

Attn: Committee Secretary (Sonia Palmieri)
Joint Standing Committee on National Capital & External Territories
Norfolk Island Governance
Department of House of Representatives
Parliament House
Canberra

Attached is the Position Paper submitted to the Norfolk Island Government Assembly by the Norfolk Island Chamber of Commerce, in respect to the proposed introduction of a form of Consumption Tax referred to as the “Norfolk Sustainability Levy” (NSL).

The Chambers response has been with an attitude that the commercial sector acknowledges that the Government has a problem with raising enough cash flow to sustain the current administration regime and if it is to continue then new forms of revenue raising must be found.

With this in mind the Chamber not only provided a positive position paper but formed three sub committees to work to providing input to the Governments Task Force.

These were:-

- 1 Alternative Revenue Raising
- 2 Advice as to possible Government spending reductions
- 3 NSL Assessment

To date the Chamber has had no formal reply to its position paper but one of the sub-committee's (No 3) has had several discussions with the task force (paper attached)

Sub Committee (No 1) has had its recommendations dismissed as they all have been suggested at an earlier date.

Sub Committee (No 2) is yet to propose any suggestions until the Government provides

- a. Target for Collection of NSL
- b. Their own recommendations for streamlining the Government Expenditure.

The Chamber is deeply concerned that introduction of landmark taxation introduced with such haste could have serious implications if it is flawed by haste instead of by community consultation (refer to report Australian Government Advisory Group).

The business community is at an all time low and we desperately require economic stimulus to prevent the bankruptcy of the whole business community.

Norfolk Island's economy is tourism which has been in serious decline for the past 2 plus years. Culminating with the demise of Norfolk Jet Express many small businesses's has no cash flow and no way of generating income. These businesses have been unable to pay wages, rent, electricity and mortgages. Unless we get

stimulation of the economy it will only be a few months before the inevitable starts to happen.

Business confidence will only come from the urgent restoration of viable airlines from the Sydney and Brisbane gateways.

Attachments:- PositioningPaper
Committee Report toChamber
Advertisement Page 1 byChamber
Advertisement Page 2 byChamber

Kind Regards

Bob Goldsworthy
Vice President Norfolk Island Chamber ofCommerce

WHAT WILL THE N.S.L MEAN FOR YOU?

1. **Inflation:** cascading cost effect with the uncertainty of ultimate financial success.
2. As the current proposal does not fix an upper limit for the NSL % rate **.It is possible that the NSL percentage could end up being between 10 and 20%**.e.g NZ GST Rate has risen to 12.5%
3. **Increased cost of living** to an already high cost of living - food and petrol prices go up.
4. Lead to a reduction of the already **diminishing population**.
5. A possible wage push that will cause **unemployment**.
6. **A decrease in growers' production** as their costs becomes uncontrollable (see reduction of farmers in NZ and Australia after GST).
7. **Increase bookwork** for all people with a Norfolk Business Number - they become the tax collectors.
8. Norfolk will become more **noncompetitive and undesirable, as a tourist destination**.

In view of the above a motion was passed at the Chamber of Commerce meeting this week which states:

“That the Chamber of Commerce does not support the NSL in its present form and requests the Government to further consult with and advise the community before taking any further steps. In the absence of any on-going consultation, the Chamber of Commerce opposes the NSL or any trial.”

The Chamber of Commerce of Norfolk Island, the Accommodation and Tourism Association and the Norfolk Action Group has endorsed this advertisement.

People wishing to lend their support for a better Norfolk contact Gary Robertson, President of the Chamber of Commerce 'phone 22317, Sue Sills, Secretary of the Accommodation and Tourism Association 'phone 22009 or Wally Beadman Norfolk Action Group 'phone 22935

Attachment B

NSL – Points arising from meeting with Minister for Finance The Hon. Ron Nobbs, Steve Matthews (Acting C.E.O.) and the NSL Task Force comprising Anthony Middleton, Becky Nobbs & Boyd Buffett on 22 July 2005

The meeting opened with Ron giving a brief overview of the Norfolk Island Government's dire financial situation. The Minister for Finance, the Acting C.E.O. and the NSL Task Force seem to be approaching the problem according to how much the N.I. Govt needs rather than what our community can actually afford.

Overview of current NSL Task Force proposal:

* All Norfolk businesses or individuals who achieve an annual turnover in excess of \$3000 are required to register and receive a NBN between 1 October and 30 November 2005.

* A Trial NSL Period is then planned to commence on 1 December 2005 set at an initial rate of 1% of Gross Sales. This Trial Period will continue until 31 August 2006, when it will make way for the "final" version of the NSL, the rate, extent and provisions of which MUST be tabled by 30 June 2006. Should the final NSL proposal not be tabled in the Assembly by the 30 June, then the Trial will automatically end on that date.

* During the full term of the Trial, all imports for resale made by NSL registered businesses or individuals will receive a 1% duty concession. This will not apply to petroleum products or alcohol or tobacco imports.

* The primary motivation for the NSL Trial Period is to allow the N.I. Govt to determine the size and nature of the Norfolk economy to assist them in setting the "final" NSL rate. The NSL Task Force made the added point that this Trial period should allow for community feedback under actual NSL conditions, to help the Govt and Task Force further revise and fine tune provisions of the "final" proposal.

* It is important to point out that for the **NSL Trial Period**: No **Input Credits** will apply, No NSL concession will apply to **Tourists** departing with **high value** purchases, No **Prepaid Duty** credits will apply and there will be no concessions offered on: **Accommodation Levy, FIL or Departure Fee**. All the actual set-up and ongoing operational costs to both Govt and Business will need to apply as this is a **"live" Trial** (A bit like subjecting new army recruits to "live" fire and hoping for no casualties!). The clear implication is - if the Trial fails, then the "tooling-up" costs together with 7 months of operational costs will all be wasted.

The meeting proceeded as a series of questions and comments from our Sub-Committee to the NSL Task Force seeking clarification on points raised by the NSL Guide and Bill draft as tabled in the Assembly on 20 July 2005. Our Sub-Committee was not provided with a copy of the Report provided to the Minister for Finance by the Australian Government Advisory Group. We understand a copy of this Report is now available on the internet.

Below is a list of the various points raised during our discussion. Each point is followed by a brief comment as to the understood current position of the Minister for Finance and the NSL Task Force.

The main points discussed were:

1. **Confidentiality** – Ron emphasised that the Draft Bill provides significant penalties for any improper use of personal or private information gathered under the NSL provisions. As with other criminal activities which attract severe penalties on Norfolk Island, the problem is always with the Burden of Proof. In addition, should the entire NSL be ditched from 30 June 2006 – ALL data collected to that point will remain the property of the NI Govt for use in developing other schemes or proposals.

2. **Inflation and Input Credits** - The NSL Team do not appear to accept that the NSL as proposed is highly INFLATIONARY. The full inflationary effect of the NSL will not be measurably apparent until the final percentage is set and several months have then passed.

A compounding NSL together with pre-existing inflationary pressures, such as fuel, freight and electricity costs was NOT considered reasonable cause to apply a system of input credits to the NSL model. The NSL Task Force regard input credits as too complex and too expensive to administer.

3. **Economic Stimulus** – The point was made to the NSL Task Force that the NSL Guide and Draft Bill provided no mechanism to help stimulate the local economy. The NSL as currently proposed, failed to provide any “tool” to help improve tourist numbers or encourage tourist spending. As a consequence, such a drain on business cash-flow would only further reduce growth and the investment of fresh capital.

Two possible incentives to help improve spending and grow the economy were identified as: (a) An NSL Concession or Refund for Tourists departing Norfolk Island on purchases over a certain value. Similar to that offered by other jurisdictions seeking to impose a similar consumption tax. (b) Include genuine MAIL ORDERS under the definition of EXPORTS and as such make them NSL Exempt - as is the case in other jurisdictions. While the NSL Task Force said they would consider any “suggestions” from the community, we got the clear impression that these suggestions were considered to be too complex, unfair, and would only increase the Govt’s costs and reduce their actual revenue. The concept of getting MORE by actually asking for LESS appeared to be “lost in translation”.

4. **Government Costs** – Public Service payroll and other administrative costs will only increase under this proposal as there appears to be no reduction in the workload of NI Customs or any other Government Department or enterprise. The job of Customs may, in fact, become more complex under the NSL proposal as they decide and then calculate various discounts and exemptions. The main work of educating, implementing, collecting, enforcing and prosecuting the NSL will all be ADDITIONAL to the current Norfolk Island Administration.

5. **NSL Revenue Forecast** – At the trial rate of 1% the NSL Task Force anticipates a net revenue of \$1 million pa or approximately \$580,000 to 30 June 2006.

6. **NSL Payable** – Under the current proposal, the NSL will be payable by the 21st day of the month following a sale or service being invoiced (ie. an accrual basis each calendar month). So, for the 1% Trial Period, the first NSL remittance would be due on 21 January 2006. The comment was made to the NSL Task Force that Part 1.3.3 of the NSL Guide was somewhat confused on the DUE DATE for NSL to be paid each month.

The further point was made that by levying the NSL on an accrual basis, the proposal failed to allow for 60 and 90-day plus accounts which are common on Norfolk. There was also no provision for a credit or rebate to cover BAD DEBTS. The NSL Task Force agreed that these were potential problems which would have a serious impact on business cash-flow. They promised to consider alternatives.

7. **Consumption Tax** – Ron and The NSL Task Force take the view that “...the ultimate burden of the Levy falls on the consumer”... and the retailer or service provider are simply collecting the tax.

We made the point to the Task Force that in a small, isolated, tourist based economy, the true inflationary effects of a compounding NSL will only reduce sales turnover and threaten profit. Obviously, the NSL on electricity and essential food items will generate extra revenue for the Government, because sales volumes will be largely unaffected by price increases in the short term. This may not hold true, however, if a significantly higher cost of living forces families to eventually relocate elsewhere.

Tourist sales of imported goods, however, are by no means “essential”. Such sales are often “impulse” buys of luxury and fashion items driven by price alone. With a compounding NSL pushing costs ever higher and no built-in incentives for tourists to spend big and get an NSL Refund, tourist sales and profits in the retail sector must come under further pressure. This can only lead to reduced NSL revenue and place the NI Government under renewed financial pressure to again revise the NSL rate upwards, thus further compounding the problem...and so it goes on.

The NSL Task Force appreciates that the NSL should not be levied against international airfares & accommodation etc booked from Norfolk (only on sales commissions). They realise that to impose the NSL in this instance would only destroy the local Travel Agent Industry as bookings would be made with off-shore agents or on-line. Further, the ongoing need for a 30% discount for travellers at the Liquor Bond is also obvious to the NI Government to remain competitive in that industry. So, why would it not be equally clear that a compounding NSL, with no tourist refund incentive and no export exemption for mail orders, will only further reduce tourist demand and squeeze retailer’s profit.

While it is proposed that all import duty on goods for resale will be removed, a compounding NSL on most business operating costs (electricity, phone/fax, e-mail, advertising, rent, stationery, cartage etc) together with a final NSL on the retail price will only push prices higher and make stores even less competitive. Without input credits, credit for prepaid duty and sales incentives for tourists, any possible cash-flow advantages of a consumption tax would be largely negated.

To conclude, all members of our sub-committee found Ron Nobbs, Steve Matthews and the NSL Task Force to be very open and receptive. While we did not agree with the views of the Minister or the Task Force in every instance, the meeting was very cordial and constructive, so much so that our committee has been invited to a further meeting.

Should members of the Chamber of Commerce have any supplementary questions or concerns, please pass them on in writing to: Annie Walker, Belinda Grube, Chris Magri, Derek Greenwood or myself by lunch time this Wednesday. We will present them to the NSL Task Force on your behalf and report back at the earliest opportunity.

Chamber of Commerce Sub-Committee:

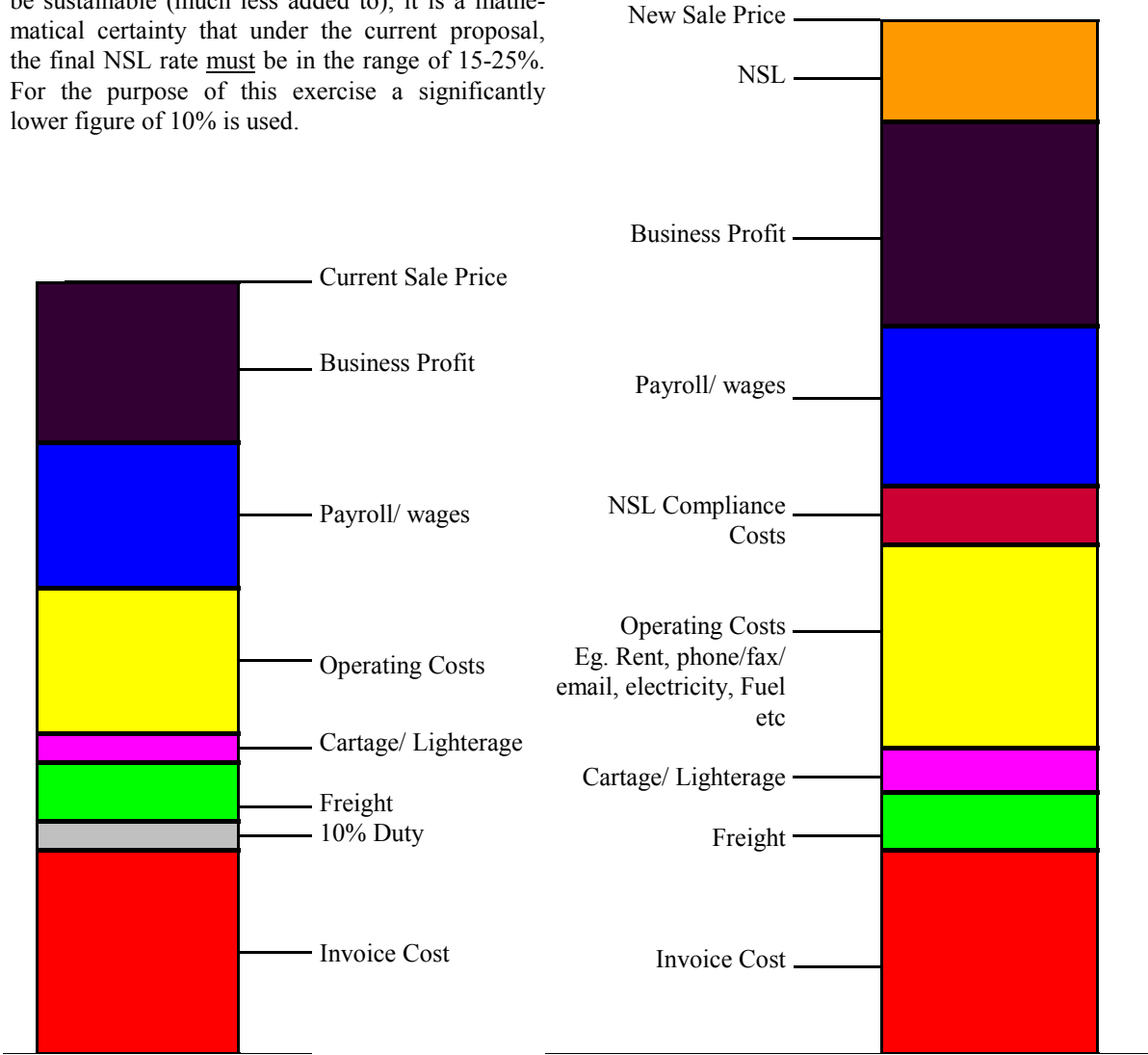
Annie Walker
Belinda Grube
Chris Magri
Derek Greenwood
Mitchell Dickens

True Inflationary Effect of Proposed NSL

For Direct Import Retail Sales in One Year.

***Note:** For other Island businesses such as Cafes/ Restaurants/ Builders/ auto repairers/ tradesmen etc. where imported & local goods are value added and change hands several times, the inflationary effect would be significantly increased. Currently there is no tax on local goods, so local manufacturing and industry would suffer greatly under the NSL proposal.

** Note: For the current level of self government to be sustainable (much less added to), it is a mathematical certainty that under the current proposal, the final NSL rate must be in the range of 15-25%. For the purpose of this exercise a significantly lower figure of 10% is used.



Cost of Goods No NSL

*** NOTE: A conservative allowance of 4% pa has been made for upward pressure on wages. No allowance has been made for certain upward revisions of the NSL Rate to maintain Govt cash flow from ever reducing economic activity & population.

New Cost of Goods with Compounding NSL

Norfolk Island Chamber of Commerce

Position Paper

On

Proposed Norfolk Island Sustainability Levy

Background

This paper has been prepared by the Norfolk Island Chamber of Commerce following the announcement by the Minister for Finance, Ron Nobbs to introduce a new tax – the Norfolk Island Sustainability Levy (NSL) (to replace some of the existing taxes) for Norfolk Island by October 2005.

As at the date of preparing this paper, the only information which had been made available was the PowerPoint presentation made by Ron Nobbs to the Public Forum organised by the Chamber of Commerce on Friday 20th May 2005.

Stimulus for the Levy – Understanding the problem

The Chamber recognises the motivation for the levy is driven by an economic imperative on the part of the Norfolk Island Administration and Government. For several years, successive governments have been advised that expenditure was growing at a much faster rate than income and that strategies needed to be put in place to redress this. Given this, the Chamber is extremely concerned at the sudden “urgency” being placed on the introduction of the NSL without first considering alternatives and the inclusion of extensive community input and economic analysis.

As an indication of this “economic imperative”, in his address to the Chamber of Commerce on the 20th May, Ron Nobbs said that if existing “direct” government fees and charges were increased, the following results could be expected:

- | | |
|----------------------|---|
| “10% [additional] | just to maintain existing revenue-base and current services with no infrastructure replacements; |
| 20% [additional] | to maintain existing base + allow for a slight increase in services – no infrastructure replacements; |
| 30%-40% [additional] | in order to increase existing revenue-base, services, and replace infrastructure over the medium term.” |

In the absence of specific information on the magnitude of the situation and using the audited financial statements of The Administration **for the Revenue Fund only** (and assuming that revenue from GBE’s is not regarded as “direct” government fees and charges), for the year ended 30th June 2004, the following assumptions can be drawn.

Revenue Raised from :

Taxes – Customs Duty.....	\$3,742,249
Other Taxes	4,508,594
Earnings and Charges received from Services (\$3,923,624).....	excluded
Interest from Investments (\$173,506)	excluded
Charges	615,647
Other Income (\$716,373)	excluded

Assumed “direct” government fees and charges \$8,866,490

Assuming a population of say **1600** to **1800**, this would result in the following:

An increase of	Would raise	Additional per capita contribution to increase per year	
		Assuming 1800	Assuming 1600
10 %	\$886,649	\$493	\$554
20%	\$1,773,298	\$985	\$1,108
30%	\$2,659,947	\$1478	\$1,662
40%	\$3,546,596	\$1,970	\$2,217

So effectively, to “fix” the current “economic imperative” the government needs to raise **an additional \$2,000 to \$2,200 per year from every man, woman and child who lives here.**

The Chamber seeks specific information and data from the Assembly to assist in understanding the extent and magnitude of the problem.

Chamber Support

The Chamber is prepared to fully support and work with the Assembly to find a solution to the Island’s current financial problems. However, **it does not necessarily believe that the NSL** as proposed and particularly within the timelines (by October 2005), coupled with the lack of real analytical data/information which is publicly available, **is the correct solution.**

The Chamber is prepared to assist the Assembly “buy” time by proposing a range of short term revenue raising measures to ensure the “correct” long term solution is found.

Such short term measures may include a one off levy on all individuals or properties to fund the current deficit, during which time a concerted effort is

made to address the ***underlying problems which we now face as a community.***

As a starting point, several longer term alternatives have been considered by the “Alternative Revenue Workgroup” established by the Chamber. The Chamber is happy to discuss these with the Assembly.

**The problems we now face are not declining revenues to government.
This is a symptom of the real problem which is simply a poorly
performing economy and administration.**

On the basis that the matters as outlined in this Position Paper are addressed, the Chamber is prepared to fully co-operate with the Assembly with the provision of information/data necessary to find the “right” long term solution for the Island.

However, the Chamber’s support must be conditional upon the Assembly first demonstrating its preparedness to meet the community part way so that any long term increases minimise the impact on the community and address the “real” problems.

In this regard, the Chamber has available a range of business skills and expertise which can be made available to the Assembly to find the best solutions for our shared community and to ensure the long term viability of the Island’s economy.

The Way Forward

To achieve this the Chamber seeks to work with the Assembly to achieve the following:

1. To quantify the true extent of the problem as outlined above

The only information which has been made available to the community regarding the extent of the current problem, is that outlined in the Norfolk Islander (Volume 40, No 23, Saturday 28th May 2005) under the heading of “**Minister presents 2005-06 Government Budget**” as follows:

“The 2005-06 Revenue Fund Budget and the Appropriation Bill 2005-06 were presented to the May sitting of the Legislative Assembly by the Minister for Finance Ron Nobbs, who highlighted the fragile state of the Administration’s finances. Mr Nobbs said that the Budget bottom line was a deficit of over \$2.2 million, with a further \$2 million of unfunded requests which had not been approved...”

The Chamber is of the view that simply funding this deficit without understanding and addressing the underlying cause will result in the medium to long term economic demise of the Island.

The Chamber is prepared to offer support and business expertise to assist the Assembly analyse and address the underlying cause of the existing (and potential future) budget deficit.

2. Depending on the “urgency” of the problem based on the information made available as a result of 1 above and if necessary, to work with the Assembly to find short term solutions to “buy” time so the correct long term solution is put in place in a systematic and orderly manner.

As mentioned above, the Chamber has already identified a number of short term measures which could be quickly put in place to address the “immediate” for the benefit of the long term.

The Chamber is prepared to assist the Assembly “buy” time by proposing a range of short term revenue raising measures to ensure the “correct” long term solution is found.

3. To clearly identify what % of the “30 to 40% additional revenue required” as outlined by the Minister for Finance in his address to the Chamber on 20th May, is available through increased efficiencies and decreased expenditure (and perhaps services) to minimise the extent of necessary increases in taxes (in whatever form these may ultimately be).

The Chamber accepts that additional revenue may be required; however it does not believe that continuing to fund ongoing deficits through revenue increases is responsible government without first establishing what percentage of additional resources can be funded through expenditure savings.

Sensible management in any business requires a constant and aggressive attitude towards ongoing efficiencies through expenditure and services review.

Before the Assembly proposes to burden the community with further increases in revenue, it must first demonstrate its commitment and capacity to improving the performance of government and the administration.

The Chamber has and will continue to identify a number of areas where substantial efficiencies could be achieved and is prepared to offer support and business expertise to assist the Assembly analyse and address these.

4. To reach an agreed position between the Assembly and members of the community on the acceptable levels of decreased services and improved efficiency measures.

Once areas for achieving efficiencies have been identified, an agreed position needs to be reached with the community as to the acceptable service delivery levels in context with potential savings and the continuing costs to the community of delivery.

The Chamber is prepared to assist the Assembly facilitate community consultation to achieve this outcome.

5. To urgently put in place appropriate strategies and plans to address the two fundamental issues affecting the Island's economy which stem from problems with Airlines and inefficient shipping facilities.

Efficient and effective access to the Island is critical to improve tourist numbers (thus preserving our major industry) and to stimulate and encourage business investment which in turn bolsters our economy.

There is no argument that tourism forms the backbone of the Norfolk Island economy. Ongoing uncertainty and instability of the main access points for visitors, residents and cargo to the Island have significantly contributed to the current crisis. Therefore it is imperative that these issues be confronted and suitable long term solutions be put in place.

Through a working group of the Chamber, a number of initiatives have been identified which could facilitate the establishment of long term reliable, effective and efficient access which could improve and increase the current capacity.

The Chamber is prepared to assist and support the Assembly to develop appropriate strategies and plans to urgently address this issue.

6. To actively address the diminishing (and aging) population base (resulting in the need to raise more revenue from less people).

The Chamber believes the current policies of the Assembly are regressive. Norfolk Island's population has been static for some decades. Whilst the Chamber does not condone or propose a population explosion, it does believe minor changes in immigration and related policies could result in major economic benefits.

A simple analysis of the property and business real estate market will highlight the fact that there are many properties and businesses for sale, a large majority of which have been listed for between 3 to 6 years. Sale prospects have diminished over recent years largely because there is a diminishing pool of "eligible" buyers. At the same time, owners' equity of both businesses and residential properties has also diminished in direct correlation with increased indebtedness as people struggle to make ends meet.

Put more simply, the business and residential property markets have remained static since 2002 whilst other countries since this time have experienced quite the opposite. Current property values are currently under pressure and at risk of diminishing further because of the Island's current economic situation.

This situation directly affects the Norfolk Island economy through the lack of "eligible" investors who stimulate the economy not only with "new" money, but also enthusiasm and fresh ideas which come with any new venture.

As funds circulate in our economy they slowly erode through offshore "leakage" to the point where we are today without sufficient (and critical) "new" money being injected into our economy.

For the benefit of the Island in the current economic climate, the Chamber believes the onus is on the Assembly to look introspectively at its existing immigration and related policies to develop strategies that address the Island's diminishing (and aging) population base. Such strategies could provide significant economic stimulus without any increased (and potentially less) environmental and social impact beyond that of our existing transient tourist population.

The Chamber is prepared to assist and support the Assembly to develop appropriate policies which address this issue.

Alternative Revenue Solutions

As mentioned above the Chamber has identified a number of alternative solutions which are less complicated than the proposed NSL. The Chamber believes that a population of 1,600 cannot afford a taxing system which imposes costly administrative systems, collection infrastructure and auditing processes. Hence a number of initiatives have been identified to date by the Chamber's working group. That group will continue to generate ideas and wishes to work with the Assembly to further develop some of these ideas.

The Norfolk Island Assembly is fortunate that its constituency are not only prepared to research alternatives but also provide assistance for the implementation of these alternatives.

The community of Norfolk Island has always been prepared to pay their way, and as a community we have established ourselves as not only hard working but also capable of initiative.

The Chamber therefore calls upon the Assembly to accept the offer of its community to work together to develop a range of alternative revenue initiatives which are administratively simple, equitable and effective.

Timing

The Chamber and general community are extremely concerned about the apparent urgency for implementation of the proposed NSL, particularly when successive Assemblies have been repeatedly advised by their professional advisors and the Commonwealth government that the declining financial resources of the Administration and Government need to be addressed.

To introduce the NSL within the proposed time frame without adequate analysis, including projection of economic, tourism and social impacts, will be devastating for this Island.

At the very least and prior to **any decision to introduce the NSL**, the Assembly must undertake analysis which projects the impact of the proposed NSL on:

- Tourism
- Prices of goods and services
- Inflation/cost of living
- Existing population numbers (how many people will leave the Island)
- Potential investors to the Island
- Business and community confidence

It is only with this information that the Assembly and community can make and informed decision.

The Chamber strongly believes that Assembly's current proposal for the NLS, lacks adequate analysis, community input and education and will have an irreversible and devastating social and economic impact on our Island.

Each and every Assembly member must seriously consider the need for prompt action without panic.

Conclusion

The Chamber is of the view that the Assembly is prepared to push its proposal for an NSL through the necessary legislative process to take effect by October 2005 without offering the community an opportunity of referendum.

The Chamber believes that in light of the lack of information, which is currently available, and is likely to be available in sufficient time to enable an informed decision to be made, the proposed time lines are unacceptable and will not

allow for adequate analysis of the economic and social impacts on our community.

The Chamber is not opposed to the introduction of a new system of raising revenue per se, however, to do so in haste and without sufficient community input and analysis would be clearly to the Island's detriment.

It is for these reasons that the Chamber has formed the view that in the event the Assembly proceeds as perceived, it will do so in the face of widespread, strong and determined opposition to its proposal.

The Chamber stresses that its preferred option is to work with the Administration and the Assembly to find the correct long term solution for our shared community.

June 2005