—And your background is 25 years in the Norfolk Island public service?

**Mr Wilson**—Thirty-two years in the public service, and 25 years as Finance Manager, doing this particular work.

**CHAIR**—Right, thanks for that. I think you have mentioned in your submission that you have an ambitious program of improving the wharf. Could you tell me a bit more about that and, in particular, how it is going to be funded?

**Mr Christian**—What we have done in respect of the wharf is to take note of previous Senate inquiries, where the overwhelming indication has been that the Commonwealth would be inclined to assist Norfolk Island develop a port of some sort to improve the delivery of cargo into Norfolk Island. Of course, if we are able to accommodate cruise ship tourism, that reduces our reliance on airborne tourism into Norfolk Island. It would also improve the delivery of fuel, gas and the like into Norfolk Island.

What I have done, as finance minister, is engage a firm called Paterson Briton Consultants. They have since become part of a larger firm called WorleyParsons. You may recall that they were the consulting engineers that designed the upgrade of the historic Kingston jetty in Norfolk Island. We engaged them because they had some knowledge of the Norfolk Island situation.

They are about three-quarters of the way through preparing their report and construction estimates. I should have all of the information by the end of October this year. They are principally looking at two sites: Cascade Bay and Ball Bay. We have asked them to design a facility for us which will accommodate the HMAS *Sirius*, which is the fleet replenishment vessel. Norfolk Island is its home port, but we currently do not have a port with a wharf where it can berth. So it will accommodate the *Sirius*, and it will also be able to accommodate the typical cargo ships that service Norfolk Island. In recent times we have had representation from Carnival Cruises Australia, who have indicated to us that they would like to be able to put cruise ships with a length of up to 400 metres in to Norfolk Island. Those ships include the *Queen Mary*, the *Queen Victoria* and others. That is included in the brief as well.

How do we fund it? Once I get the construction estimates back we will sit down and prepare a business case. We will then present that business case to the Commonwealth to see if we can access some of the funds that are held in the Australian infrastructure fund to assist us with the development.

**CHAIR**—My very first visit to your lovely island was on the Senate inquiry that looked into the port back in, I think, 1990 or 1991. The report was called *Delivering the goods*. I forget the exact details, but it was urgent then, back in 1991 or 1992 or whenever it was, that something be done about that. The cost, as I recall, was astronomical. It is something that has constrained Norfolk Island for many years. Do you have a ballpark figure in your mind as to what the cost might be? It would be quite expensive.

**Mr Christian**—I do have some ballpark figures. My personal opinion—and this is not borne out by professional advice at this stage—is that it would be somewhere between A\$35 million and A\$50 million.

**CHAIR**—I would be very surprised if you would get it. Ball Bay always had problems—I forget what they were—with the area. You would not get the *Queen Mary* in there. Then you are exposed to a very deep cut off at Cascade. I have no idea but I would imagine you would be looking at hundreds of millions, if not billions of dollars, for a port. I know they are looking at one for Townsville, which is on a mudflat—I should not have said that—but it is on reclaimed land and the cost of that is getting close to, I think, \$100 million for what they are looking at.

**Mr Christian**—I can give you a bit of additional information. The original brief asked them to look at three sites and in addition to Cascade and Ball Bay there was also the Headstone area.

**CHAIR**—Where is that?

**Mr Christian**—Headstone is on the south-western side of the island.

**CHAIR**—Is that around where the rubbish tip used to be?

**Mr Christian**—That is correct. That is the site of the rubbish tip. The preliminary wave energy studies that have been completed indicate that Headstone would be a very expensive place to develop a port because of the deep water and the extremely high wave energy in the area, which would require something to be built which was proportionately more robust to withstand the one in 100-year or one in 150-year storms, which the engineers would accommodate.

Likewise, Ball Bay has a much higher wave energy climate. It is not as high as Headstone but it is still significant. Cascade has come out as the most favourable site, from a wave energy point of view, and therefore would have lower construction costs. It also has a number of advantages over Ball Bay. As you say, it is not restrained by the physical size of the bay, so you can basically start from a greenfield plan and build what you actually require. Principal indications to me are that Cascade would require two breakwaters sufficient distance apart so as to create a safe harbour, with a turning basin for ships, approximately 800 metres across.

**CHAIR**—Doesn't Cascade drop off to *King Neptune* about 20 metres out?

**Mr Christian**—No, it doesn't. The preliminary plans that are being prepared at the moment revolve around reclaiming land from the sea at Cascade out to a level where you would end up with about 14 metres of water at low water. It is true that you do not have to go very far from shore to achieve that depth. You would be looking at a total reclaimed area of something like 27

acres, so it is not a huge amount of land between the two breakwaters and totally able to be done. Beyond that we do have deeper water but not beyond the realms of—

**CHAIR**—Fair enough. Anyhow you have obviously thought deeply about it—as we did back in the early 1990s. It is pretty clear, even on your guess—and I accept that it is no more than a guesstimate and I will not hold you to it—that on your budget figures there is no way in the world the NIG is going to be in a position to fund that or pay off any loan. It would have to be a grant from the Commonwealth government or someone else.

**Mr Christian**—As I said, I think it would most likely be a combination of the two. There would be some sort of development grant to the community of Norfolk Island to assist with the construction of the facility and I think Norfolk Island would be able to build a business case which would allow it to fund the part that the Commonwealth did not contribute to.

**CHAIR**—You owe the Commonwealth \$12 million for the airport extensions. You have not been able to repay that and you have asked for an extension on repayments. Is that correct?

**Mr Christian**—That is correct, but I will put it into its true context. The Norfolk Island government sought and received \$12 million from the Commonwealth on an interest-free basis for the most recent upgrade to the pavements at the Norfolk Island Airport. In, I think, June 2005, the Norfolk Jet Express airline, servicing the island at that time, went belly up. We thought that the impact on tourism in Norfolk would be particularly bad—it was bad—and we thought the airport's income would suffer. So an approach was made to the Commonwealth to defer the commencement of loan repayments for three years. The Commonwealth agreed to that, and the Norfolk Island government is eternally grateful for the Commonwealth accommodating us there. The first repayment is due in June 2009. That will be \$600,000, and basically from thereon in it will be \$600,000 every six months. The business model for the airport allows us to easily do that. It also allows us to put aside an equivalent amount for the creation of a sinking fund for the next upgrade. It also provides for the payment of interest that the Commonwealth has agreed to forgo, which will also reside within the airport GBE.

**CHAIR**—I have this in your material somewhere, but what is the government's annual revenue budget, which includes, I expect dividends from the GBEs?

**Mr Wilson**—Our total revenue for the last financial year is around \$49 million, which includes about \$22 million from the airline ticket sales.

**CHAIR**—So about \$49 million?

**Mr Wilson**—In total income.

**CHAIR**—Of that, how much was allocated to infrastructure—either acquisitions or repayments?

**Mr Wilson**—I do not have that figure.

**Mr Christian**—I can shed some light on that for you. If you want to look at the airport in particular, we are proposing in this year alone—as we have said to you—to purchase two new

fire engines and construct a new fire station. That will be an airport fire station, a community fire station, an emergency services coordination centre and a volunteer rescue squad base. So we will be putting all of our emergency services into one location.

**CHAIR**—That is fine, and I understood that. You have a total revenue of \$49 million, which includes ticket sales for the provision of an air service—most of which would go out in running the airline, and perhaps we can come back to that—but I am just trying to work out what you have spent from your budget, this last financial year, on infrastructure, by way of either capital works or repayments of loans. I read it in your material somewhere. Can I suggest that it is very little, if not nonexistent.

**Mr Christian**—We do not have the figures for the last financial year with us. We can provide them at a later date. What we can highlight is what we are proposing to spend in the 2008-09 financial year.

**CHAIR**—On infrastructure?

**Mr Christian**—Correct, on infrastructure. In the 2008-09 financial year we are proposing to spend \$3.1 million on infrastructure maintenance, \$3.25 million on new infrastructure and \$2.7 million on other bits and pieces and capital—whatever that adds up to. It is a significant amount of money.

**CHAIR**—It is about \$9 million or \$10 million.

**Mr Maywald**—It is just over \$9 million, yes.

**CHAIR**—What was your budget surplus or deficit this year?

**Mr Christian**—For the 2007-08 year just finished, the deficit has come in at just under \$600,000, but that is only in respect of the revenue fund.

**CHAIR**—The figures will show all this, but I am trying to get a broad picture of how you are going to spend \$9 million on infrastructure, capital works and loan repayments. You said some of that was for maintenance, which is not really a capital expenditure. That is depreciation and maintenance. How are you going to spend that? I must confess to not being a financial expert, but Senators Bushby and Boyce might be; please interrupt if things come to mind. How are you going to find \$9 million next year when clearly you have not had the sorts of excesses in the past year that would enable you to afford that?

**Mr Christian**—I disagree with you there. It depends on the way the numbers are being presented. If someone looks at the revenue fund in isolation, they would draw the same conclusion that you have now. We have sought professional help in the last couple of years. That help has been provided by Econtech. They prepared an economic report for us in 2006. That was upgraded in February 2008. That basically tells us that, across all of the administration, we need to put aside around \$4 million each year—

**CHAIR**—That is just in depreciation, I think you will find.

**Mr Christian**—No, that is depreciation, maintenance of existing assets and creation of new assets. That is a global figure. I cannot give you the breakdown but clearly, if you look at where we have come from and where we are going in respect of net operating cash flows, that tells a pretty encouraging story. I will quote for you. These are in constant dollars for 2006-07 prices—in the year 2004-05, the administration's net operating cash flow was \$882,000. In 2005-06, it fell to \$194,000. That is the result of the collapse of Norfolk Jet Express and the downturn in our tourism industry. In 2006-07, it climbed back to \$2.5 million, which was our net operating cash flow across the administration. What Econtech said to us on a previous occasion was that, on an annual basis, we were probably receiving about \$1.4 million less than we needed to be sustainable and we needed to make some changes. We did.

We reformed our taxation system, abolished some of our regressive taxes and replaced them with a broad based consumption tax. Econtech gave us a number of options on how we could fix the administration's income and we, if you like, hybridised it. We took a slightly lower rate of GST than they had identified and combined that with achievable increases in tourism to deliver the overall financial result that we needed for Norfolk Island. Econtech's most recent review of the situation on Norfolk Island, which, as I have said, was conducted in February 2008, tells me that we need to put aside about \$3.7 million a year, going forwards—this is until about the end of financial year 2011. Currently, we are putting away about \$3.3 million. That is our net operating cash flow. So, on a yearly average, going forwards I am only \$400,000 a year short of meeting the economic target set for us by the Econtech modelling. I have that pretty well covered because—

**CHAIR**—Econtech is a modelling organisation, is it?

**Mr Christian**—Correct.

**CHAIR**—With all modelling, what you get out the other end will depend on what information you give your model. They would be relying on your input to do their modelling?

**Mr Christian**—Correct. The brief that we gave to Econtech came about as a result of the work done by Acumen. As you may be aware, the Commonwealth government commissioned Acumen and it came out with a result which was not favourable to Norfolk Island. It painted a truly false picture. Econtech were given a brief by the Norfolk Island government: review what Acumen have done and, if you identify problems, provide us with solutions. That is exactly what Econtech did. They made a number of recommendations to us. We have implemented all of those recommendations in one form or another and we are on the way to meeting the targets outlined there.

The one area where I am deficient at the moment, with respect to the \$300,000 or \$400,000, is that we had to transition from an income system which was duty reliant into one which was reliant on the GST. To be fair to the commercial merchants of Norfolk Island, we agreed to reimburse them any import duty that had already been paid on stock that was held. We allow them to claim duty drawback credits up to a maximum of 25 per cent of their monthly GST liabilities as an offset against their previously paid duty. The amount of money that we are giving back to the business community as a duty drawback, in an annualised sense, is about \$600,000 or \$700,000. Once the drawback period is finished—and in legislation it is a maximum of five years, but I think in commercial terms it will, possibly, almost be exhausted within two years—

that \$600,000 or \$700,000 that I am giving back to the business community then flows to the administration for other things. So I will be able to meet all of the objectives outlined in the Econtech modelling of the Norfolk Island economy at the completion of this transitional period.

It is the first time that the economy has been accurately modelled. It was a long time overdue but, going forwards, we intend to have economic firms review where we are at quite regularly. You may be aware that in recent times Econtech has been sold to KPMG. Chris Murphy has moved on, but the staff are still available.

**CHAIR**—I congratulate you on getting people like Econtech and Acumen. I understand and appreciate that Norfolk Island is a smallish government and a smallish community but, within your own public service, you do not really have people with the skills to do this sort of work. Is that correct?

**Mr Christian**—That is correct.

**CHAIR**—I read somewhere that Econtech are saying that you will have an annual shortfall of around \$400,000 over the next three years. You acknowledge that there is a challenge to be fully sustainable while, at the same time, putting enough money aside to cover depreciation and replacement. You have mentioned that you need \$4 million. I understand for the last three years, from your figures, that flow surpluses have been around \$3½ million but, even according to Econtech, using the figures which you have given them, you need \$4 million?

**Mr Christian**—Correct.

**CHAIR**—My concern is—and has always been—that the government's ability to pay its way gets more and more constrained every year. Do you agree?

**Mr Christian**—No, I totally disagree with that. If the problems that were identified by Acumen in 2005 had not been rectified, that would well be the case. But we have recognised the problems and we have put in place procedures that will carry forward.

**CHAIR**—Mr Christian, you are running almost lineball. You are not repaying the Commonwealth, by arrangement. That is fine. You are looking at—and I agree with you—an essential infrastructure of some sort of port facility. But on the budget you are struggling to find half a million dollars to bring it up to what Econtech say you need. How can you possibly do this, plus build a new hospital, plus broadband? Good luck to you on that. The air service you have taken on is a risk investment because you cannot get others. It is very much subject to the price of fuel and the Australian economy, which looks like it is heading downhill a bit, along with domestic tourism. All of these problems would concern me, but you feel that you have them all covered.

**Mr Christian**—Senator Macdonald, I am confident that we have them covered and I will explain to you why. You continue to refer to the difficulty we have in repaying the Commonwealth loan, and I have to stress that it is not a difficulty. We thought we would experience a downturn—and we did experience a downturn—but the administration was always in a position to meet its obligations to the Commonwealth if the Commonwealth had not agreed

to the three-year extension. So as I have said, the airport GBE will commence repaying the loan from 2009 onwards.

**CHAIR**—I accept that. You mentioned that, and I am not challenging you there. But if you do that how are you possibly going to build the hospital? If there is a downturn in tourism, how are you possibly going to do that? And as for building a port, even with large Commonwealth grants—and it is up to the government whether they do that or not—it is the old argument. If you were in the Australian system, I am sure you would have no problem in getting funds for that. But you choose not to be. These financial situations really seem to be difficult, for outsiders at least, to comprehend.

**Mr Christian**—They are difficult to comprehend and we always offer explanations. With respect to the airport loan again, what many people do not realise is that with the Commonwealth's agreement we are paying back the Commonwealth the \$12 million and at the same time putting away an equivalent amount of money. If you compare that to you going to the bank and buying a house and paying it off over 20 years, you are actually doing it twice. That is the situation that Norfolk Island is in. We are paying you back \$12 million over 10 years or whatever the case may be, but we are also putting aside an additional amount equivalent to that to create a future sinking fund.

What would have been a wonderful arrangement is if the Commonwealth had said to the Norfolk Island government, 'Here is \$12 million to refurbish your airport. We will lend that money to you over 10 or 12 years. You pay it off over that period and at the time that the airport is due for the next upgrade—because overlays come around between every 10 and 15 years—here is the line of credit; you can redraw the loan and start again.' But we are actually paying for it twice. The fact that we have the ability to do that to me indicates that the airport is a fairly solid business.

**CHAIR**—I have some more questions but perhaps I could pass to Senator Boyce and Senator Bushby.

**Mr Maywald**—Could I just go back to—

**CHAIR**—We can come back later.

**Mr Maywald**—Sorry, I just want to address something you said before. I think we went off on a tangent somewhat. On the question about finding \$9 million—it is not nine million new dollars. Those funds have been spent on infrastructure, maintenance and replacement every year for many years. I do not have the exact dollar figures here—Mr Wilson may have those—but we are not talking about nine million new dollars. It is just that the focus of the analysis has constantly been on the revenue fund. There is almost no capital expenditure on the revenue fund, but there is significant capital expenditure in the other areas and it has been going on for many years.

**CHAIR**—Your maintenance is never going to fall—the \$4 million you set aside for that.

**Mr Maywald**—I am not suggesting that it will. I am saying that it has been provided for and it will continue to be provided for.

**CHAIR**—Yes.

**Mr Maywald**—So it is not a matter of finding new money. That has been in the budget every year and remains in the budget. The deferral of the repayments on the airport loan did give a short period when the government could firstly rebuild tourism numbers, which it has done, and then undertake some extra infrastructure work. The funds that would have gone to the airport loan in that time have largely been used on new infrastructure.

**CHAIR**—Like what?

**Mr Maywald**—The works at the airport. There was the ability to use that \$1.2 million a year that would have been repaid to the Commonwealth for two years (a) to get the airline up and running and then (b) for infrastructure work. That will not apply in future because the airport loan will start to be repaid from June next year. The \$9 million is not a new \$9 million. It is already in the budget, has remained in the budget and roughly that figure has been spent for a number of years. It is just that, with the way the consolidated accounts are presented, you would need to extract that item by item, in a sense. There is no consolidated statement saying: ‘Here is all the capital expenditure right across the whole system’. It is in the various GBEs, and the same would apply.

You mentioned that loan repayments would come into that same category. They will. At this stage, the only loan repayments have been on the Cascade Cliff. That is under a different arrangement whereby the loan is paid from the rock royalties. That loan is not insignificant; it is down to about \$600,000 now, I think, and will be repaid from the rock royalties. The airport loan will be largely paid from passenger movement charges from the airport, which are double that figure, so that will more than cover the repayment of the loan.

So we are not talking about suddenly finding a large amount for capital; that is there all the time. But you have to look at the total consolidated picture, and it is a bit unusual in Norfolk Island, given the degree of government business enterprise, not just revenue from taxes. In an Australian context, that is relatively low, but revenue from business activity is much higher.

**CHAIR**—I might come back to that, but I will pass on to Senator Boyce.

**Mr Christian**—Senator Macdonald, I will just shed some light here. You had sought clarification on what we have spent in previous years on asset maintenance and replacement. In the 2006 financial year the figure was \$6.9 million. In the 2007 year the figure was \$7.3 million and, as we have previously indicated, in this year it will be around the \$9 million figure.

**CHAIR**—That is on maintenance?

**Senator BOYCE**—That is on asset maintenance.

**Mr Christian**—That is asset maintenance, replacement and new.

**Senator BOYCE**—Is that capital as well as maintenance?

**Mr Christian**—Correct.

**Mr Maywald**—That figure does not include any loan repayments.

**Mr Christian**—No.

**Senator BOYCE**—You have a figure of about \$6.7 million. I am trying to make that make sense in terms of the expenditure budget she has given us.

**Mr Christian**—The 2006 number was \$6.9 million and the 2007 number was \$7.3 million. Going forwards, I think it is probably beneficial to everybody if we extract this information and put it in a separate part of our financial statements.

**Senator BOYCE**—That would be useful. Mr Maywald, you mentioned the other GBEs. I was going to ask you for a list of the GBEs other than the airport.

**Mr Maywald**—Yes, certainly. They are all listed in the consolidated statements. You would probably have a list there. I think Mr Wilson would have a list of all the GBEs from the consolidated statements. They are each accounted separately and then consolidated into the annual statements.

**Senator BOYCE**—Can you just give us an overview of what GBEs there are?

**Mr Maywald**—There are a significant number: there is a liquor supply service—that is, Liquor Bond—postal services, electricity services, Norfolk Telecom, lighterage services, Norfolk Island Airport, water assurance fund, the KAVHA fund—

**Senator BOYCE**—Sorry, the what?

**Mr Maywald**—The Kingston and Arthurs Vale Historic Area fund and the bicentennial museums. The others are not GBEs, I do not think.

**Senator BOYCE**—What about the hospital; does it run as a GBE?

**Mr Maywald**—The hospital and the tourist bureau are statutory authorities, as is the gaming enterprise, and there are other statutory funds that I would not call GBEs as such, such as the healthcare fund and the workers compensation fund.

**Senator BOYCE**—Which of those GBEs had an operating surplus? Perhaps we can use 2006-07 if 2007-08 is a bit—

**Mr Maywald**—I will pass that to Mr Wilson, but I think that it is virtually all of them except the museums, from memory.

**Senator BOYCE**—It would be good if we could get a list of the GBEs.

**Mr Maywald**—It is all in the consolidated statements, but the majority of them are operated (a) for community service and (b) to raise additional revenue for the health fund, education and welfare and those types of services.

**Mr Wilson**—I can mention the ones that do have surpluses, if you like.

**Senator BOYCE**—Have they all made a surplus?

**Mr Wilson**—I would have to run through them. The Liquor Bond, for instance, made a \$985,000 surplus; the postal service's was very small, \$33,000, but still a surplus; and electricity was only \$41,000, but still a surplus. This is after depreciation.

**Mr Maywald**—Is it after dividends to the revenue?

**Mr Wilson**—No.

**Senator BOYCE**—That was going to be my next question.

**Mr Wilson**—This is just operating profit.

**Senator BOYCE**—Who are dividends from those organisation paid to?

**Mr Wilson**—They are paid into the revenue fund, and it then forms part of the revenue fund's operating expenditure.

**Senator BOYCE**—You mentioned \$22 million from the airport going into total revenue.

**Mr Maywald**—That is the airline's gross receipts.

**Senator BOYCE**—Sorry, from ticket sales.

**Mr Wilson**—Yes.

**Senator BOYCE**—What about the other GBEs? How much did they contribute to the total revenue?

**Mr Wilson**—They all contribute in different ways because some of the funds are actually left with the GBEs to run their own operations—

**Senator BOYCE**—No, I mean money that is actually transferred as a dividend or a payment.

**Mr Wilson**—How it works is that we have a revenue fund that is the main operating fund of the island, and it raises taxes and so forth that go into its income. Then they have these operational expenditures such as the school, grants to the tourist bureau, grants to the hospital and grants to museums to help run those entities. On a consolidated basis, what we try and do is level it all out so that a GBE is not left with too much money of its own that it does not really require. So it is not really a dividend to the revenue; it is a transfer of funds to another entity to spend money on various services that it provides.

**Senator BOYCE**—So you account for that differently to the way that you account for the airline dividend?

**Mr Wilson**—If the airline makes a net profit of one million dollars, it would be the decision of the government whether they would say, ‘Okay, we will give half a million dollars of that to the revenue fund to be utilised by way of grants to the hospital.’

**Mr BIDGOOD**—I am not talking about how you expend it. I am just asking how much of it has gone into revenue. You are able to tell us that \$22 million—

**Mr Wilson**—Well, it all goes into revenue.

**Senator BOYCE**—All the profits from the GBEs go into revenue—all the surpluses, each year?

**Mr Wilson**—It all goes into the consolidated accounts of the administration, which is the public account.

**Senator BOYCE**—So how much is that?

**Mr Wilson**—It is \$49 million.

**Senator BOYCE**—So there is no—

**Mr Wilson**—That is the total income.

**Senator BOYCE**—But not from GBEs.

**Mr Wilson**—No, not from GBEs.

**Senator BOYCE**—So what is the total income from GBEs?

**Mr Wilson**—There is about \$13½ million in the revenue fund, so \$36 million.

**Senator BOYCE**—So there is \$36 million from GBEs?

**Mr Wilson**—Gross income, yes.

**Mr Maywald**—And, of course, there are statutory authorities that would not be included in that.

**Senator BOYCE**—That was going to be my next question: what about any surpluses from the statutory authorities? Is there such a thing?

**Mr Wilson**—They retain their own funds.

**Senator BOYCE**—Tourism retains its own. Do you expect a dividend paid to the government from any of the statutory authorities?

**Mr Christian**—No, the opposite.

**Mr Wilson**—No, on the contrary, we put money into them; we support them.

**Senator BOYCE**—One would imagine that would be the case with a hospital.

**Mr Christian**—Correct.

**Senator BOYCE**—I want to ask some questions about the GST and its introduction—that would have been something of a revolution as a policy in Norfolk Island. How is it functioning? How is it working?

**Mr Christian**—It is functioning very well. It has been well-received by the business community and the community in general in Norfolk Island. It has become the principal revenue earner for the administration.

**Senator BOYCE**—How much are you expecting out of that in 2008-09?

**Mr Christian**—The GST Office has been set up as a statutory authority.

**Senator BOYCE**—What do you call it?

**Mr Christian**—We call it the GST Office, but it is set up as a sort of statutory authority. It collects the taxation, but only remits its net profit, if you like, to the administration. So we might collect in total \$6 million a year, but \$5.7 million comes to the administration for redistribution.

**Senator BOYCE**—That is what you are expecting in 2008-09?

**Mr Wilson**—Close to \$6 million.

**Mr Christian**—Approximately \$6 million in 2008-09.

**Mr Wilson**—Without our duty drawback, it would be \$6.7 or \$6.8 million.

**CHAIR**—The GST is, I understand, nine per cent across the board. Everything is included: food, health, everything—no exemptions.

**Mr Christian**—That is correct.

**CHAIR**—We will have to find out how you were able to achieve that. We never could do that!

**Senator BOYCE**—No Democrats!

**Mr Christian**—I can clarify that for you. Prior to the introduction of the GST, we had a three-tiered import duty system, where duties ranged from a high of about 15 per cent to a middle of the road 10 per cent for most items. Food was always taxed at 6.5 per cent. Moving from a 6.5 per cent import duty to a nine per cent GST had no impact on some imported goods and only a minor impact on others. I think the worst case scenario was food, which moved up by something

in the order of 4.5 per cent in some instances. It was an increase that the community of Norfolk Island were willing to bear because at the time the Commonwealth was proposing the extension of all Commonwealth taxes to Norfolk Island.

Another reason that we wanted to introduce the GST was to try and overcome the perception in the Commonwealth that Norfolk Islanders were not taxed in any shape or form, which was totally not true; we are just taxed in a different way.

**Senator BOYCE**—We like your different way.

**CHAIR**—Here we have GST and income tax and company tax!

**Senator BOYCE**—You have probably partly answered my next question, which was around the effect of the GST on the cost of living on Norfolk Island. Could you quantify that in some way?

**Mr Christian**—Yes, I can. There has been, no doubt, some adverse effect on the cost of living in Norfolk Island with respect to food. There have also been some adverse effects in respect of increased costs in child care and things like that because, basically, we exempt nothing. For the day care centres and things like, the government have given them annual grants equivalent to the GST they would have paid, so it becomes cost neutral for them.

**Mr Maywald**—Could I just add that. There are some GST-exempt bodies—basically charities—and GST is not payable on airfares or travel. So there are some exemptions. But it is a much more broadly based GST than the Australian one.

**Senator BOYCE**—How much has the GST put up the cost of living?

**Mr Christian**—It is hard to say. The GST alone, as I have said, in respect of food would have increased the cost of food by no more than 4.5 per cent, but you have to couple that with across-the-board increases in the cost of food because basically everything we consume in Norfolk Island is imported, other than fresh vegetables.

**Senator BOYCE**—How do you measure the rate of inflation on Norfolk Island?

**Mr Christian**—We have what we call a retail price index, and every three months we measure a basket of goods, pretty much like the CPI does in Australia. We publish in the *Government Gazette* every three months the movement in prices, or the result of that survey.

**Senator BOYCE**—Can you talk me through the RPI of the last 18 months, say?

**Mr Christian**—I cannot with any authority at the moment, but I can tell you that, in the last RPI gazettal notice that went out, I think we actually had a slight reduction in the cost of living.

**Senator BOYCE**—That would have been for the June quarter?

**Mr Christian**—The quarter ending 30 June. I would say that on average it would be somewhere around four per cent per year.

**Mr Maywald**—Yes. Senator, we would be happy to supply you with the detailed breakdown of the RPI. The original basket of goods and services was set up by the ABS. We are currently negotiating with the ABS to review that. We will need a full household expenditure survey to do that. But, with the rate of inflation, there was a small spike in a single quarter from the GST. It was not particularly significant and was not as great as the spike in Australia, but I do not have the figures with me. I am happy to supply those to the committee.

**CHAIR**—That would be good.

**Senator BOYCE**—The other area I want to touch on whilst we are talking about inflation and inflationary impact is: do you separate out local inflation from imported inflation, so to speak?

**Mr Christian**—No, we do not.

**Mr Maywald**—Because the vast majority of consumer goods are imported, no, we do not. It could be done, but as an observation I would say that one of the difficulties for economic management in Norfolk Island is that it is such a small community and we do not have the sophisticated measures that there are in Australia. It could be done, but whether it is justified is another question.

**Senator BOYCE**—I would be interested to look at what the effects of Norfolk Island government policy are compared to, as you said, the inflation that you are obliged to import. I am told that the public service union is looking for a fairly high pay claim and that this will put up the cost of living on Norfolk Island. Would you like to tell me about that?

**Mr Christian**—I can respond to that. Yes, they did apply for a fairly high pay claim.

**Senator BOYCE**—Which is how much?

**Mr Christian**—The original claim was something like 25 per cent over two or three years. The Norfolk Island government anticipated some sort of pay rise in the 2007-08 and 2008-09 financial years. We provided for that. The actual outcome was an increase of around 17 per cent.

**Mr Maywald**—Paid in two or three stages.

**Mr Christian**—Two instalments, yes.

**Senator BOYCE**—When are those instalments due?

**Mr Christian**—It is up and running now. Part of it was recognition going backwards, and that was paid in a lump sum.

**Senator BOYCE**—Because there had not been a pay rise for a long time?

**Mr Christian**—Correct.

**Senator BOYCE**—How long?

**Mr Christian**—Since 2002 or something like that, I think.

**Mr Maywald**—There was an interim decision in 2005 and a further decision of the tribunal earlier this year.

**Senator BOYCE**—So there was an increase in 2005—

**Mr Maywald**—And that was across the board.

**Senator BOYCE**—of how much?

**Mr Maywald**—I think it was a flat increase of three per cent, but I would need to check that figure for you. The Public Sector Remuneration Tribunal makes those decisions. There was an interim decision in 2005 and the full case was heard and decided earlier this year. There was a retrospective award to 1 January this year which was paid straightaway and a further increase from 1 July which again has been paid and budgeted for.

**Senator BOYCE**—So there was a 17 per cent increase—

**Mr Maywald**—That is compounding. There was a 10 per cent increase and a 7.5 per cent increase.

**Senator BOYCE**—and inflation is at four per cent. How do those two figures go together?

**Mr Christian**—They do go together. We had anticipated the pay rise and planned for it in our budgetary process, so it came as no surprise when the remuneration tribunal awarded a pay rise of that magnitude. But we did not have to increase any taxes, levies or rates to cover it.

**Senator BOYCE**—I guess my question is about an independent remuneration tribunal awarding an increase of 17 per cent in a climate where the inflation rate is four per cent. It would seem somewhat unusual for the award to be that much higher than the rate of inflation.

**Mr Christian**—I do not think so—if you take the catch-up component into the equation.

**Senator BOYCE**—But we are talking about catching up from 2005.

**Mr Christian**—Yes.

**Mr Maywald**—The tribunal is not bound to increases based on the cost of living; it makes increases based on productivity. There have been significant savings—around \$1 million a year—from reductions in the size of the public sector over the previous two years.

**CHAIR**—What is the size of the public sector?

**Mr Maywald**—It is measured a bit differently from Australia's. If you take everybody, which includes government business enterprises and tourism offices, it is around 200 people. But that does include a lot of people who are effectively working in business.

**Senator BOYCE**—That is in the GBEs?

**Mr Christian**—Correct.

**Mr Maywald**—But the actual public service is pretty small. The actual public service, measured in Australian terms, is fewer than 50 people.

**CHAIR**—Are the GBEs subject to the remuneration tribunal?

**Mr Maywald**—Yes, the GBEs are, but not the statutory authorities.

**Senator BOYCE**—So 200 people on the island have benefited from that decision? Is that a good way to classify who is a public servant and who is not?

**Mr Maywald**—Yes. There are 200 people but not 200 FTEs. The number of FTEs would be closer to 170 people. Some of the people are part time; some of the 200 are not full-time equivalents.

**Senator BOYCE**—So it is about 170?

**Mr Maywald**—The total workforce would be a little over 200, but that includes people selling alcohol at the liquor bond and people selling stamps.

**Senator BOYCE**—But they all got that pay rise?

**Mr Maywald**—Yes, they did.

**Senator BOYCE**—Let us look at this the other way around. You have got a 17 per cent pay rise for your public servants, but inflation has stayed at four per cent. How does that work?

**Mr Maywald**—Brilliant economic management, I think! Since the pay rise, the last RPI fell, so there has not been a flow-on effect. It is a very different economy from Australia's, so it is a bit hard to explain. It was effectively a pay rise compounding to 17 per cent. There was a 10 per cent pay rise and a 7.5 per cent pay rise. The compounding effect would make it effectively 17 per cent. There was a catch-up period in that. The members of the assembly have put in a claim to the Public Sector Remuneration Tribunal for the first time in—

**Mr Christian**—Well over 12 years.

**Mr Maywald**—It is about 12 years since the last time there was an increase in salaries for members of the assembly.

**CHAIR**—It sounds like Australia!

**Senator BOYCE**—Can you tell me about that claim.

**Mr Maywald**—Members of the assembly are paid about \$11,000 a year.

**Senator BOYCE**—And what is their claim?

**Mr Maywald**—There are several options. They have put to the tribunal four options for how future salaries could be calculated. They have not put in a specific claim. They have simply said it could be linked to inflation, to a level in the public sector or to a proportion of a basket of Australian equivalents. But they have left it to the tribunal to determine the methodology going forward. There has not been a fixed methodology. It has tended to be a long time between claims, and the tribunal has made a decision based on the current circumstances. Assembly members are simply suggesting something a little more structured than that.

**CHAIR**—I read 60 per cent, didn't I? I want to know how we can do that in Australia. Sixty per cent sounds appropriate for today.

**Mr Maywald**—If you are going to wait 12 years to get it, you might need 60 per cent.

**CHAIR**—That is what is happening.

**Mr Maywald**—There has been no measurable effect on inflation from the public sector wage claim.

**CHAIR**—But is that 60 per cent right? Did I read that in the local rag?

**Mr Maywald**—It could be, I suppose, if you went back to when there was a last pay increase and adjusted it for inflation for 12 or 13 years, but it is unlikely the tribunal would do that.

**Mr Christian**—The 69-70 per cent came about as a result of the pay rises that were awarded to one of the statutory authorities—that is, the hospital. The nursing staff successfully negotiated an arrangement with the Norfolk Island government that registered nurses would be paid at 70 per cent of the equivalent mainland rate. So if you applied the politicians pay in Norfolk Island to 70 per cent of what you guys get, that is where the 70 per cent increase came from. I get paid \$38,000 a year, so it would take me to something like \$60,000.

**CHAIR**—What is the average minimum wage on Norfolk Island?

**Mr Christian**—The minimum wage is not specified as such. It is specified as \$10.70 per hour with the working hour being 40 hours a week.

**Senator BOYCE**—What is the average wage?

**Mr Maywald**—Because we have no income tax system we do not have that figure.

**Senator BOYCE**—You do not know.

**Mr Maywald**—Ten dollars and seventy cents of course is tax free.

**Senator BOYCE**—You have 170 full-time equivalent people working under a public service award. How many other people earn an income on the island? I am trying to get to the number of public employees versus the number of private employees.

**Mr Christian**—About 300.

**Mr Maywald**—No, I think it is more than that. I can give you the figure from the census. It is significantly more than that. Around 60 per cent of all adult females are working and 80 per cent of all adult males. The last snapshot of the private sector workforce would be the census. We can provide that figure to you.

**CHAIR**—What is the total permanent population of the island? Is it 1,200 men, women and children?

**Mr Maywald**—Just on 1,900.

**CHAIR**—Men, women and children?

**Mr Maywald**—Yes, that has been very stable for the last 20 years. It fluctuates up and down a bit with the economic activity, but it has been quite stable.

**CHAIR**—We have established that there are about 170 in the public service and the GBEs. Are you saying there are 300 or 400 in the private sector?

**Mr Maywald**—I would say there are more than that but there are also a lot of self-employed people and a lot of business people. We can get the figure from the census. I have not brought that information with me but we did get that for you.

**Senator BOYCE**—That would separate out the private and public employees?

**Mr Maywald**—It does. It is separated into self-employed and employed. The other unusual feature is that many people have a number of part-time jobs.

**CHAIR**—Sure. Sorry to interrupt, Senator Boyce, but are you saying the minimum wage is \$10.70 an hour for a 40-hour week?

**Mr Maywald**—That is the minimum wage by statute.

**CHAIR**—That adds up to something like \$19,000 a year—is that right?

**Senator BOYCE**—It is roughly \$20,000.

**Mr Maywald**—That is the minimum wage. The vast majority of workers are on much higher figures. The figures are available for that in the census.

**CHAIR**—You do have an average wage in the census?

**Mr Maywald**—Yes, we do. But, as we said in our submission, it is hard to compare because there are no income taxes and no property taxes. You can measure gross wages—and gross wages are very low in Norfolk Island—but if you allow for the lack of taxes and not just income tax, then it is quite comparable.

**CHAIR**—Senator Boyce, are you midstream here? We can come back to you.

**Senator BOYCE**—There are some more I have to ask around that but I am happy to come back to them.

**Senator BUSHBY**—Thank you for coming here this morning. It has been very interesting. Just on that issue of employment on the island, is everybody gainfully employed who choose to be? In my purview, a comparable island would be King Island, which I go to regularly as a senator for Tasmania. It has similar a population with people working lots of part-time jobs. The guy down at the harbour will be also do something else and something else because basically they have problems finding enough people to do all the jobs that need to be done. Is that the same experience you have on Norfolk Island?

**Mr Christian**—We have no unemployment as such. Anybody who wants to work can work. But, as Peter has said previously, a lot of people work additional jobs. The principal reason for doing that is that there is no penalty for earning additional income.

**Mr Maywald**—That is where it gets a bit messy between the public and private sector. I would say that the majority of public sector employees have secondary employment with approval—mostly in tourism and hospitality areas. It is common.

**Senator BOYCE**—That might be like driving a bus twice a week or something like that?

**Mr Maywald**—It could be more than that, but, yes. It might well be more than that, but that also might be seasonal. In the high season there may be a great deal of work but not so much in the low season.

**Senator BOYCE**—What if I am an Norfolk Island resident and I cannot work? What provisions do you make for me?

**Mr Christian**—What would happen in Norfolk Island if, for instance, you go through a marriage bust up or you are down on your luck and things are just tough and you cannot work, is that you can apply for what we call a special benefit. That benefit is paid at the rate—

**Mr Maywald**—It is the same rate as the pension, which is about 106 per cent of the Australian rate.

**Mr Christian**—That is for as long as you need it.

**CHAIR**—One hundred and six per cent?

**Mr Maywald**—Yes. Pensions in Norfolk Island are paid at a lot higher rate than on the mainland. It is a much simpler structure. There are age pensions, disability pensions and what is effectively a hardship pension. That can relate to being a single parent—

**Senator BOYCE**—How many people applied for a special benefit in 2006-07 or 2007-08?

**Mr Christian**—I cannot give you a breakdown, but I can tell you that in 2007-08 we spent \$2.4 million on welfare recipients in total.

**Senator BOYCE**—Does that include all the pensions?

**Mr Christian**—That is correct.

**Mr Maywald**—There are slightly less than 100 people currently receiving full pensions of all types. One of the reasons is that there is no compulsory retirement age on Norfolk Island, so people tend to work longer. Without being flippant, I convened a meeting between our welfare people and Centrelink and it was difficult to get them speaking the same language because ours is a very different system. The majority of our aged people have to be persuaded to apply for a pension and assisted to apply. That is usually through the welfare officer at the hospital. Many of them would rather go on working than go on to the pension, so there is quite an effort made to find people who are in need through our welfare structures as well as the counselling service in the hospital. Centrelink found it rather amazing that we had to go out and find people and take the forms and say, ‘Would you please fill this out. You are getting a bit frail; wouldn’t you like to perhaps get a pension payment?’ It is a very different environment.

**Senator BOYCE**—Could you also provide any figures on people who were refused the special benefit.

**Mr Maywald**—Yes, certainly. I am not aware of anyone who has been, but I will certainly—

**Senator BOYCE**—Are there any residency qualifications to receive—

**Mr Christian**—Yes, there are. We have an income test—

**Senator BOYCE**—Just before Senator Macdonald and I retire, can we rush over there and put ourselves on this pension?

**Mr Maywald**—Certainly for the age pension, but not necessarily for the hardship pension or special benefit. If somebody is in need, they can be a temporary entry permit holder or a long-term resident. The basis is need not residency. But there is a qualification period for age pensions and, I think, in some cases for long-term disability pensions for someone who might move there with a pre-existing disability. But a resident who develops a disability would qualify.

**CHAIR**—But Senator Boyce could not rush over there and retire, could she? There is a restriction on—

**Mr Maywald**—There is an immigration system, but I am sure, Senator, if you would like to talk to us about it we will see what we can do!

**Senator BOYCE**—I will hand back to Senator Bushby, who is not about to rush anywhere to retire!

**Senator BUSHBY**—No, not quite at the moment! I just have one question on unemployment. You mentioned that one of the reasons people work extra jobs is that there is no penalty tax—

wise. But that inherently suggests that there are extra jobs there for people to do. Do you have enough people to do the jobs? If you had more people, would you have jobs for them? Is there a constraint on your economy, effectively, by the fact that you do not have enough people to do the work?

**Mr Christian**—What we have in Norfolk Island, which has worked very effectively, is a system of TEPs, temporary entry permits. It would probably relate to a guest worker permit in other countries. As the economic activity in Norfolk goes up and down, we import more people or export temporary entry permit holders according to the job needs.

**Senator BUSHBY**—Where do those people tend to come from?

**Mr Christian**—Australia, New Zealand.

**Senator BUSHBY**—South Pacific islands?

**Mr Christian**—Some from Vanuatu, some from Fiji.

**Senator BUSHBY**—I will move back to some other questions. The picture you painted this morning is that things are pretty sweet, effectively—things are running along quite well. Do you see any financial problems facing the Norfolk Island government in the future, whether in the short term, medium term or the long term?

**Mr Christian**—Everything I have told you today is predicated on tourism remaining our major industry and suffering no mishaps. But obviously if there is an economic downturn in Australia—and Australians make up the bulk of our visitors—then they will think about where they spend their disposable dollar. We will have to work harder to get them to spend that in Norfolk Island. Being a single industry economy, we really do have to work at it. When we take our eye off the ball, we do suffer a bit of a downturn.

**Senator BUSHBY**—I will come back to the potential for that in a minute. I understand from some of the papers that I have read that you do have some impending population challenges. We heard today that your population is fairly stable at 1,900 but it is ageing, is not it? Is that likely to create any longer term problems for the government itself in terms of its finances?

**Mr Maywald**—The rate of ageing is slower than the rate on the mainland. That is possibly because some older people choose to return to Australia or to retire in Australia rather than Norfolk Island. While there is an ageing of the population, it is not as rapid as in Australia and New Zealand. Yes, there are challenges in that. There is no compulsory retiring age so people tend to run their businesses and to work longer in Norfolk Island perhaps than on the mainland. There is not an incentive to retire. However, our minister for commerce and industry is currently working to establish an island-wide superannuation scheme that may eventually have an impact on that pattern. But there has not been a growth in the number of people on age pensions in the last two, three or four years. That is slightly surprising because the population is ageing but ageing quite slowly.

**Senator BUSHBY**—I guess the other impact where it would be different for you than what it would be here is that you are not dependent on income taxes.

**Mr Maywald**—Correct.

**Senator BUSHBY**—People who are no longer working will still be spending and contributing to your consumption tax and be participating in your GBEs and helping raise revenue.

**Mr Maywald**—Yes, correct. It is a different structure. The fringe benefits and assistance to people on pensions are different as well. They are not based on tax concessions. They are mostly based on direct benefits such as telephone rentals and electricity concessions. There are no land taxes and no property taxes and the benefits are paid as cash in pensions, not as tax concessions. It also means, though, that we have less information about our economy because we have not got an income tax system, which gives an enormous database for social and financial planning.

**Senator BUSHBY**—I suspect that, along with all other developed areas of the world, at some point the ageing of the population will have an impact. Moving back to the issue of the economy in a general sense being based on tourism, island economies do tend to be volatile and do tend to have a lack of diversification. Has the government looked at how you might diversify the base upon which your economy is built? Obviously, a downturn is of huge consequence to you because you are so dependent upon tourism. What plans do you have to diversify?

**Mr Christian**—At the moment our immigration system is an open door policy. If you have a business proposal that can work in Norfolk Island and that will draw revenue into Norfolk Island and provide employment in Norfolk Island, we want to hear from you. Going forwards that will be an internet-based type economy. That is one of the reasons we want to get broadband internet into Norfolk Island so that we can be part of the digital economy.

**Senator BUSHBY**—That is the main focus of where you are looking to as an alternative to tourism at this point?

**Mr Christian**—Correct. Moving forward we want to get into e-commerce wherever we can. We think we will benefit in the gaming world as well as a result of enhancing our communications capabilities. The second string to the bow is cruise ship tourism, which is growing rapidly in the Australia-New Zealand region. We would like to be a part of that growth.

**Mr Maywald**—There are some small niche industries like the export of coffee and some agricultural commodities. Certainly, New Zealand is showing interest in some things that they cannot produce, like subtropical fruits, at the moment. There is an interesting ABARE report about booms and busts in agricultural exports of Norfolk Island over a century. The difficulty has tended to be freight costs. So, at various times, Norfolk Island has supplied massive amounts of bananas or passionfruit or lemon pulp to Australia but it has usually been short term because, with the freight costs, it is not competitive with domestic industry. There are some niche markets for New Zealand where they cannot produce those things so there are possibilities. Our minister for commerce has been to New Zealand several times; we are negotiating with them at the moment. It is still small scale compared with tourism, though there are some opportunities.

**Senator BUSHBY**—Does the Norfolk Island government think there is anything that the Australian government could do, maybe at little or no cost, or are there any changes of approach or policy, that would assist you to better go about what you are doing? Are there any things you would like changed in the way we go about our business as it affects you?

**Mr Christian**—There are a couple of things that we would like you to look at. In the past we have asked the Commonwealth to look at the possibility of extending the customs barrier to Norfolk Island so that either Australian customs officers can be in Norfolk Island or Norfolk Island customs officers can be de facto Commonwealth customs officers so that we can do passport controls and immigration controls at the Norfolk Island airport rather than limiting flights to Norfolk Island having to originate from airports within Australia that have customs facilities. That has proven to be a little bit difficult.

One of the areas of difficulty at the moment is with our shipping. The current ship to Norfolk Island comes out of Yamba and it goes out to Norfolk Island, down to Auckland, back to Norfolk Island and back to Yamba. Yamba is not a designated port of entry into Australia for customs or quarantine purposes, and that is causing us grief now. For instance, where we need to export recyclable metals back to the mainland or asbestos to be disposed of in a proper landfill somewhere within Australia, we cannot export directly to Australia. We have to send the stuff via New Zealand. It is cost prohibitive. Little things like that bother us. But, at the end of the day, all we ask is that if the Commonwealth is considering any changes in respect of how they do business with Norfolk Island you do it through a process of consultation; you do not just come out with a big stick and say, ‘You shall do this and you have no choice.’

**Senator BUSHBY**—Okay, that is useful.

**Mr Maywald**—We are extremely happy with the model that is working in the environment area where Norfolk Island NGOs and community organisations are eligible to apply for funding in certain programs to protect and enhance the environment. This is not necessarily money for government but a number of Landcare groups, for example, have accessed funds as have water resources and those sorts of areas. It works extremely well. Some assistance from the previous Regional Partnerships program, again, has not been mostly to government. But access to those sorts of programs and resources is very useful. We mentioned in our submission that the *In the pink or in the red?* report of the Joint Standing Committee on the National Capital and External Territories recommended a couple of things that would probably not cost the Commonwealth very much but would give us access to information in aged care, for example. Not necessarily access to aged care funding, but assistance on programs, advice on how you can run community support programs; getting us into the loop, if you like.

In much the same way, there was a recommendation in that report that tourists visiting Norfolk Island should be able to access Medicare for expenses, so that if someone had a fall and broke a leg then they could claim that on their Medicare. That was not acted on. It is not a major issue for us, but those sorts of things can certainly assist us. We do not have the resources to run a lot of sophisticated support programs. We do the best we can to do that, but access to the information would be very helpful.

**Senator BUSHBY**—That is useful as well; thank you. I noted that in the context of the port you mentioned the wave energy in one of the areas being too high. As an aside, have you investigated the potential for power generation of that wave energy?

**Mr Christian**—Yes, we have. One of the impediments to pursuing wave energy is that we have no infrastructure to support it. We do not have a port; we do not have tugs or work platforms with cranes and that sort of stuff. That could be a spin-off of the port. What we are

doing in respect of alternative energy is that we have just recently given a consultancy to a guy here in Canberra. He will take a delegation of people from Norfolk Island on a site visit to various areas around Australia where alternative energy production systems have been successfully integrated with what is there—diesel or coal—and he will then give us a report on what is likely to work in Norfolk. We feel that we have missed the boat with somebody wanting to use it as a research-type facility.

In February of this year I spent some time on King Island looking at their system there and how it compares with Norfolk. One of the things we found there is that, in a worldwide context, King Island is viewed as being very green, but the result that we saw when we were there was very different. King Island has predominantly diesel generated power. One generator set is dedicated to the cheese factory and one serves the rest of the island. They also have a number of wind turbines there. I think that the total value of the wind turbines may be somewhere between \$7 million and \$10 million. On the days when we were there observing the performance, the power station's total output to the island was something like 2,900 kilowatts, but only 16 kilowatts of that was coming from renewable wind energy. Clearly Norfolk Island cannot afford \$7 million to \$10 million worth of wind generation infrastructure to produce such a small amount of power. How does King Island do it? It is obviously the Commonwealth and Tasmanian governments providing a subsidy, as I understand it, of about \$7 million a year, and that subsidises the cost of power in King Island. The consumer pays 22c a unit, as I understand it. The cost of generation is around 66c to 70c a unit. I am not suggesting that you do that for Norfolk Island, but it would be handy if, when we identify the way forward for alternative energy in Norfolk Island, we could access some Commonwealth assistance to bring it about.

**CHAIR**—On that point, what is the electricity tariff on Norfolk Island? It is quite high, as I recall.

**Mr Christian**—The current tariff is 65c per unit.

**Senator BUSHBY**—Which is pretty close to what you say it costs in King Island.

**Mr Christian**—Pretty similar costs, yes.

**CHAIR**—But you actually charge that.

**Mr Christian**—That is what we charge the consumer.

**CHAIR**—We know how that compares with King Island, but do you know how it compares with other parts of Australia?

**Mr Christian**—I do not know how it compares with other parts of Australia.

**CHAIR**—I would imagine that King Island, even subsidised, would be fairly high compared to other parts of Australia. I am not sure what I pay.

**Senator BUSHBY**—You just get the bill and pay it.

**Mr Maywald**—It is by no means the highest in the South Pacific, but it is heavily dependent on diesel imports.

**Senator BOYCE**—Sorry, Norfolk Island is the highest in the South Pacific?

**Mr Maywald**—No, by no means. Places like Niue are much higher than that, but it is heavily dependent on diesel at this stage. The current tariff is because of a significant increase on the last tanker, but that tends to go up and down with the price of diesel.

**CHAIR**—The worldwide oil price would not be giving you any comfort at the moment.

**Mr Maywald**—The next shipment will probably be significantly cheaper than the last one, but our fuel supplies come from Singapore originally and then via New Caledonia. It is not a cheap way of getting fuel. There was an earlier study, funded at least in part by the Australian Greenhouse Office and involving Hydro Tasmania, which looked at wind power for Norfolk Island. They felt at best it could generate 27 per cent of our power, and the problem of course was generating it at the time you need it, so how much wastage there would be. They did say in their report they felt long term wave energy would be likely to be a great source of power but the technology was still being proven. It has moved a little forward since then but we are probably still at the stage where it would be expensive initially.

**Senator BOYCE**—It is probably five years away.

**CHAIR**—I am not sure that your main source of revenue, which is tourists, would like the island covered in windmills either.

**Mr Maywald**—That was another consideration. The best place they said for the windmills in terms of the prevailing wind was in the middle of Kingston, which of course is the historic area—so highly unlikely—but at Headstone we could have generated 27 per cent with three large turbines. The other problem was servicing them because you need a huge crane to service them.

**CHAIR**—Sorry, Senator Bushby, I interrupted you.

**Senator BUSHBY**—That is okay. It is a very interesting line of questioning. What about other infrastructure requirements? We have discussed infrastructure funding and where you get the money if and how you are going to make it recurrent, but I understand you also need to extend sewage and waste management as there are some problems with that at the moment. Is that all factored into what we were discussing earlier?

**Mr Christian**—Yes, that is factored in. The sewer scheme basically services the central part of the island, the Burnt Pine area, the commercial area, and we are extending that into some of the more highly populated areas that are just out from the CBD. But we have had a few difficulties there in respect of access issues and getting easements for the extensions. But if they have not been resolved they are probably not far away from being resolved, and then a couple of small extensions will be put in place.

**Senator BUSHBY**—I understand in some of the assembly debates there have been references to polluted groundwater supplies and contaminated land. So what you are talking about there will resolve that?

**Mr Christian**—It is two pronged. What we are talking about now will certainly resolve the contamination from any sewage problems. You need to understand though that the areas where there have been alleged contamination from raw sewage are areas on which the land owner has failed to maintain their septic systems properly and hence the decision to extend the sewer to pick up those properties.

The other contamination problem we had was in respect of the burning area at the Headstone waste disposal site where it was suggested that years of burning everything, including plastics, may have resulted in a degree of dioxin contamination of the drinking water of the properties in that area. We have tested the drinking water. There is no measurable level of dioxin in it, but we now need to confirm whether or not there is dioxin present in the soil. If there is dioxin present in the soil in some of the properties there, we need to determine whether that came from the burning of the waste in the first place or is a residual hangover from farming practices that were previously employed in the area. We will get to the bottom of that.

**Senator BUSHBY**—If it does show you dioxin levels which you determine to be the result of burning of waste, is that likely to be a continuing problem or do you now have alternative methods for dealing with waste of that type?

**Mr Christian**—We think if it has been proven to be a by-product of waste disposal we have that under control. Some years back with assistance from the Commonwealth we developed a waste management centre where basically stuff was sorted, what could be recycled was recycled, and what had to be disposed was disposed of at the old Headstone site.

We have just received a report from Australian consultants recommending the installation of a high-temperature incinerator being attached to the waste centre where basically everything will be incinerated. They recommended that because the Norfolk Island stream is insufficient to provide co-generation of electricity and that sort of stuff. The intention is that we will burn all of our waste in 600-kilogram lots and then dispose of the ash either by placing it in secure land fills or by mixing it with the effluent from the sewerage treatment plant that is disposed into an ocean outfall.

**Senator BUSHBY**—In respect of hospital and aged care facilities, particularly aged care facilities, what do you currently have for people with low- and high-care needs?

**Mr Christian**—The situation at Norfolk is that once someone is incapable of looking after themselves in their own home they move into the Norfolk Island Hospital. At the hospital they can be accommodated in two ways: they can rent, or Welfare can pay, for a unit within the hospital grounds—

**Senator BUSHBY**—An independent living unit.

**Mr Christian**—Yes. We have about four or five of those, and that can be expanded in the future. Alternatively, they can live within the aged care part of the hospital itself. I think we have

three or four long-term residents there now. At times we have had up to 12. That is basically where they live. Our health minister is now working on a modular system which will replace the hospital in its entirety over the next few years. The first unit of that modular replacement will be a dedicated aged facility within the hospital grounds.

**Senator BUSHBY**—How is that going to be funded?

**Mr Christian**—I have not turned my mind to the funding of that at this stage but Norfolk has had a number of wealthy benefactors in the past who have indicated that they will make significant contributions to an aged care facility and a new hospital once we determine what we want and put a price to it. For instance, the Lord Mayor's trust fund in Melbourne will contribute, the Norfolk Island government will obviously contribute and the Commonwealth may care to.

**Senator BUSHBY**—So it is dependent on basically charitable bequests, in a sense.

**Mr Christian**—It is not dependent on them, but we have been grateful for the support that has been given in the past.

**Mr Maywald**—Could I add that Uniting Care have been to Norfolk Island on at least two occasions. They are looking at purchasing a property for independent living. The units at the hospital are semi-supported units, like flats, but they are on the hospital campus. This will be a separate independent living facility. Uniting Care are struggling somewhat to get a handle on demand. They think demand is quite low, and they tend to run facilities that are much bigger. They are looking at maybe five or six units. Their smallest facility in Australia is for 100. In another role, I am treasurer of the Uniting Church and we have been negotiating with them about providing some support for that. They probably will proceed with a purchase of independent living units for aged care in the next 12 months or so.

**Senator BUSHBY**—I understand from previous involvement with the aged care industry that independent living units in a lot of Australian based aged care homes actually subsidise the costs of providing low care and, in particular, high care. How does the funding of the independent living units that you have work? Do you make money out of them, are they cost-neutral or do you lose money? Do you subsidise them?

**Mr Christian**—I think they are pretty much cost-neutral at the moment.

**Mr Maywald**—But there is not heavy demand for those units. The Uniting Care ones will not be cross-subsidised. They will be independent of government. But Uniting Care have not yet taken the final decision to move down that track because there has been relatively low demand.

**Senator BUSHBY**—Is the low demand because people with care needs tend to want to stay in their homes?

**Mr Maywald**—Yes.

**Senator BUSHBY**—Do you provide care for people in homes at the moment?

**Mr Maywald**—Yes, we do. There is a mixture of voluntary and government funded care.

**Senator BUSHBY**—I understand that the government is considering proposals to ramp that up somewhat. Is that true? I thought I had read that somewhere.

**Mr Christian**—Yes. We have at the moment district nursing service staff attached to the hospital. They routinely go out and visit people who need to be visited. But there is a proposal from some in the community at the moment that that service should be improved and expanded. Our minister for health is considering that at that moment.

**Mr Maywald**—Because it is a small community there are some other services. For example, there is a network of people who phone older people each morning to check on their wellbeing. We provide them with telephone concessions to do that. It is just to check up.

**Senator BUSHBY**—It is one of the nice things about island communities.

**Mr Maywald**—Yes, it is what would probably happen without government intervention but we assist that by providing rental concessions to them on their phones.

**Senator BUSHBY**—We are here to look at the finances, I guess. So if you are looking at ramping up the home-based care system that is another additional cost. Presumably that will add more to the bottom line of what you are spending as well along with all the other things we have discussed today?

**Mr Christian**—Obviously there would be budgetary considerations but I will just consider them when the numbers are given to me.

**Mr Maywald**—There is a working party that has been set up by the board of the hospital looking at the replacement of the hospital, and the first stage is aged care. So the first modular unit to be built will be the aged care unit and in doing that they are looking at the whole range of services. I would not expect there to be a major budgetary impact. We are not talking about large numbers of people. I think that could be covered within the health budget with relatively minor adjustment.

**Senator BUSHBY**—From what I understand, it is probably cheaper to keep them in their homes than it is to put them into care.

**Mr Maywald**—Correct.

**Senator BUSHBY**—The Chief Minister stated last week that the government had to find substantial additional funding to sustain high levels of health services in the island's hospital. Why was this said? What do you see are the problems that are coming?

**Mr Christian**—What did the Chief Minister say?

**Senator BUSHBY**—As I understand it, he said that the government needed to find substantial additional funding to maintain the high level of health services.

**Mr Christian**—I do not know whether we need to find additional—

**Mr Maywald**—That was a one-off last year, an additional subsidy for the hospital.

**Mr Christian**—That is right. I will put that in context. Each year at budget time the hospital prepare a budget and they tell us what they think they will need for the year. As members of parliament we sit down and consider their budget. If we think they have overstated it, we trim a bit off them. This year they actually got it right, and we got it wrong. We trimmed an amount off them and at the end of the year I had to give it back to them. So the \$400,000 was in line with their original budget estimates.

**Senator BUSHBY**—How does that impact on your long-term budgeting processes?

**Mr Christian**—For me this year it took the deficit in respect of the revenue fund from about \$150,000 to \$580,000 or something like that, so it was not a huge impact. It was not something that I could not handle.

**Senator BUSHBY**—Not a huge impact out of this year's budget but presumably next year you are not going to be able to trim that \$400,000 off and if they also come back to you with a little bit more—

**Mr Christian**—Going forward this year I was not so bold as to take it off them in the first place, so it should be okay.

**Mr Maywald**—There was another factor that the minister mentioned before that. During that year there was a significant change in the remuneration structure for nurses. They are now being tied to mainland rates. The remuneration, which is at 70 per cent of mainland rates and is tax free, is pretty much the same as that paid to mainland nurses. That change did have a one-off cost increase effect for the hospital.

**Senator BUSHBY**—Do you have problems attracting nurses and medical staff?

**Mr Maywald**—No.

**Senator BOYCE**—We have a list here of the positions—three full-time doctors, a physio and whatever. It does not mention nurses. Are all those positions currently filled by full-time permanent staff?

**Mr Maywald**—The medical superintendent has just moved to Christmas Island for a greater challenge. He says there is much more challenge there than in Norfolk Island. There is one position covered by locums at the minute, but that is being recruited for. In fact, there is a person already recruited to commence in January. It is being covered by locums at the minute. The rest are all fully covered.

**Senator BUSHBY**—They are full-time permanent positions and they are not agency filled nursing positions?

**Mr Maywald**—No, they are full time.

**Mr Christian**—There is also a dentist as well. We also have—I do not know what you would call it—a lab technician.

**Senator BOYCE**—The list also has a physio, a counsellor, a radiographer, a surgeon and an anaesthetist.

**Mr Christian**—Yes. Coming back to the hospital and putting the Chief Minister's words in context, the hospital derives a portion of its income from the welfare system. If the welfare system pays for a long-term resident to live within the hospital, obviously the hospital derives income from the welfare system in that. In that particular year I think we had fallen from something like, as I said before, 12 permanent inmates or whatever you want to call them—patients, long-term residents.

**Senator BUSHBY**—'Residents' I think is the term.

**Mr Christian**—There is a saving to the welfare fund on the expenditure side but a reduction in income to the hospital.

**Senator BUSHBY**—On the budgeting for these things, do you just do a budget for a year or do you have forward estimates as well?

**Mr Christian**—We budget year-by-year but when Barry prepares the budgets for the GBEs and things like that we tend to look out either five or six years or, in some cases, 10 years; it just depends on what the entity is.

**Senator BUSHBY**—With the hospitals, you say that you have not yet factored in the cost of building a new one because you do not have a proposal before you. So that is not in your forward estimates at this point?

**Mr Christian**—Not at this stage, no.

**Senator BUSHBY**—Take the running cost of having to put that \$400,000 back on this year. Would that be factored into the forward estimates?

**Mr Christian**—It is factored into the year going forward.

**CHAIR**—Where can we find those? Are the government and the GBE forward projection commitments for the next five years publicly available? Are they publicly available somewhere?

**Mr Christian**—They are not normally available but I have given the Commonwealth an undertaking that I will let you have a look this year.

**CHAIR**—Okay.

**Mr Maywald**—Because of the GBEs, there is a potential commercial advantage in knowing in advance what a GBE might be tendering for, so you may not want to say, 'We are going to spend \$2 million on a new telecommunications system,' before you call tenders.

**CHAIR**—So you will be making them available to the government, to the department?

**Mr Christian**—To the minister, Mr Debus—the complete document.

**CHAIR**—That is good. I will not ask for them here.

**Senator BUSHBY**—I have one final question. Take pharmaceutical prices, the prices of your prescriptions. How do they compare with Australia's? I do presume that the Pharmaceutical Benefits Scheme does not apply in Norfolk Island. How do people go affording those when they have to pay full rate?

**Mr Christian**—Obviously, we would like a Norfolk Island equivalent of the Pharmaceutical Benefits Scheme. We have not quite got there. The Norfolk Island Public Hospital is the principal importer and distributor of drugs in Norfolk Island. If you are a welfare recipient and a receiver of what we call HMA, 100 per cent of your drugs are paid for. For Joe Blow in the public the prices of the drugs probably compare fairly well with retail prices within Australia.

**Senator BUSHBY**—Do you mean that pre PBS subsidy? So, if we pay, say, \$10 for a prescription, it might actually be worth \$150 retail?

**Mr Christian**—In some circumstances in Norfolk Island, that could well be the case but, in others, if you are a recipient of Norfolk Island-based welfare, we would pick up 100 per cent of the cost.

**CHAIR**—So the ordinary Joe Blow would pay the \$150?

**Mr Maywald**—The hospital, as virtually the sole importer, tends to use generic drugs wherever possible to keep costs down. We are not subject to PBS, but it certainly is possible that some drugs may be more expensive.

**CHAIR**—Are you looking at a PBS?

**Mr Maywald**—We have considered that. We would have to adopt some sort of Australian model. But it would be too complex to run given the demand and the cost of running it; it would not be justified. The dangerous drugs schedules tend to be tied to the PBS schedule. So the importation of drugs is based on Australian standards but there is not a pharmaceutical benefits scheme per se. Vaccinations, for example, are free for all school-age and preschool children, for pregnant women and for people on pension schemes but not for others. We have been negotiating with the Commonwealth about the Gardasil vaccinations. They are not available on Norfolk Island, although Health has just recently come back and said that they were looking at reconsidering that, given that we pay the full cost of vaccinations.

**CHAIR**—I will give you this paper entitled *Federal assistance provided to Norfolk Island*. Could you let us know, by way of an answer to a question on notice, if there is anything in it that you disagree with? From the website, it looks like an Attorney-General's thing. Could you take the following on notice if you do not have them readily available? Do you have a program for whole-of-government asset replacement for both the government and the GBEs particularly the hospital, sewerage, public utilities? We will send you the *Hansard* with these so that will indicate

those. Also, if you would give us details of the remaining useful life for whole-of-government assets and accumulated depreciation. As for future infrastructure projections, we have spoken about the airport and the seaport and a bit about energy, but if you could let us have those for them and tell us whether you would need Commonwealth contribution. I might have mentioned this, but can you tell us what you are carrying in unfunded depreciation. So if you can take those on notice and get back to us on those. Also, you have mentioned concessions made for drugs given to welfare recipients.

**Senator BOYCE**—Is that all welfare recipients who receive—what is it, HMA?

**Mr Christian**—HMA is short for, I think, health and medical assistance. If they are in that system they get everything free, and other than that there may be a varying degree of assistance.

**Mr Maywald**—It is income tested so that, depending on the proportion of pension paid, there is a tie between that and the amount of HMA available. It is like fringe benefits in Australia. If you are on full pension you get full HMA; if you are on partial pension, you get partial HMA.

**CHAIR**—Are there concessions for travel, motor vehicle registration, home care, rental assistance, electricity, water, sewerage, municipal charges and those sorts of things?

**Mr Christian**—Yes, there are. Indicatively across the board I think there is a 25 per cent discount on electricity, telephone calls and the like.

**CHAIR**—We would be able to find this ourselves somewhere, wouldn't we?

**Mr Maywald**—Yes. Some of those do not apply at all on Norfolk Island. We do not have municipal charges or rates at all. I think telephone rentals are now free for pensioners.

**CHAIR**—My last act was to freehold land on Norfolk Island. Did that happen?

**Mr Christian**—Yes.

**CHAIR**—But you do not charge rates, any sort of property tax?

**Mr Christian**—No.

**Mr Maywald**—That process is not completed. The first stage of freeholding has been completed. The second stage is currently with the minister. So some properties have been freeholded but there are no property rates or taxes as such.

**CHAIR**—And no intention to levy?

**Mr Maywald**—The major revenue change was to reduce the GST. It was considered at that point, with advice from Treasury, Finance and the tax office. The preferred option was for a broad based consumption tax rather than property taxes.

**CHAIR**—Is there some debt being carried by the hospital? How high is it and has it fluctuated over the last few years?

**Mr Maywald**—I will have to take that on notice. You mean in terms of us sending accounts from the public?

**Mr Christian**—The hospital has no debts to anyone as such. Moneys owed to the hospital at any given time would be somewhere around \$125,000.

**CHAIR**—That is the figure I mean—not what the hospital owes, but what is owing to the hospital.

**Mr Christian**—That is fairly constant. The debtors' list at any given time would be around \$250,000.

**CHAIR**—In percentage terms, how many of those would be more than a year old?

**Mr Christian**—Probably not that many, but I could certainly get that information and provide it to the committee.

**CHAIR**—That would be useful. Finally two questions from me before I pass to Senator Boyce: I understand Air New Zealand is cutting back flights. How will that impact on tourism which is, in effect, your main lifeline of revenue?

**Mr Christian**—I can put that into context. Air New Zealand is rationalising its air services to Norfolk Island by cutting out one flight per week. I think from memory that flight will be the Wednesday one. It will become a Sunday one. But it will have no impact at all on the number of New Zealanders currently travelling to Norfolk Island. They have just matched the number of seats into the destination with the actual demand. They have done that by replacing the two 737 services per week with a slightly larger aircraft, an A320. So they will still deliver sufficient seats to carry the existing number of visitors to Norfolk Island. Around 8,000 New Zealanders a year visit.

**CHAIR**—So it is two services a week to one?

**Mr Christian**—Yes.

**CHAIR**—Finally, I want to come back to where I started. I understand that last year the finance minister said that the revenue fund budget would provide an expenditure of \$13.9 million and a revenue of just over \$14 million, resulting in a surplus of \$100,000. Were you the finance minister then or was that someone else I am talking about?

**Mr Christian**—It depends on the question.

**CHAIR**—I am referring to May and the finance minister, I am told, said that for 2007-08 you would spend \$13.9 million and gather \$14 million and that gave a surplus of \$100,000. Then I understand that the actual figure for 2007-08 was a deficit of \$600,000. So it is gone from a surplus of \$100,000 to a deficit of \$600,000. Is that correct? What happened?

**Mr Christian**—You have got it half right.

**CHAIR**—You do not need to say who the finance minister was.

**Mr Christian**—I was the finance minister and the surplus that I actually projected was \$700,000, not \$100,000. The reason I did that, as I have said before, was that we were in a transitional arrangement where we were moving away from import duty to GST. As part of that process, I think from memory, duty may have brought in \$5.4 million, or \$4.7 million or something, in a normal year but that was all encompassing. When the GST arrived, obviously goods for resale were duty exempt but private imports would remain dutiable. I made an arbitrary cut. I just determined that that is where I thought the split would be and put that number into the forward estimates. I got it wrong. Immediately I got it wrong, we revised the budget to reflect the actual situation.

**Senator BOYCE**—That is the \$600,000 you were talking about earlier?

**Mr Christian**—Yes, slightly under a \$600,000 deficit that I ended up coming out with. I think I estimated private import would yield \$2.4 million in duty. I think it actually came in at about \$1.2 million or something like that in real figures. But going forwards we have some historical factual figures to base our forward estimates on.

**CHAIR**—Thank you for that.

**Senator BOYCE**—You have pointed out that some of the other submissions we received suggest that things on Norfolk Island are not as the government has told us. I want to talk about the independent external audit that you have done. For a start, can you just tell me what you have audited?

**Mr Christian**—Basically, every transaction that happens through the year can be audited, if the auditor wants to do that. They have a free rein. They are appointed as the Norfolk Island government external auditor. The accounts are prepared and audited according to the Australian standard that applies. That is it. So they got a free rein.

**Senator BOYCE**—What does the audit encompass? Does it look only at the financial statements or does it also include the standards that were applied to how transactions were undertaken—the sort of role that an Auditor-General in Australia might perform, which begins to also look at the legitimacy of—

**Mr Christian**—Correct. They look at the quantum of the numbers involved and they also look at whether the actual transaction is a legal transaction.

**Mr Wilson**—On that note they actually audit each individual entity and each individual GBE. Any transaction which they wish to look at, they have a free rein and look at it.

**Senator BOYCE**—Who audited last year's accounts?

**Mr Wilson**—It is a company called CST Nexia. They are in Auckland, New Zealand.

**Senator BOYCE**—For how long have they done the auditing?

**Mr Wilson**—One particular partner or associate has been involved in Norfolk Island since about 1987. And the other partners, maybe for the last 12 years on and off. We have had a different firm of auditors at different times.

**Senator BOYCE**—So do you put this out for tender every couple of years? How do you handle that?

**Mr Wilson**—Every three years it goes out for tender.

**Senator BOYCE**—And CST Nexia has won that tender for the last six or seven tender periods?

**Mr Wilson**—No. But they have been associated with Norfolk Island over that period of time but not necessarily in all those years as the auditor.

**Mr Christian**—One of the principals at CST Nexia is a guy by the name of Graham Emerson. He first was connected with Norfolk Island when Ernst and Young had the contract. He left Ernst and Young and moved on to other businesses and was successful in getting a job. I think we have even had the Queensland government Auditor-General as our auditor. So they tender for the work as well.

**Senator BOYCE**—At one stage?

**Mr Christian**—At one stage.

**Mr Wilson**—That was 2003 to 2005, I think. Before that we had a firm called Hall Chadwick, which is also an Australian firm.

**Mr Maywald**—A number of committees over the years have recommended that the Commonwealth Auditor-General conduct the audits, but the Commonwealth Auditor-General has said that we are too small. The Deputy Auditor-General came to Norfolk Island.

**Senator BOYCE**—They cannot read figures that short!

**Mr Maywald**—They said if we were a government entity in Australia they would job it out to PricewaterhouseCoopers or somebody because we are too small. They do not wish to do it directly. They are fully in support of us tendering it to qualified auditors.

**Senator BOYCE**—What accounting standards do you adopt?

**Mr Wilson**—Australian accounting standards.

**Mr Christian**—In addition to the external auditor, we also have the administration internal auditor. He is a free-ranging watchdog. We do not tell any department of the administration when they are likely to be audited. It is always a random audit. Once again, they check for transactions and compliance with legislation.

**Senator BOYCE**—Does he produce a publicly available report?

**Mr Christian**—No, the internal auditor does not. He provides a report, I think, to the head of the Public Service.

**Senator BOYCE**—And what would the head of the Public Service do if the internal auditor were to bring an irregularity to his attention?

**Mr Christian**—If it can be dealt with internally, it is dealt with internally. If it cannot be dealt with internally, it is referred to the Norfolk Island police.

**Mr Maywald**—The activities are reported in the annual report of the administration but only in summary, not case by case. There would be a summary of activity undertaken by the internal auditor.

**Senator BOYCE**—One last question: what entity is responsible for running the tender process for the external auditor?

**Mr Christian**—The administration itself, so the head of the Public Service would call for tenders.

**Senator BOYCE**—He would make the decision on who gets the tender? How does that work?

**Mr Christian**—They generally come to a meeting of executives. The executives of the Norfolk Island government form the tenders board, along with the head of the Public Service.

**Senator BOYCE**—By executives do you mean public ministers?

**Mr Christian**—Ministers, yes.

**Mr Maywald**—There is an administration procurement policy. It depends on the size of the transaction. There are a range of steps. So for small transactions they would not go to the tenders board which comprises the five ministers and the CEO.

**Mr Christian**—Any purchase in Norfolk Island over \$50,000 has to go to the tenders board.

**Senator BOYCE**—How long has that policy been in place?

**Mr Christian**—For as long as I can remember.

**Mr Maywald**—Years.

**Mr Wilson**—At least 20 years, I would say.

**CHAIR**—Mr Maywald, are you the head of the Public Service or is that someone else?

**Mr Maywald**—No, that is the CEO of the Public Service.

**CHAIR**—Who is that?

**Mr Maywald**—Currently the acting CEO is Steve Matthews. The position has been vacant. The recruitment process has almost finished. They were interviewing last week for a permanent CEO.

**CHAIR**—How long has that position been vacant?

**Mr Maywald**—Since March.

**CHAIR**—Are any other of your senior Public Service positions vacant at the moment or held by acting officers?

**Mr Maywald**—Probably one of the executive directors.

**Mr Christian**—One executive director position is vacant. We could fill that at any time, but we are currently considering slightly changing the structure of our Public Service. We have a deficiency, if you like, in that if the head of the Public Service as CEO leaves or gets the boot for whatever reason, we do not actually have a seamless system where somebody will automatically act as the CEO. The Chief Minister has to actually appoint somebody to the position. We are currently considering actually having a position designated as deputy CEO.

**CHAIR**—Are your CEOs usually on-island people or are they usually brought in from elsewhere?

**Mr Christian**—Generally in an acting capacity we will use one of the senior public servants, but historically they have mainly come from Australia.

**CHAIR**—Thanks very much, gentlemen, for your time. We are getting close to our time limit to table our report. If you could get us the responses to the questions that we have asked on notice as soon as possible without breaking the bank in diverting everyone to that task, that would be useful. The sooner we could get them, even if we got them bit by bit as they are done, we would appreciate that.

**Mr Maywald**—May I ask a question please, Mr Chairman? The printout from the department's website is a historical summary that goes back to 1980 in various bits and pieces. I am not quite sure what you want us to comment on. It seems to be almost a summary of whatever the Commonwealth may have funded since self-government in 1979, but I assume you would want some comment on the more contemporary matters.

**CHAIR**—Yes. I am really interested in the first, second and third subheadings, certainly not the last two.

**Mr Maywald**—As an initial comment, there is a heading 'Funding by federal agencies operating in Norfolk Island'. It is certainly true that the Bureau of Meteorology operates in Norfolk Island largely as an Australian entity, largely for Australian purposes, but it also does provide forecasts for Norfolk Island. I am not sure we can say much about that. There is money spent by the Commonwealth. The point we have tried to make in our submission is that almost

none of the Commonwealth figures put as funding go to the Norfolk Island government budget. There are some programs supported or run by the Commonwealth in Norfolk Island for which we are grateful, but, for example, the national park is all Commonwealth crown land. It is run by the Commonwealth. It is a benefit to tourists and it is a benefit to the island. We are not saying it is not, but it is pretty difficult to say whether that is a Commonwealth contribution to Norfolk Island in the sense of it being like revenue sharing would be with the states in Australia. It is a very different model.

**CHAIR**—Sure, and that is an important point. What I am really after—and given five minutes we could probably do it now—is whether there is anything you disagree with. I accept your point that it is not part of your budget. Is it true that the regional solutions program has been awarded to Norfolk Islanders or entities?—those sorts of things. You may not know with some of them where they are directed to. I am really just after an indication whether you disagree with any of that.

**Mr Maywald**—Certainly. What I was trying to say was that we do not disagree at all. The Commonwealth spends quite a significant amount of money in Norfolk Island—some from running its own programs; some for funding community groups. There has been some assistance to the Norfolk Island government as well. Some of it is a little bit blurred at the edges. For example, the KAVHA area is a shared cost, attracts a significant contribution from the Commonwealth and from the Norfolk Island and is one of the major assets of the island. We could quite easily put a figure on that. Some of the others are a little bit esoteric because, as I say, the Bureau of Meteorology does provide a service for Norfolk Island but essentially it is part of the bureau's nationwide network. We are happy to comment on that. Some of the other stuff is probably of historic interest but not particularly relevant to current considerations.

**CHAIR**—I should really offer you the opportunity to make a closing statement, but I am aware in various activities I have been involved in over the years and activities I have not been involved in but have followed with interest that there is this underlying view on the mainland, which is not unanimously shared by islanders, although I am told it is about fifty-fifty at the moment and I understand this was raised in your parliament just recently.

But the mainland view over the last 15 or so years that I have been aware of is that it would be beneficial to islanders as a whole if they were brought into the Australian system and you operated along the lines of the ACT government by looking after your own council and immediate state facilities but leaving broader issues as part of the Australian system entitling islanders to all the Medicare, health, pension and welfare benefits that every other Australian gets and, of course, subjecting islanders to the taxation arrangements that apply on the mainland as well, which I understand would not be popular with a lot of islanders—although I am told and I read somewhere a debate in the assembly where the former chief minister indicated it was about fifty-fifty. This is not new to you. You have heard this at least for the last 15 years that I am aware of. Perhaps I should just give you the opportunity in the next five minutes or so—or as long as you like—to put your position.

**Mr Christian**—I will respond to that, Senator Macdonald. Firstly, it has to be said that Norfolk Island and Norfolk Islanders are as such are not opposed to paying income tax or any other form of taxation as long as it is appropriate to the circumstances. One of the things that we worry about in Norfolk Island is that, if all of the Commonwealth taxes and legislation is

extended to Norfolk, it will probably cripple the economy that we have now and probably collapse it and has the ability to turn Norfolk Island into a community that is likely to be dependent on welfare. That is not something that we really want for Norfolk Island.

If you look at Norfolk and its economy at the moment and you ask yourself ‘who are our competitors’, our competitors are domestic tourism within Australia, who, whilst they pay income tax and company tax and the like, have significantly lower construction and operating costs because they do not have the distance and the remoteness that Norfolk Islanders face. When we, for instance, build a tourist accommodation place in Norfolk Island or a home or something like that, we pay significantly more for it than a comparable piece of infrastructure in Australia. In that context, we also have to compete with our Pacific island neighbours for the Australian tourist dollar, where they have significantly lower wage costs than we have but they also receive significant amounts of Australian foreign aid—and we do not get that aid. We are a stand-alone economy.

In closing, all that we ask of the Australian government is that they actually recognise Norfolk Island for what it is—a successful small community that can really hold its head high when compared with other Australian remote communities, other Australian island territories and other Pacific island states. I think we have done a really good job. We would like to work going into the future in cooperation with the Australian government and its people, but we would not want to be pushed under the thumb. I think that about sums it up.

**CHAIR**—Thanks very much for that. Again, thanks very much for your time. I know it is not always easy for you to get to these hearings, but we do appreciate it. I am particularly grateful for the answers and the comments you have made. With that I will declare the committee hearing closed.

**Mr Christian**—Thank you very much.

**Committee adjourned at 11.49 am**