

Introduction

I do not believe the current arrangements are sustainable ... When one considers that costs associated with maintaining and renewing essential infrastructure, on-going service provision, the rapidly escalating costs of social services, healthcare, education, the ageing population, the need to vastly improve occupational health and safety and the environmental pressures facing the Island, it is not really surprising that this is well beyond the capacity of such a small population.¹

Background to the inquiry

- 1.1 This report represents the second part of an inquiry initiated by a reference from the then Minister for Regional Services, Territories and Local Government, the Hon. Wilson Tuckey MP, which was accepted by the Committee on 28 March 2003. The terms of reference for the inquiry included that the governance arrangements for Norfolk Island “be considered in the context of the financial sustainability” of the Island.
- 1.2 Accordingly, at the outset of its inquiry, the Committee determined that issues relating to the financial sustainability of the Island would be addressed separately in a second report, while the first report

1 Mr L. Johnson (Submission No. 12), pp. 2, 9.

would focus on ways to improve and strengthen governance arrangements on the Island. The terms of reference for the inquiry also directed the Committee to investigate measures to improve the operations and organisation of the Territory Ministry and Legislature on Norfolk Island.

- 1.3 In assessing current and future governance arrangements, including the provision of government services and infrastructure, the Committee was called on to make particular reference to the findings of the Commonwealth Grants Commission's (CGC) 1997 *Report on Norfolk Island*.
- 1.4 The first report of this inquiry, *Quis custodiet ipsos custodes?*, was tabled in December 2003. The report presented a comprehensive case for reform and focused its analysis on existing political arrangements and legal infrastructure, which the Committee considered to be inadequate.² The Committee argued that:
- ...the best approach would be to retain the existing institutions of government, but with the following essential reforms:
- modification to improve accountability and financial management;
 - the resumption of Commonwealth responsibility for delivery of key services and programmes on-Island such as social welfare, health and immigration;
 - rectification to the distortions in the electoral system to open the political and administrative systems to change; and
 - imposition of an equitable tax regime, including on income, to provide financial sustainability.³
- 1.5 In making its recommendations, the Committee did not intend for the Norfolk Island Government to take on additional, costly functions, and, therefore, recommended that the task of implementing and maintaining these review mechanisms should fall singularly on the Commonwealth.⁴

2 Joint Standing Committee on the National Capital and External Territories (JSCNCET), 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, pp. 7-40.

3 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 25.

4 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 27.

- 1.6 On 5 February 2004, the Norfolk Island Government released its response to the recommendations of the Committee's first governance report. Many of the Committee's recommendations were accepted despite the Norfolk Island Government's contention that the Committee had failed to recognise the unique governance arrangements on Norfolk Island.⁵
- 1.7 The Committee reiterates its disappointment that the Commonwealth Government did not respond to the recommendations of the Committee's first report on Norfolk Island governance.⁶ The Committee stands by these recommendations and now encourages the Commonwealth Government to expedite its response to both governance reports and, to the outstanding recommendations in the Committee's review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage with respect to Norfolk Island.
- 1.8 The second part of the governance inquiry, focusing on financial sustainability, was initiated in the 40th Parliament; however, it lapsed when the House of Representatives was dissolved on Tuesday, 31 August 2004.
- 1.9 On Thursday 9 December 2004, the Minister for Local Government, Territories and Roads, the Hon. Jim Lloyd, MP wrote to the Committee asking that it continue its inquiry into Norfolk Island Governance Part 2 (Financial Sustainability of Current Governance Arrangements). The Committee resolved to continue this inquiry on 9 February 2005.
- 1.10 In the meantime, a general election has been held on Norfolk Island. The 11th Legislative Assembly was formed on 27 October 2004.
- 1.11 As a matter of courtesy, on 29 February 2005, the Committee wrote to the Norfolk Island Government to inform them that the sustainability

5 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*.

6 On 27 October 2005, the Commonwealth Government tabled a brief response to the Committee's *Quis custodiet ipsos custodes?* report. The two-page response summarises the Norfolk Island Government's position on the Committee's report, but concludes:

The Committee's report recommends that the Australian Government reassess its current policies with respect to Norfolk Island and the basis for Norfolk Island's exclusion from Commonwealth programmes and services. The Australian Government wishes to be quite clear that it will indeed consider these and other matters as part of its consideration of the Committee's forthcoming report on Norfolk Island's financial sustainability, and is prepared to re-examine aspects of current arrangements.

inquiry was to proceed and to invite them, as a new Legislative Assembly, to make a submission. No submission has been received.⁷

- 1.12 The inquiry was advertised in *The Australian* and *The Norfolk Islander* in March and April 2005 respectively. The closing date for submissions was Friday 22 April 2005. Further submissions were received following an advertisement placed in *The Norfolk Islander* on 27 August 2005 by the Minister for Local Government, Territories and Roads, the Hon. Jim Lloyd, MP.
- 1.13 The Committee received a total of 29 submissions.
- 1.14 On 6 and 7 June 2005, the Committee held private briefings and inspections on King and Kangaroo Islands as a comparative exercise, drawing on their population size and remoteness from the mainland, while acknowledging that their local government regimes are significantly different to the self-governing Territory of Norfolk Island. The Committee examined the budgetary processes employed by the local councils, as well as inspecting specific infrastructure on the islands.
- 1.15 The Committee also held a public hearing in Canberra on 4 August 2005 with representatives of the Department of Transport and Regional Services, the Australian Treasury, and the Australian Bureau of Statistics. A former Chief Executive Officer of the Norfolk Island Administration also gave evidence at this hearing.⁸
- 1.16 The Committee was disappointed to have to cancel its visit to Norfolk Island to conduct public hearings, scheduled for 2 and 3 October 2005. The Committee cancelled its visit because the Norfolk Island Government chose not to accept an invitation to appear at the scheduled hearing.

Focus of this report

- 1.17 The second part of the inquiry has focused on the sustainability of the current governance arrangements, as directed by the terms of reference.

7 Following the Committee's public hearing in Canberra on 4 August 2005, the Committee wrote to the Norfolk Island Government, again inviting them to discuss issues of financial sustainability. No response was received by the Committee to this letter.

8 A full transcript of proceedings is available at:
<http://www.aph.gov.au/hansard/joint/commttee/J8617.pdf>.

- 1.18 The Committee has previously noted that the financial and administrative capacities of the Norfolk Island Government and the system of financial management have been the subjects of a number of inquiries and reports.⁹ Many of these reports, including that of the CGC, have argued that Norfolk Island has adequate capacity to raise more revenue.¹⁰ This premise has been at the core of further arguments, that, the Norfolk Island Government could extend its legislative powers and areas of responsibility.¹¹
- 1.19 This report challenges these assumptions. The Committee suggests that the Norfolk Island Government and its Administration have limited options for further revenue-raising. In addition, the Committee argues that there is limited capacity, in terms of human and financial resources, to administer internal revenue-raising systems, as further discussed in Chapter Three.
- 1.20 This notwithstanding, in this report, the Committee does not canvass the option of revoking Norfolk Island's internal self-government. Rather, the Committee has called for a 'remodelling' of self-government and reiterates its previous recommendation for a fundamental overhaul of Commonwealth Government policy towards Norfolk Island. At the core of the Committee's recommendations has been a desire to achieve the right balance between the services provided by, and regulatory powers of, both the Commonwealth and Norfolk Island governments.

Norfolk Island today

- 1.21 Norfolk Island is often referred to as a "unique" and "special place".¹² The Norfolk Action Group stated:

Norfolk is a unique place because of its history, language and culture. For example, our language is one of the world's rarest. Despite the influences of tourism and external forces ... our culture remains strong. If it were to die, there is nowhere else in the world where it could be resurrected ...¹³

9 JSCNCET, 2003, *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 1.

10 See, for example, Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, p. 164.

11 See, for example, Commonwealth Grants Commission, 1997, *Report on Norfolk Island*, finding 25, p. 177.

12 See, for example, Mr L. Johnson (Submission No. 12); Prof. M. O'Collins (Submission No. 15); and Norfolk Action Group (Submission No. 24).

13 Norfolk Action Group (Submission No. 24), p. 1.

- 1.22 Data from the 2001 Census of Population and Housing indicates that the proportion of the permanent population who are of Pitcairn descent has remained remarkably stable over the last 15 years. Although the total proportion has remained under 50 per cent, younger Pitcairn descendants represent two-thirds of the population under 15 years of age (see Table 1.1).

Table 1.1 Norfolk Island permanent population: Pitcairn descent, 1986-2001

	2001		1996		1991		1986	
	<i>Total</i>	<i>% total</i>	<i>Total</i>	<i>% total</i>	<i>Total</i>	<i>% total</i>	<i>Total</i>	<i>% total</i>
Under 15 years								
Of Pitcairn descent	208	67.3	194	65.8	228	67.7	230	66.5
15 years and over								
Of Pitcairn descent	548	43.3	489	41.6	464	40.7	426	39.4
All ages								
Of Pitcairn descent	756	48.0	683	46.5	692	46.8	656	45.9

Sources Norfolk Island Administration, Census of Population and Housing, 7 August 2001 (p. 10) and 6 August 1991 (p. 12)

- 1.23 Norfolk Island, like many other remote and isolated regional areas of Australia, faces significant challenges in its population and demography. Most notably these include an ageing population, and a decline in the number of itinerant workers and visitors on the Island.

An ageing population

- 1.24 According to recent Norfolk Island Census figures, Norfolk Island is experiencing “similar but more dramatic trends” in its population demographics compared to those found in other parts of Australia.¹⁴

14 Focus 2002 Community Update, 12 October 2002, p. 2.

Table 1.2 Trends in Norfolk Island Permanent Population, 1986 to 2001

	2001	1996	1991	1986	% increase/ decrease from 1986 to 2001
Under 15	309 19.6%	295 20.1%	337 22.8%	346 24.2%	-11.97%
15 to 64	1005 63.8%	940 63.9%	930 62.9%	932 65.3%	7.26%
65 and over	256 16.3%	234 15.9%	207 14%	146 10.2%	42.97%
Total population	1574	1470	1478	1428	9.28%

Source *Norfolk Island Administration, Census of Population and Housing, 7 August 2001 (p. 8) and 6 August 1991 (p. 10).*

1.25 While population projections for Norfolk Island are unavailable,¹⁵ it is nonetheless evident that the overall population of Norfolk Island has continued to increase in the over 15 age category during the past 15 years (from 10.2 per cent in 1986 to 16.3 per cent in 2001). Moreover, Norfolk Island's population is, on average, significantly older than that in other parts of Australia. In 2001, 16.3 per cent of the permanent population was 65 years or over, compared with 12.5 per cent of the rest of the population.¹⁶ If, as is projected, the proportion of the population aged 65 years and over is to increase (current estimates are between 27 and 30 per cent by 2051), it is more than likely that such trends will be mirrored on Norfolk Island.¹⁷

1.26 In other States and Territories, such trends are accompanied by a projected decrease in the proportion of people under 15 years to between 12 and 15 per cent by 2051. Due to the absence of life expectancy data it is difficult to project similar trends for Norfolk Island (see footnote 15). This notwithstanding, it is clear from Table 1.2 that there has been a decline in the number of young people on Norfolk Island over the past 15 years (from 24.2 per cent in 1986 to 19.6 per cent in 2001).

15 Statistics for Norfolk Island are not collected by the Australian Bureau of Statistics. As such, Australian population projections do not include Norfolk Island.

16 ABS, *Australian Social Trends, Population, National and state population summary tables*, via: <http://www.abs.gov.au>, accessed 26 September 2005

17 ABS, *Population Projections, Australia*, Catalogue No. 3222.0, via: <http://www.abs.gov.au>, accessed 26 September 2005.

1.27 Overall, population growth continues through natural accretion and migration. Despite some variability, the total number of births over the past eight years has outweighed the total number of deaths.¹⁸

Table 1.3 Births and deaths, 1996-97 to 2003-04

		2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	Totals
Births	<i>Female</i>	11	7	7	8	8	15	12	5	
	<i>Male</i>	11	6	10	9	16	8	12	9	
	Total	22	13	17	17	24	23	24	14	154
Deaths	<i>Female</i>	7	8	10	19	11	5	7	5	
	<i>Male</i>	8	2	12	9	9	9	3	9	
	Total	15	10	22	28	20	14	10	14	133
Natural increase*		7	3	-5	-11	4	9	14	0	

Sources Norfolk Island Administration, *Annual Reports, 2001-02 to 2003-04*; Norfolk Island Administration, *Census of Population and Housing, 7 August 2001, p. 40.*

Note * The term 'natural increase' is used by the Australian Bureau of Statistics. See, for example, *Catalogue no. 3201.0*

1.28 The Norfolk Island population has remained relatively stable since the mid 1980s.¹⁹ Those permanently on the Island have generally represented over 60 per cent of the population. Approximately 37 per cent of the permanent population were born on Norfolk; 33.4 per cent were born in other parts of Australia, and 20.7 per cent were born in New Zealand.

18 According to Mr Michael Hehir (Submission No. 23, p. 1), the Norfolk Island Government adopted a policy of 2 per cent population growth. Despite such a policy, however, it appears that population projections made in the early 1980s have not been attained. According to a report prepared for the Norfolk Island Government in 1985, population projections estimated that permanent residents and permit holders would total 2,440 by 2001 (and 2,833 by 2005). Mr Hehir submitted that the population ought to be increased to 3,000.

19 The Census of Population and Housing classified the Norfolk Island population into three categories: the permanent population, comprising 'residents' and those holding a 'General Entry Permit', as defined in the *Immigration Act 1980* (NI); the itinerant population, comprising those holding a 'Temporary Entry Permit' and those either awaiting permits or not requiring permits; and tourists or visitors to the Island. Norfolk Island Administration, *Census of Population and Housing, 7 August 2001, p. 2.*

Table 1.4 Total population: residency status, 1986-2001

	2001		1996		1991		1986	
	No	%	No	%	No	%	No	%
Resident	1359	52.2	1282	58.8	1294	56.6	1240	52.4
General Entry Permit	215	8.3	188	8.6	184	8.1	188	7.9
Permanent population	1574	60.5	1470	67.4	1478	64.7	1428	60.3
Temporary Entry Permit	442	17.0	293	13.4	424	18.6	535	22.6
Other	21	0.8	9	0.4	10	0.4	14	0.6
Itinerant population	463	17.8	302	13.8	434	19.0	549	23.2
Tourist and visitor	564	21.7	409	18.8	373	16.3	390	16.5
Total	2601		2181		2285		2367	

Source Norfolk Island Administration, *Census of Population and Housing, 7 August 2001 (p. 6) and 6 August 1991 (p. 7)*.

Decreasing numbers of 'itinerants'

1.29 The proportion of the Norfolk Island population classified as 'itinerant', has steadily declined (23.2 per cent in 1986, to 17.8 per cent in 2001). The itinerant population can be considered a labour source, with roughly 67 per cent of the itinerant population "working in a job or business". Less than one per cent of this population were retired.²⁰

1.30 In his submission, Mr Michael Hehir noted that the number of working persons has "substantially decreased since 2001".²¹ In the financial year to 30 June 2004, Mr Hehir reported that there were 403 Temporary Entry Permit (TEP) holders and that this decreased to 357 in the following financial year, constituting "a net decline of 62 over this period" with a further "40 TEP holders [having] left the Island" in the period from 1 July 2005 to date.²²

1.31 However, Table 1.4 indicates that the proportion of the population who are tourists or visitors to the Island has increased.²³

20 Norfolk Island Administration, *Census of Population and Housing, 7 August 2001*, p. 16.

21 Mr M. Hehir (Submission No. 23), p. 5.

22 Mr M. Hehir (Submission No. 23), p. 5.

23 See chapter two for more details on the relationship of tourism to the Norfolk Island economy.

Further challenges to sustainability

1.32 In addition to an ageing population and the concerning decline in the number of itinerants on Norfolk Island, the Island's remoteness and limited accessibility is a key factor in the four following challenges that impede a sustainable future for Norfolk Island under the current arrangements:

- a vulnerable and volatile economy, essentially dependent on one industry, tourism;
- limited taxation and revenue-raising capacity;
- declining levels of service delivery and depreciating infrastructure; and
- governance arrangements, coupled with a restricted administrative capacity.

Norfolk as a remote island community

1.33 The Committee understands that for some Norfolk Islanders, remoteness has required a degree of self-sufficiency.²⁴ The issues and circumstances facing individual isolated island communities, clearly differ significantly from those juxtaposed to more urban locations, and from many other remote communities. Principally as a result of increased transportation and freight costs, housing costs of island communities are higher, as is the cost of food. Businesses also suffer from the additional costs of such remoteness.²⁵

A vulnerable and volatile economy

1.34 The Norfolk Island economy is precariously dependent on tourism. Recent trends in tourism have seen a decline in the number of tourists travelling to Norfolk and a decrease in the revenue generated by the tourist sector as a result. The Norfolk Island tourism industry is facing increased pressure to keep pace with global market changes and increasing competition. Today, the industry caters mainly to the rather "price sensitive"²⁶ tourist market of the over 70s.

24 See, for example, the assertion made by the Norfolk Action Group (Submission No. 24, p.1), that "[o]ur remoteness has led to an innovative people who pride themselves on their self-sufficiency..."

25 See, for example, Department of Family and Community Services (Submission No. 7) and Ms R. Menghetti (Submission No. 25).

26 Mr P. Colmer (Treasury), *Transcript of Evidence*, 4 August 2005, p. 11.

- 1.35 It is also clear that despite numerous attempts, Norfolk Island has found it particularly difficult to diversify its economy away from its reliance on tourism.

Limited taxation and revenue-raising capacity

- 1.36 The nature of existing taxation arrangements on Norfolk Island significantly hampers the ability of the Norfolk Island Government to raise sufficient revenue to adequately fund acceptable levels of services on the Island. Because income and personal wealth are not taxed, the existing tax regime is effectively biased against tourism, a circumstance that is regressive and inequitable, particularly given the current financial climate. Norfolk Island is limited in the number of tourists it can accommodate sustainably. Tourism revenue, therefore, is finite. The limits imposed by the size of Norfolk Island's population also mean that there is a very restricted and narrow resource base from which revenue is, and, can be, drawn.

Declining standards of service delivery and depreciating infrastructure

- 1.37 There has been a significant lack of forward planning with respect to infrastructure and service delivery on Norfolk Island. Social security benefits are paid at roughly 80 per cent of those paid to recipients in other States and Territories. Some benefits, such as those for the unemployed, do not exist. Many members of the Norfolk Island community are concerned by the escalating ageing population and the implications for superannuation, pensions and other welfare payments.
- 1.38 The Committee has repeatedly commented on the sad state of public health infrastructure, including aged care facilities, and the only hospital that, effectively, needs to be rebuilt. Educational infrastructure is also of concern, as are roads, the provision and maintenance of reliable electricity generation facilities, and a deep water harbour.

Governance arrangements and limited administrative capacity

- 1.39 Underpinning all of these challenges are the current governance arrangements and the incapacity of the Norfolk Island Administration, which is, effectively, required to carry out administrative functions and the delivery of services at Local Government, State and Commonwealth levels. The Administration is plagued with limited human and financial resources, a situation which is compounded by an almost complete absence of statistical

infrastructure, that would allow for the necessary forward planning and budgeting. The Norfolk Island Government has, on many occasions, had to rely on Commonwealth funding and technical assistance and support.

- 1.40 As canvassed in the Committee's first report, there are also perceptions and claims of conflicts of interest arising due to Members of the Legislative Assembly holding interests or positions in the community that are incompatible with their role as elected representatives.

The question of 'difference'

- 1.41 The Committee is concerned that an argument of 'difference' on Norfolk Island has underlined an acceptance of below-standard service provision and infrastructure. In this respect, the Norfolk Island Government argued that:

...the JSC has fundamentally failed to realise the significant differences in the model of government in Norfolk Island from those of Australian [sic] jurisdictions. Current government structures and procedures in Norfolk Island are essentially *different*, not inadequate.²⁷

- 1.42 Without negating the existence of a 'different culture' on Norfolk Island, the Committee can only stress the remarkable and ongoing experience of accommodating difference – however this is defined – in a range of remote locations across Australia. In various capacities, members of the Joint Standing Committee have travelled extensively across Australia and have noted the ability of governments, at all levels, to accommodate indigenous and multicultural communities.
- 1.43 Ultimately, the Committee recognises that the people of Norfolk Island, as Australians, should have access to the basic levels of services afforded the rest of the nation's population. Specifically, the Committee considers that the ageing population of Norfolk Island should be afforded some security and adequate access to a reasonable standard of health care. All Norfolk Islanders should be afforded the same equality of opportunity as other Australians in similar positions.

27 Norfolk Island Government, 2004, *Response to Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, p. 2. Emphasis in original.

Role of the Committee

- 1.44 The Parliament of Australia has a significant role to play in the affairs of Norfolk Island. It is the function of the Commonwealth Parliament to participate in developing law and policy, to scrutinise government activity and public administration and, to inquire into matters of public interest on behalf of all Australians. A system of parliamentary committees facilitates the work of the Commonwealth Parliament.
- 1.45 As one of these committees, the Joint Standing Committee on the National Capital and External Territories is established by a Resolution of Appointment passed in both the House of Representatives and the Senate on 18 November 2004. The Committee is appointed to inquire into, and report to both Houses of Parliament, in an advisory role, on a range of matters.
- 1.46 Since 1993, the Committee has had a specific responsibility to examine the Commonwealth's external territories, including Norfolk Island. The Committee has produced nine reports in relation to the external territories, four of which have been exclusively focused on Norfolk Island:
- *Delivering the Goods*, February 1995 (Government Response, 1 December 1995);
 - *Island to Islands: Communications with Australia's External Territories*, March 1999 (Government Response, 1 March 2001);
 - *In the Pink or In the Red: Health Services on Norfolk Island*, July 2001;
 - *Risky Business : Inquiry into the tender process followed in the sale of the Christmas Island Casino and Resort*, September 2001 (Government Response, 6 February 2003);
 - *Inquiry into Norfolk Island Electoral Matters*, June 2002;
 - *Quis custodiet ipsos custodes?: Inquiry into Governance on Norfolk Island*, December 2003 (Government Response, 27 October 2005);
 - *Norfolk Island: Review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage*, July 2004 (Government Response, 23 June 2005);
 - *Indian Ocean Territories: Review of the Annual Reports of the Department of Transport and Regional Services and the Department of the Environment and Heritage*, August 2004 (Government Responses, 18 August 2005); and

- *Inquiry into the Adequacy of Funding for Australia's Antarctic Program*, June 2005.

- 1.47 It is the role of the Committee to gather evidence, through submissions and public hearings, and, on the basis of such evidence, present sound recommendations to the Commonwealth Government. It is then the responsibility of the Commonwealth Government to take action.
- 1.48 The Committee will continue to perform its role and would trust that individuals, or the collective, on Norfolk Island would respect this role and seek to work cooperatively with the Committee in the execution of its duties.

Structure of the report

- 1.49 The report is divided into three chapters including this introduction. Chapter two examines the state of the Norfolk Island economy and its precarious dependence on tourism. The chapter examines the current downturn in the number of tourists travelling to Norfolk and the consequential reduction in revenue.
- 1.50 Noting the various challenges to more sustainable internal revenue-raising on Norfolk, chapter three presents the only alternative left for Norfolk Island, namely, adoption of the taxation and welfare system of the Commonwealth of Australia. The Committee recommends that Norfolk Island be incorporated into the taxation regime of the Commonwealth of Australia, with special zone provisions, similar to those applying to the Indian Ocean Territories. Underlying this recommendation is the Committee's preference for the Commonwealth to resume responsibility for the provision of, among other things, social services, health, aged care, education, immigration and telecommunications. Commonwealth legislation should be applied to the Territory, particularly in relation to trade practices and corporations law. The Committee believes that Norfolk Island would also benefit from infrastructure grants similar to those that exist in other areas of Australia.