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## **SUBMISSION to the JOINT STANDING COMMITTEE**

The Norfolk Action Group (NAG) is a group of people who wish to enhance Norfolk governance, wellbeing, life and culture. Any member of the community, regardless of residency status, is welcome to be a member of NAG. As such, there will always be a wide range of views (which will fall into the traditional bell-curve). Our challenge will be to articulate the views of the majority.

### **CURRENT SITUATION**

Norfolk is a unique place because of its history, language, and culture. For example, our language is one of the worlds rarest. Despite the influences of tourism, and external forces like the Australian education system provided prior to self-government, our culture remains strong. If it was to die, there is no where else in the world where it could be resurrected, for even Pitcairn is different today.

Our remoteness has led to an innovative people who pride themselves on their self-sufficiency, and ability to overcome almost any adversity. You need to look no further than 25 years of self government to understand how well a small population has coped in an increasingly complex world.

Looking at the current situation there remains much to be proud of.

The island operates a government budget which (NAG is informed) is in a reasonable (liquidity) position. This has been achieved by our government despite many financial challenges – airline collapses, higher costs of living resulting from our remoteness, and having to deliver an amazing range of government services as part of our self government status.

Until the last few years, commerce on Norfolk has seen good returns on investment. In fact, the businesses of Burnt Pine were often called ‘the Golden Mile’. However, many businesses today show significant shortfalls, (many quote being 50% down on the previous year’s revenues), which can be attributed to a significant slowdown in tourist numbers. While many are wondering what to do and how to react in such circumstances, there are others who are looking at re-engineering their businesses so they are ready and better able to take advantage of the opportunities that will come again. This is the natural course of events where the innovative and the positive grow even in times of adversity.

Norfolk remains, especially in times of hardship, a leading example of what can be achieved by a generous community – from philanthropists who give hugely of their wealth to establish scholarships, the dental clinic and many other services; to those who give of themselves so the school students have trips away and equipment; to those many amongst us who share our surpluses; to families who look after their own

in times of illness and hardship; and to those who lay to rest with dignity those who die here. While we do not know what this community input contributes to the GDP, it is significant, and from what our visitors and new residents tell us, of greater significance than in other parts of Australia or New Zealand. From the perspective of a community contributing to the overall wellbeing of the whole, Norfolk punches above its weight.

## **RELATIONSHIP BETWEEN AUSTRALIA AND NORFOLK ISLAND**

Our remoteness could also be viewed as a mixed blessing. One could argue that our years of independence have given us little experience of collaborating and cooperating with external parties and has built a reluctance to ask for help. This is ironic as today, Pitcairn Island (where the modern Norfolk began) is actively and successfully pursuing partnerships with others to ensure the sustainability of their community and culture; with an apparent lack of concern that these relationships will diminish or compromise their culture.

While Norfolk's relationship with Australia might have resulted in undesirable outcomes in the past, and legacies in this regard remain, it is now vital that all parties strive to build better relationships on the basis of mutual respect, for the benefit of the people of Norfolk, who can be the only losers if this is not done.

NAG wishes to collaborate and cooperate with any other group, and/or any government, to address our current challenges. Unless these are addressed in total, we will not be able to sustain the lifestyle we love, nor continue to provide the services necessary for a modern society.

This does not mean that the Norfolk community desires all of the services, nor services to the same levels, as that enjoyed by other Australians. Indeed, our aspirations as a community may well be less in some areas, and the majority of us do not feel "second class" (as some would have us believe) as a consequence.

## **THE NAG POSITION**

Our members recognise that we have many challenges. These we have tried to briefly outline in this submission as they may be of use to others considering a better way forward for Norfolk Island. We draw your attention to the SWOT analysis included at Attachment A.

Those strengths that we must retain; those opportunities we must take; the weaknesses we must overcome; and the threats we must address; may form an appropriate basis for building a more sustainable Norfolk Island. We have attempted to address some of what we see are the key factors in the remainder of this submission.

While our government has managed to balance the budget, they have not been forward planners. We need to invest in a range of vital infrastructure and funds are not available to do this. NAG understands that additional funds exceeding \$3.5 million per annum (above and beyond existing revenues) will be required in the future. Our current funding strategies are inadequate for our needs; our government is running our lifeline air link with Australia, diverting funds and resources from other

important issues; there are systemic issues within the public sector that impede efficiency; our permanent population is in decline, and our tourist numbers have fallen markedly which has had a negative impact on the commercial sector (and subsequently government revenues).

NAG (and others) tried to work with the local government to offer a range of options for increasing government revenues, after the Finance Minister announced his preferred option of a goods and services tax (the Norfolk Sustainability Levy - NSL). Some of the options offered were for short-term help to overcome the projected budget shortfalls, and to give breathing space to ensure the 'right' options were chosen for Norfolk's future. While the NSL has been considered in some detail, and more recently it was announced that income and land taxes would be looked at more closely, the other options suggested have not been considered to the same extent to this time. We have included a list of the other options for your information at Attachment B.

Our position was, and remains, that we must create greater wealth in the community from three sources:

- Growing of the economy;
- Greater efficiency and effectiveness of the public sector; and
- Sustainable revenue raising strategies.

## **GROWING THE ECONOMY**

The lifeblood of the Norfolk Island economy is tourism, and will remain so for the foreseeable future. Based on Norfolk Island Government Tourist Bureau (NIGTB) statistics, tourist numbers are down over 15% compared to the same 12 month period last year, and to the three months to the end of August 2005, numbers are down well over 20%.

During the 'boom times' of the early 2000s, 40,000 visitors and more chose Norfolk as a holiday destination. In fact, according to immigration statistics, in 2001 Norfolk Island averaged 825 visitors each week (for the first 38 weeks of the year). In the same period of 2005, average visitor numbers each week were down to 603. This represents a 26.9% fall in visitor numbers, or 8,300 fewer visitors, (which projected for a full year means 11,500 fewer visitors).

*Note: average weekly visitor numbers for each of the calendar years 2001 to 2004 are 818, 728, 814, and 735 respectively. So in 2005 we are at (recent) historic low levels.*

There are some in the retail sector who would suggest this is a very conservative number, with revenues reportedly down 60% in some businesses. While we acknowledge that some of the reductions in retail revenues could be attributed to factors such as product offerings, or indeed the 'wealth' of the visitor coming to Norfolk, visitor numbers at these reduced levels must have a dramatic impact on business and government revenues.

It is also worthy of note that the standard schedule of air services to Norfolk Island can only achieve close to the 40,000 mark, if every seat is sold, which is highly unlikely.

While the global tourism industry is very competitive, it is a growing market, and it is worrying that Norfolk's share of that market is declining in real terms, given the very strong tourism assets we have. This trend must be corrected within the limits imposed by our infrastructure and remoteness.

What is the impact on Norfolk Island?

It is relatively easy to calculate that 10,000 fewer visitors to Norfolk means a reduction of \$1,000,000 in government fees and charges.

In a recent series of focus groups with visitors held by the NIGTB, visitors were asked about their spending habits while shopping on Norfolk Island. 90% of visitors said they spent less than \$1,000 during their stay. If we assume an average spend based on these statistics of \$500, every 10,000 visitors will inject \$5,000,000 into the economy.

*Note: The \$1,000,000 is calculated based on an average of \$100 of government fees and charges per visitor. We have used landing taxes of \$53 (or \$26.50 per movement), departure fee of \$30, and estimated duty at \$17, totalling \$100 per visitor. In the 2003-04 financial year customs duty collected was \$3,742,249, across locals and visitors, or approximately \$93 each.*

*In a 1990 report, "Where the Norfolk Island Government can find the money it needs", it was inferred that duty paid by visitors could be as much as \$10 per day.*

*We have used a very conservative \$17 per visit as that which tourists would have paid, and that keeps the maths simple too.*

It is apparent therefore that every 10,000 fewer visitors means considerable direct losses to the government and the economy, and very significant losses when one takes into account multipliers and the reduced turnover in shops that will directly impact on government revenues.

NAG believes the opportunity exists for the Commonwealth to assist Norfolk Island rebuild its tourism industry, by supporting well-credentialed local people do this very important task. This is the best option in the short term for moving to underpin our financial security.

In the Butland Report of 1974 it was recommended that a permanent resident population of 2,000 should be reached by 1983, with a growth rate of 2 per cent per annum thereafter. According to immigration statistics, our population (excluding visitors) at the 23 September 2005 stood at 1,927, well short of the 3,000 (in 2005) suggested by the 1974 report.

Norfolk's population at the end of each of the four years from 2001 averaged 1,998, so we have seen a 3.5% decline so far in 2005. This is further evidence that the economy is contracting, and suggests that our ability to respond quickly to grow the economy has population challenges too.

As such, population policy that is aligned towards a growing economy, that may well achieve a more critical mass that supports the internal economy in times when tourism

is at low levels, and takes into account the ability for the island to support a larger permanent population, is urgently required.

Norfolk's history is littered with entrepreneurial ventures, many of which were, for a time, very successful. Whaling, fruit processing, banana and seeds exports readily come to mind. Most, if not all, have experienced intense competition and have suffered from our remoteness and lack of access to affordable transport links. In production type industries on Norfolk, this will remain a major challenge.

In the new economy based on services, where the opportunities afforded by modern telecommunications and especially the Internet, overcome factors like remoteness, there is potential for Norfolk to diversify its economy, and reduce its reliance on tourism.

NAG suggests the Commonwealth encourage, and assist with expertise and other resources, to find industries (particularly services based such as call centres for example) that will diversify the Norfolk Island economy away from its almost complete reliance on tourism.

## **REFORM OF THE PUBLIC SECTOR**

At the end of June 2004 the public service of Norfolk, (called Administration), had over 200 employees, with numbers closer to 300 when the Government Business Enterprises (GBEs) were taken into account. This represents (approximately) 30% of the permanent workforce of the island.

In defence of such high numbers, it is true that the duties required to be carried out by the Government of Norfolk are more onerous than others, with a mix of national, state and local government responsibilities.

Nevertheless, studies in the past have suggested there is potential for significant improvements in accountability, work practices, skills and responsiveness to customer needs, which could have significant savings for the community of Norfolk.

Further, there would appear to be potential for the outsourcing of/contracting out specific government functions and services, and for GBEs to compete with private sector operators for such contracts, on a 'level playing field' basis.

Some of these changes may already be underway in response to the island's financial outlook. However, the electorate does not know what is happening, which indicates that the government needs to be more transparent and more communicative about their vision for Norfolk's future and how they are going about achieving it.

While there is no formal basis for knowing what the savings could be from reform of the Administration, some suggest they are considerable, (exceeding \$1 million per year). Through natural attrition, contracting out, and revised work practices with upskilling, savings could be achieved with minimal impact on our long-cherished 'zero unemployment' record.

NAG suggests the most appropriate way to reform the public sector here is to draw on the cooperation, expertise and resources of the Commonwealth, to introduce best practices in public administration that have become the norm in Australia. Suitably modified for Norfolk, and couched in a well-developed change management plan, they could play a significant role in achieving a more sustainable future.

## **SUSTAINABLE REVENUE RAISING STRATEGIES**

In a recent survey conducted with businesses on Norfolk Island regarding revenue raising options, the top 5 results were:

- Improve tourism.
- Make money by saving money in the public sector. Both measures – leasing of GBEs, and improving work practices – rated well.
- Retain existing taxes. Departure taxes should be retained.
- A spread of revenue earners, including land, resources and services taxes.
- Long term possibilities, for example, Norfolk becoming an offshore training centre for other Pacific nations.

Income tax came in as the sixth preferred option, followed by raising the levels of existing taxes and charges, with a GST a distant last.

What is interesting about the results of this survey was that business appeared to be suggesting a ‘smorgasbord’ of revenue raising options and taxes was required, rather than a single ‘magic bullet’. Further, there was wide acceptance that more needed to be done to ensure we ‘paid our way’ through current or alternative revenue raising measures.

While there has been work undertaken on Norfolk on a GST, and work is now underway looking at income and land taxes, Norfolk may benefit from using the taxation skills and expertise that the Commonwealth has to carry out a wide ranging and transparent review of all revenue raising options. The ensuing debate must educate as well as inform, and be supported by facts and scenarios. It is worth noting the only scenarios tabled in the debate on the GST were by the local newspaper, the Norfolk Islander. Those who are proposing the change are obliged to provide such information, as this is the only way to have the community understand the impact the tax may have on them. This is especially relevant on Norfolk where there is little understanding and recent experience of taxation matters.

There have been many reports into revenue raising prepared over the last 15 years, with little notice taken (it would appear) of the rhetoric of the need for new measures, or the hard work to prepare the reports. One of the most interesting was a report from 1990, titled “Where the Norfolk Island Government can find the money it needs”.

This report identified nine characteristics of what it called “a good tax handle” (ie. where the government can impose a tax on something. For example, a road that people want to use can be a tax handle because the government can place a toll on its use). These characteristics are summarised in Attachment C, and might be of interest to others as they were to NAG.

The report suggested that:

- Customs duty remained “the best of our existing tax handles” as it rates very well on all the characteristics except for (possibly) “progressivity”; and
- Income tax worked exceptionally well in a large, industrialised country where companies “keep good, standardised accounting and personnel records”. It concluded for income tax that while “A tax handle doesn’t have to fill all nine of the criteria, ... one that misses five [which it said income tax did] is a loser.”

The report went onto suggest other ways the island may raise revenues (both tax and non-tax), including the following:

- Large commercial operations such as (the then) OTC, Commonwealth Bank, Westpac, Air New Zealand and East-West generate a portion of their income on Norfolk, which is taxed – by Australia or New Zealand. None of these taxes find their way into the public purse of Norfolk Island, so the possibility exists to “officially impute what their local earnings are deemed to be, and tax that” here; and
- Having Norfolk take control of its 200-nautical mile zone. While the report could not quantify the worth of this, it suggested that as deep sea technology improved the resources within this zone could be worth a great deal. It also stated “In legislating for Papua New Guinea’s 200-mile zone while PNG was still a Territory, the Commonwealth took the position that all benefits from the zone should go to PNG. The same principle should apply in Norfolk’s case.”

While NAG is not in a position to say that the above measures, or the others in this and the many other reports available, are the ‘right ones’, it is the thinking outside the square approach that is required now. The easy options are to just tax a small population because that is ‘what happens elsewhere’, or place greater imposts on tourists (that could make Norfolk less competitive). We should do our homework and make the ‘right decisions’, not the expedient decisions.

## **THE NAG POSITION IN SUMMARY**

We maintain that sustainable revenue raising (taxation) strategies are best attempted in a growing economy, and with a reformed public sector. The need still exists to ‘do the hard yards’ to look at all the options (both tax and non-tax).

We also believe that no one source can be considered in isolation.

We further believe there is great scope and opportunity in both growing the economy through increased tourism and possibly new industries, and achieving greater efficiency and effectiveness in the public sector.

The table below shows the characteristics of each of these ‘funding sources’ that NAG believes needs to be taken into account to ensure a sustainable future for Norfolk Island. These have come from our review of the SWOT, (reference to which is made in Attachment A), and those strengths, weaknesses, opportunities and threats which we think are the most important.

<b>Growth</b>	<b>Efficiency and Effectiveness of the Public Sector</b>	<b>Sustainable tax</b>
<ul style="list-style-type: none"> <li>- Increased tourists;</li> <li>- Population policies;</li> <li>- New industries</li> <li>- Government support for entrepreneurial ventures;</li> <li>- Stimulatory packages</li> </ul>	<ul style="list-style-type: none"> <li>- Maximise resource usage;</li> <li>- What services should be provided by the Public Sector? Possibly, there could be some form of privatisation of public sector functions, within a competitive framework;</li> <li>- Addressing the (perceived or real) conflicts of interest in government and administration;</li> <li>- Planning framework, and implementation follow through</li> </ul>	<ul style="list-style-type: none"> <li>- A wide range of options are assessed;</li> <li>- Simple to collect and enforce;</li> <li>- Broad-based;</li> <li>- Does not negatively impact on our culture;</li> <li>- Does not unduly burden tourists</li> </ul>

### **OUR DESIRED OUTCOMES**

The expressed wish of NAG members is that we remain a self-governing entity, but with a more effective relationship with the Australian Government.

While it would be easy to have Norfolk Island become like the rest of Australia, this would go against the majority view of NAG members, and the majority of Norfolk residents' aspirations.

NAG believes that by working together to address issues of growth, the public sector, and then sustainable revenue raising measures as outlined, taking advantage of Australian expertise and resources, and by continuing to draw on the best of the Norfolk Island people – their self-government experience, their resourcefulness and generosity – self-government and the Norfolk lifestyle and culture can be maintained.

And through this joint experience, all parties will better understand each other, and what each expects of the other.

Finally, we firmly believe that retaining self-government for Norfolk Island is in the best interests of all Australians because while we will still seek assistance from Australia, the financial burden will be considerably lower than for other territories.

**The Norfolk Action Group**



**ATTACHMENT A - (SWOT Analysis)**

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ul style="list-style-type: none"> <li>• Norfolk Island has had 25 years of self government characterized by balanced budgets and minimal requests for assistance from the Australian Government.</li> <li>• Increasing prosperity of local businesses up until about 1 to 2 years ago.</li> <li>• A lifestyle that all enjoy.</li> <li>• Industrious workers and a strong work ethic.</li> <li>• People who have great capabilities to improvise, make do, find solutions, be practical and flexible.</li> <li>• Mature and well understood tourism product currently exists.</li> <li>• Businesses that are now re-modelling themselves for the future.</li> <li>• Community generosity and philanthropy extending from millions to tens of dollars.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of forward planning and investment in infrastructure.</li> <li>• Lack of experience in finance and management in government and administration.</li> <li>• The complexity and difficulty MLAs and Administrative officers have of dealing with issues and taking hard decisions that affect family and friends.</li> <li>• The ‘cumulative voting system’.</li> <li>• The lack of party and / or long term “policy-based” politics.</li> <li>• The low remuneration of MLAs which reduces the number of people who will stand for office.</li> <li>• Systemic misuse of resources and position that is not recognized or not addressed.</li> <li>• Lack of openness of the Legislative Assembly.</li> <li>• Potential for impediments to innovation and new ventures.</li> <li>• Low base of wage earners, and low wages overall.</li> <li>• High cost of living and inflation.</li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>• Growth.</li> <li>• A range of different funding options.</li> <li>• Forward planning and investment.</li> <li>• Privatising areas of the public service to reduce costs and grow the private sector without reducing employment.</li> <li>• An outside Airline company.</li> <li>• A sustainable increase in tourist numbers via a reliable Airline and strong marketing campaign.</li> <li>• Cooperative agreement with Australia.</li> <li>• Small business assistance in funds, education and advice.</li> <li>• Revitalise tourism with new markets and products.</li> </ul>	<ul style="list-style-type: none"> <li>• Not addressing the Weaknesses and Opportunities.</li> <li>• Continued resistance to Australia and lack of openness of NI government.</li> <li>• Airline not being sorted out and draining government funds and not solving the tourism problems.</li> <li>• Private debt. With a weakening economy, more and more people are struggling with their personal debt levels.</li> <li>• Lack of clarity around the long term identity and direction of Norfolk Island.</li> <li>• Losing our people because they leave to find more opportunity.</li> </ul>

**ATTACHMENT B – (Potential Revenue Sources)**

A spread of revenue raising options

- Government Infrastructure Bonds
- Tourist Drivers License
- Leasing of Telecom Numbers
- Services Tax
- Norfolk Island Lottery
- Norfolk Island Instant Scratchy
- Local number plates
- Tour Bus Operators Levy
- Rental Car Operators Levy
- Land Taxes (Rates)
- Simplified Payroll Tax

Making money by saving money

- Leasing of Government Business Enterprises
- Improving Work Practices

Adding to the current rate of a range of existing taxes

- Duty (possibly duty rebate for tourists), fuel, absentee landowners levy, company and vehicle registration and license fees, lottery fees, liquor licenses

Retention of existing taxes

- Departure taxes
- Financial Institutions Levy

Goods and Services Tax

Income Tax

Long term possibilities

- Cruise Liner Stopover
- Offshore Training Centres
- Offshore Call Centres
- Internet Gaming/Gambling

Other

- Repatriation of taxes paid by multinationals
- User pays system
- Norfolk Island Financial Institution (possibly a community bank or credit union)

Note: We are not suggesting that all of the above be implemented, but that they form a range of options which need to be investigated to determine the ‘right’ options for Norfolk.

**ATTACHMENT C – (Characteristics of a good ‘tax handle’)**

1. The event, or transaction, etc. that is taxed can easily be seen and is clearly identifiable, leaving little room for argument that the tax is or is not payable.
2. The event should be substantial enough or frequent enough so that a worthwhile amount can be raised by taxing it.
3. The tax should not be able to be easily avoided by some simple change in behaviour
4. The cost of administering, collecting and enforcing the tax should consume only a small share of the taxes paid.
5. Ideally, the event that is taxed should be one that demonstrates, in itself, that the person can afford to pay some tax.
6. The nature of the event, and the tax on it, should be such that the amount of tax automatically grows with inflation, and never has to be increased to bring it up-to-date.
7. In the eyes of most people, a tax is fairer if it has progressivity built into it, ie. people who can afford it should pay more tax than those who are poor.
8. The use of the tax handle, ie. the imposition of the tax, should not have undesirable social effects.
9. A good tax handle is one that the community believes is actually being paid, and not dodged, by pretty well everyone who owes it.