



Australian Government

Department of Infrastructure and Regional Development

Deputy Secretary

File Reference: TERR14/0055

Mr Luke Simpkins MP
Chair
Joint Standing Committee on the National Capital and External Territories
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Mr Simpkins

Inquiry into Economic Development on Norfolk Island

At the 19 June 2014 hearing of the Joint Standing Committee on the National Capital and External Territories (the Committee) I made an undertaking to provide Departmental advice on the issues raised by the Norfolk Island Government in its supplementary submission to the Committee's Inquiry (No. 21.1 received on 4 June 2014).

The Department is working with the Norfolk Island Government on reform issues to improve its governance arrangements and financial position. We see this as central to developing a framework which encourages investment and economic development and remains a priority. The Department is also concerned with the barriers to economic development on Norfolk Island, in particular barriers to tourism. Further, a lack of strategic and appropriate user-pays revenue streams are not best practice, nor consistent with standard local government approaches, and the Department is working with the Norfolk Island Government to introduce new revenue streams over time.

The Department's response to the specific issues raised by the Norfolk Island Government is provided at **Attachment A**;

There is also a recent development on Norfolk Island the Department considers it should comment on for the Committee's benefit. The issue, while not previously raised by the Department, is the subject of the Norfolk Island Government's second supplementary submission to the Committee dated 5 June 2014: the potentially significant issue of the potato/tomato psyllid outbreak on Norfolk Island.

As mentioned by the Norfolk Island Government, the Australian Government funded pest and disease survey, being undertaken by the Department of Agriculture, recently identified a psyllid pest outbreak on Norfolk Island. This outbreak is quite serious and could have significant ramifications on the Norfolk Island agricultural industry and also the broader Norfolk Island food supply and economy.

This pest insect carries a bacterial disease and has the potential to impact on Norfolk Island's capacity to produce potatoes, tomatoes and capsicum while also posing a biosecurity risk to Australia and the broader Pacific region. While on-Island quarantine is the responsibility of the Norfolk Island Government, the Department will in the coming weeks look at how it can assist Norfolk Island with its response, but this would most likely be through in-kind professional advice and funding assistance.

U n c l a s s i f i e d

This pest is present in New Zealand and we are encouraging the Norfolk Island Government to seek advice on appropriate eradication activities from the New Zealand Agriculture Department.

Please contact Mr Paul McInnes, General Manager of the Local Government and Reconstruction Programmes Branch should you require any further information on the issues raised in this letter.

I am happy for this letter to be published on the Committee's Inquiry website.

Yours sincerely

Andrew Wilson

9 July 2014

Attachment A

Departmental comments on the Norfolk Island Government supplementary submission (No. 21.1) to the Joint Standing Committee on the National Capital and External Territories

Issue: Waste management and municipal rates

Norfolk view: waste management services, while not funded through municipal rates are funded through a waste levy that is charged on goods when they land on the Island.

- *Departmental comment:* the Norfolk Island waste levy is charged on all goods entering the Island at the rate \$32 per tonne by sea; and \$0.26 per kilogram by air regardless of whether the goods are disposed of on-Island. This would apply for example, to household and personal goods imported to Norfolk Island by businesses or residents, some of which may also attract an import duty or charge. This adds a further financial barrier to new residents or businesses, and is not directly aligned to cost of service or user pays principles.

Issue: Immigration barriers on-Island

Norfolk view: there are no barriers to immigration by Australian and New Zealand citizens.

- *Departmental comment:* Existing Australian citizens cannot move freely to Norfolk Island as they can between States and Territories on the mainland. Australian citizens wishing to move to Norfolk Island may also be subject to permit/entry charges and Police checks or not permitted entry outright. There are a number of things that could be done to further encouraging tourism including:
 - Removing all conditions and charges for Australian citizens;
 - Removing the requirement for a Police check for potential entry permit holders and residents;
 - Reviewing and removing the entry permit regime, particularly any requirements for existing Australian residents to have an entry permit of any sort;
 - Ensuring Section 33A of the Norfolk Island Immigration Act is reviewed and/or applied as intended consistent with the Migration Act 1958 (Cth); and
 - Reviewing, modernising and harmonising Part 5 that deals with prohibited immigrants.

The Department does acknowledge that there has been reforms to immigration arrangements on Norfolk Island and that the Norfolk Island Government is preparing to further internally review its arrangements, particularly what it claims are unintended consequences of Section 33A.

Issue: Norfolk Island proposed models of self-governance

Norfolk view: the Australian Government has not provided comments on the Norfolk Island preferred models of self-governance (dating back to July 2011 and May 2013) and this is hindering investment in Norfolk Island.

- ***Department comment:*** The Australian Government is considering reforms to governance arrangements as part of its deliberations on the election commitment to extend federal taxation and social security to Norfolk Island. The Community of Norfolk Island has been given the opportunity by the Assistant Minister for Infrastructure and Regional Development, The Hon Jamie Briggs MP to express its views on future governance of Norfolk Island to the Australian Government. Assistant Minister Briggs has also committed to further consultations with Norfolk Island on these issues.

Issue: Capacity Building Team provided by the Australian Government

Norfolk view: a report from the Capability Building Team should be provided to the Norfolk Island Government.

- ***Departmental comment:*** the capability development team provided day-to-day assistance to Norfolk Island, and the work undertaken was under Norfolk Island supervision. The body of work concluded late in 2012 with a number of the members of the team remaining on-Island as Norfolk Island government employees. No final or exit report was prepared by the Norfolk Island Government or the Department.

Issue: Commonwealth Financial Officer: absence and back up arrangements

Norfolk view: the Commonwealth Financial Officer was absent from Norfolk Island for some months and acting arrangements were not adequate.

- ***Departmental comment:*** There is no provision under the *Norfolk Island Act 1979* (Cth) for acting arrangements in respect of this position. The Department assisted Norfolk Island by providing reporting assessment and financial advice from an existing suitably qualified Departmental officer while the incumbent was on maternity leave.

Issue: Norfolk Island Government steps to reduce its deficit

Norfolk view: delays in implementing a preferred model of self-governance and agreement to extend the mainland taxation system to Norfolk Island mean a reliance on Australian Government funding will continue.

- ***Departmental comment:*** The Australian Government is considering the extension of Federal taxation and social security arrangements to Norfolk Island. There are additional measures the Norfolk Island Government could introduce to increase own-source revenue and reduce expenditure. In addition to municipal rates and land tax, this could include standard 'user-pays' measures such as increased vehicle registration and driver licencing charges while separately considering cost saving measures and staffing and productivity improvements in its public sector.

Issue: Delays in the introduction of land and municipal rates on Norfolk Island

Norfolk view: a number of delays are unavoidable and it is unlikely it will be able to implement a fully developed land and municipal rates system by 1 July 2014.

- *Department comment:* the final interim rating strategy was received from Norfolk Island on 5 June 2014 and Assistant Minister Briggs has recently responded advising that, in general, the model proposed was acceptable. The Norfolk Island Government has indicated that it will face a number of operational challenges in implementing the regime. Under the new emergency funding agreement currently being negotiated, the first phase of land and municipal rates will need to be implemented in the first half of 2014-15.

Issue: Claims the outcomes of the assessment of Norfolk Island Government Business Enterprises (GBEs)

Norfolk view: it does not agree the GBEs could be described as unregulated monopolies and claims the Australian Government has already made up its mind to propose privatising Norfolk Island's GBEs.

- *Departmental comment:* there are little to no regulatory, corporate or operational frameworks in place to manage the various GBEs and their financial arrangements are not transparent. The Australian Government has commissioned an independent report on Norfolk Island's GBE's. This report is expected to be finalised in mid-2014. The Australian National Audit Office has highlighted issues relating to frameworks to address conflict of interest and related party transactions that are currently being considered by the Norfolk Island Government.

Issue: Delays in reforming Public Sector Management and Governance arrangements

Norfolk view: Australian Government delays are responsible for the slow introduction of improved arrangements.

- *Departmental comment:* The Norfolk Island proposed Bill was inadequate and the Australian Government could not have assented to it in the form that was proposed.

The draft Bill proposed by the Norfolk Island Government did not reflect contemporary public sector management practices. The Department sought advice from the Australian Public Service Commission and shared the Department's concerns over the lack of separation between Norfolk Island Ministers and the Public Service. This advice was provided to the Norfolk Island Government.

The Department has been working with the Norfolk Island Government to resolve these issues and the Assistant Minister recently agreed to support the assent of the Bill based on new amendments being made to address the Australian Government's concerns.

Issue: The Norfolk Island Airport

Norfolk view: the Norfolk Island airport is owned by the Administration of Norfolk Island and thus it is not an Australian external territory airport. Proposed increases to fees and charges at the airport were recently rejected by the Australian Government.

- *Department comment:* The Norfolk Island airport is an external territories airport under the current Australian Government airport regulatory regime. It is thus subject to certain Australian Government operational and security frameworks.

The Australian Government did not agree to a request from Norfolk Island to increase fees and charges by 71 percent at the Norfolk Island airport as there was insufficient evidence to support the request and it could further add to costs and dampen the tourism sector. The Department did agree to an increase equivalent to the Consumer Price Index, of 2.7 per cent.

Issue: Responsibility for road maintenance on Norfolk Island

Norfolk view: the roads on Norfolk Island are owned by the Australian Government which does not provide maintenance funding.

- *Department comment:* Under the *Norfolk Island Act 1979* (Cth) roads are a defined 'Schedule 2' matter which means they are the responsibility of Norfolk Island. This arrangement has been in place since the commencement of self-government on Norfolk Island.

Issue: Funding for the Cascade Jetty upgrade

Norfolk view: the \$13 million grant for the Cascade jetty upgrade is insufficient to meet the full project cost of the supporting infrastructure required and the project is now conditional on the implementation of a municipal rates regime on Norfolk Island.

- *Department comment:* The proposed grant was agreed to noting contingencies of around 20 percent and Norfolk Island's own funding commitment of around \$5.8 million (**Table 1**) as required under the funding guidelines. Requests for a change of scope may be considered by the Minister in certain circumstances if formally raised by the proponent.

The introduction of a municipal rates regime is a condition of Australian Government funding. This requirement is also a milestone in the 2013-14 emergency funding agreement to which Norfolk Island is a signatory.