

The Secretary

Mike King MLA

Joint Standing Committee on National

Leader of the Opposition

Capital and External Territories

Legislative Assembly

Parliament House

Norfolk Island.

Canberra. ACT

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Dear Secretary,

I would be grateful if this submission could be placed before the Committee in general support of the provisions of the Territories Law Reform Bill 2010 as they relate to Norfolk Island.

As An initial observation the focus of local debate seems to have narrowed to the preservation of self-government in its existing form. There appears to be little recognition that the issues addressed in the Bill were canvassed extensively within the island community over many years leading to various JSCNCET reports; they are not new and they remain issues of concern. Whilst I am mindful that the Federal (Coalition) Government rejected many of the JSCNCET recommendations in 2006 in favour of assurances from the Norfolk Island Government, I accept both the Federal Labor Government's right to revisit the recommendations and the view adopted by Minister Bob Debus (and apparently by Minister Brendan O'Connor) that further formal examinations are largely unnecessary. If the Norfolk Island Government was able to demonstrate through its achievements since 2006 that it had delivered on its assurance to provide a sustainable future then it could rightfully claim ascendancy in the debate on the Bill. It cannot.

In April 2006, aiming at the Lloyd (Federal Minister) proposal to wind back self-government, the Norfolk Island Government launched a new strategic vision setting out "a framework for its future policies and programmes" which was "a fresh and visionary approach aimed at securing ...long term sustainability...". The plan formed the basis for the Norfolk Island Government assurances which persuaded the Federal Government to reject the Lloyd proposals. The major strategies underpinning the plan were as follows and I offer comment on the success of each:

Promote tourism. The general pattern of visitor arrivals has been a fall in numbers since 2000/2001 by 25% (to 2008/2009). Although this decline was influenced by the Global Financial Crisis (2008/2009) the pattern of decline has been constant since 2000/2001, highlighting changing dynamics over which Norfolk Island has little or no control. The current year 2009/2010 continues

to fall with a drop of some 9% on the previous year. Tourism expenditure accounted for 8.25% of total general expenditure in 2000/2001; by 2008/2009 it had increased to 10.7% and is expected to comprise some 13% of all expenditure in 2009/2010. This is a burgeoning difficulty as the financial capacity to fund tourism promotion continues to fall.

Secure airline services.

Airline services are far from secure. The government run airline lost some \$3.7m in 2008/2009 and is expected to lose about \$3.5m this current year. The losses are uncontrollable and unsustainable. The airline has no liquidity whatsoever and is being funded from a depleted public purse.

Diversify the Island's economic base.

No diversification has taken place. Attempts have been made to lure gaming operators to the island but with no appreciable outcome or benefit. The gaming industry generally is extremely competitive with commercial and political pressures having a significant bearing on Norfolk Island's attractiveness as a gaming jurisdiction. Revenues, which have been increasing steadily for the past 5 years are expected to fall this current year by 15% and next financial year by 40%. Much has been said about Norfolk Island's competitiveness being enhanced by its participation in SPIN the high-speed fibre optic network. Whilst no business plan has been produced to me, good authority has it that a business plan relies heavily on being able to sell spare capacity but that no formal commercial understandings have been reached. Norfolk Island is committed to paying some \$2.2 m in 2011 once cable-laying commences. There is no present capacity to pay this amount and no visible plan which evidences any future capacity to pay.

Other new industries and projects were said in 2006 to be under consideration, such as broadening tourist accommodation choices, maritime services and renewable energy. Nothing has eventuated.

Implement short-term revenue and expenditure reforms.

Develop and implement a long-term business plan.

Measures to improve the budgetary position have failed in the extreme. Since 2006 the Government's general reserves have been steadily depleted; its quick ratio of liquidity (current realisable assets to current liabilities) falling from 1.2:1 to 0.4:1 clearly evidencing an inability to pay debts as they fall due. Capital outlay in the general revenue area is non-existent having fallen steadily since 1979 from some 12% of expenditure, through to some 2% in 2006, to zero in 2008/2009. A persistent decline in capital outlay is a clear sign that capital maintenance, capital replacement and capital purchases are being deferred (even ignored) with resultant obsolescence,

inefficiencies, OHS issues and mounting long-term outlays which in Norfolk's case are totally unfunded.

The 'current cash balance' of the consolidated public account diminished by some \$9m in 2008/2009. A lay appreciation of this fall is that some \$3m can be attributed to the GFC or the resultant decline in visitor numbers. The remainder of this fall can be sheeted home to excessive, improperly planned and managed and unbudgeted expenditure by the Government. There is ample evidence available to support claims that projects were not properly costed, that public procurement processes were not followed and that some expenditure was not warranted. These features reflect a distinct departure from any reform path and an abandonment of any concept of financial planning.

Restructure the public sector and government business enterprises to enhance and streamline the delivery of services and to maximise community income from public assets and businesses.

In 2005/2006 income supplied to the general revenue fund from government businesses accounted for 38% of all revenue; this current year that contribution will have fallen to some 24%. The reality is that since 2006 major government businesses which have been a traditional source of general revenue have declined in performance, resulting in fewer and smaller dividends.

Since 2006 the capacity of the Telecom business to pay its previously large dividend to general revenue has faded. Financial year 2008/2009 marked its fourth consecutive year of falling profits (loss of \$417,000) and a drop in its quick ratio of liquidity from 2.8:1 in 2006 to 0.5:1 in 2008/2009. On face value it now seems a financial basket case.

The Airport business previously showed prospect of being a long-term major contributor to general revenue. Excluding the Airline operation which is part of the Airport operation, the business generates sufficient income to meet its expenses and provide for loan repayments. In recent years however its funds position has deteriorated rapidly through excessive and unbudgeted capital expenditure and by financial support of an ailing airline. By the end of 2008/2009 the Airports quick ratio of liquidity had fallen from 10:1 in 2006 to 0.5:1, indicating financial distress.

The gaming operation and the airline operation have both been mentioned previously; gaming, will fall by 40% on current indications and the airline will accumulate losses of some \$7.2m come the end of financial 2009/2010.

Other business like Postal/Philatelic, Literage and Rock Sales continue to languish with increasing losses and no capacity to provide dividends to general revenue. The Electricity business has

experienced a change of fortunes in recent years and is the only business to retain some funds towards capital outlay, although grossly insufficient: \$580,000 against accumulated depreciation of some \$5.4m.

In general it can be said that the major goals underscoring the Norfolk Island Government's assurances to the Federal Government in 2006 have not been achieved. Therefore on the basis that the underlying concerns reflected in the Committee's earlier recommendations remain undiminished, I support the measures contained in the Territories Law Reform Bill.

Yours sincerely

Michael W King MLA.

Leader of the Opposition.