

Territories Law Reform Bill**Index to responses to Questions on Notice**

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If you could, would you provide that correspondence (a letter to George Plant from Alison Green containing details on adjustments to the Bill) to the Committee.

B) Senator Lundy asked the following question at the hearing on 12 April 2010:

Can you clarify the reason for specifying chief ministerial appointment of ministers? What is the reason?

C) Senator Lundy asked the following question at the hearing on 12 April 2010:

To what extent could the expansion of the Commonwealth Ombudsman's jurisdiction pick up concerns and issues from citizens about their rights and their capacity to seek redress if they feel that they have been treated unfairly or have been exposed to harm by members of the community on Norfolk Island?

D) Senator Adams asked the following question at the hearing on 12 April 2010:

There is the issue of somebody who says that there has been a failure of the health care system on the island to assist then with, for example, a mental health issue... or the resolution of a child welfare issue. I am interested in what our duty of care is as a Commonwealth in the case of failure maybe of the island's law to deal with such an issue?

E) Senator Lundy asked the following question at the hearing on 12 April 2010:

We received specific evidence from the Retired Soldiers League of Norfolk Island about the Norfolk Island government's failure, in a nutshell, to legislate to enhance their rights relating to their provisions of DVA associated benefits and entitlements. What capacity does this Bill provide for the Commonwealth to express a view or perhaps initiate some activity to resolve outstanding complaints in that regard? What would the process be, given we know this bill does allow for Commonwealth initiated legislation to be addressed or at least debated on Norfolk Island?

F) Senator Lundy asked the following question at the hearing on 12 April 2010:

Would [it] be possible for the department to provide the committee with a list of the original schedule 2 items and the pattern of expansion of that over the years, including the details of that list now under schedule 2?

G) Senator Lundy asked the following question at the hearing on 12 April 2010:

I would like further detail of the Commonwealth's rationale for assent over the schedule 2 items. Also, was there any other approach than expanding the Commonwealth assent to schedule 2? Was that done because there was concern about the growing list of schedule 2 items and, by definition, the reduced role of the Commonwealth in considering those items?

H) Senator Lundy asked the following question at the hearing on 12 April 2010:

You mentioned in your opening statement or soon after, I believe, there had been some schedule 3 matters that had proceeded through the NI Assembly about which there had not been prior consultation but, I presume, that, because of the nature of it, Commonwealth assent as still granted. Can you describe the Commonwealth's expectation in relation to consultation and the sorts of matters where that did not occur?

Additional Questions on Notice

Exposure draft bill consultation

1. Can you provide an overview of the consultation undertaken by the Attorney-General's Department in regard to the exposure draft of the bill for a) Norfolk Island and b) the Indian Ocean Territories?
2. Why was the consultation for comment on the Bill extended until 16 April 2010?
3. Have any of the comments provided so far during the consultation process led to amendments to the Bill, if so, in what areas?

Administrative law reform

4. The Norfolk Island Government stated that they supported less costly and complex proposals for administrative schemes more suitable for smaller jurisdictions as proposed by the Commonwealth Ombudsman. Are you able to expand on this?

New Financial framework and financial reporting requirements

5. What assurances were given by the Norfolk Island Government in 2006 that would address the inadequacies of the current Norfolk Island financial framework?
6. Has a study or evaluation of the Norfolk Island a) economy and b) Government been undertaken? If so, can you provide the information to the committee?
7. What are the main changes to the financial framework and financial reporting requirements in terms of the accounting standards that are currently applied by the Norfolk Island Government?
8. How will the provisions regarding the Commonwealth Financial Officer be applied to Norfolk Island?
9. The committee heard evidence that Norfolk Air is operating with continuing decreasing profit. How will provisions contained in this Bill assist Norfolk Air to remain solvent?

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES

ATTORNEY-GENERAL'S DEPARTMENT

Question No. A

Senator Lundy asked the following question at the hearing on 12 April 2010:

If you could, would you provide that correspondence (a letter to George Plant from Alison Green containing details on adjustments to the Bill) to the Committee.

The answer to the honourable senator's question is as follows:

The acting Assistant Secretary of the Territories East Branch wrote to the Chief Executive Officer of the Norfolk Island Administration on 31 March 2010. The purpose of this letter was to establish a working group to discuss the financial framework regulations, and to inform the Norfolk Island Administration of changes made to the Territories Law Reform Bill from the time it was released as an exposure draft to when it was introduced into Parliament. A copy of this letter and its attachment is at **Attachment A**.

ATTACHMENT A



Australian Government
Attorney-General's Department

Territories Division

10/4797

31 March 2010

Mr George Plant
Chief Executive Officer
Norfolk Island Administration
Old Military Barracks
NORFOLK ISLAND 2899

Dear Mr Plant

Territories Law Reform Bill 2010

Thank you for your letter of 26 February 2010, and your continued assistance in the development of the Territories Law Reform Bill 2010.

The Bill was introduced into Parliament on 17 March 2010. I have attached a summary document which outlines the changes made to the Bill from the time it was released as an exposure draft, and the time it was introduced. These changes resulted from the consultation that took place following the release of the exposure draft.

The Bill, Explanatory Memorandum and second reading speech can be accessed at the Parliament House website www.aph.gov.au. There is also a link to the Bill at the Attorney-General's Department website www.ag.gov.au.

The Bill states that the financial framework provisions will come into effect on 1 July 2010. As indicated in our meetings in February and confirmed in your subsequent letter of 26 February, I wish to establish a working group to assist in the development of regulations.

A joint working group is to be convened to discuss and develop the financial framework regulations. This working group will involve officers from the Attorney-General's Department, the Department of Finance and Deregulation and the officers you have nominated from the Norfolk Island Administration and the Norfolk Island Government. The purpose of the working group will be to discuss the proposed content of the regulations, and ensure that proposals are understood and able to be implemented by the Norfolk Island Administration and Territory authorities.

I will shortly provide a table outlining proposed content to be contained in the regulations. I would appreciate the opportunity to engage in a teleconference or videoconference with yourself, the officers you have nominated and officers from the Department of Finance and Deregulation to discuss the proposed content.

I would be grateful if you could advise a suitably convenient time on 12 or 13 April for this discussion.

The action officer in the Branch is Jennifer Perrin, who can be contacted on _____ or _____

Yours sincerely

Alison Green
A/g Assistant Secretary
Territories East Branch

Amendments made to the Territories Law Reform Bill

Machinery of Government

1. The restriction on the Chief Minister not being eligible to be appointed as the Speaker or Deputy Speaker has been expanded so that all Ministers cannot be appointed as the Speaker or Deputy Speaker. (Item 23)
2. Subsection 15(3) and Schedule 7 are being retained in the Act as they are currently being used by the secretariat who attends Executive Council meetings. (Item 25)
3. The responsible Commonwealth Minister is now required to place a notice in the Norfolk Island Government Gazette announcing the day specified for a general election under sections 39AB (resolution of no-confidence) and 39AC (dissolution of the Legislative Assembly by the Governor-General). (Item 39)

Financial Framework

4. Section 25 of the Act has been amended to provide that an enactment, vote, resolution or question, for the appropriation of public money of the Territory, shall not be proposed in the Legislative Assembly unless it has been recommended by message of the Administrator to the Assembly. (Item 100)
5. Proposed section 48T has been amended to provide that if an enactment is inconsistent with the Commonwealth Finance Minister's Orders, the enactment has no effect to the extent of the inconsistency. (Item 110)
6. Proposed section 48P has been amended to provide that the Minister for Finance must ensure that the Administration's accounts and records properly record and explain the transactions and financial position of the Administration. (Item 110)
7. New section 48Q has been added to provide that the responsible manager/s of a Territory authority must ensure that the Territory authority's accounts and records properly record and explain the transactions and financial position of that Territory authority. (Item 110)
8. Proposed section 48B has been amended to provide that the Minister for Finance must prepare annual financial statements and that the annual financial statements must be prepared in accordance with the regulations and the Commonwealth Finance Minister's Orders. (Item 110)
9. New sections have been inserted into the financial framework which provide that the Chief Executive Officer and or the Minister for Finance can request a Territory authority to provide information in order to prepare the reports and statements required to be produced by the Chief Executive Officer and the Minister for Finance under the Norfolk Island Act. Territory authorities are required to comply with the request in time to allow the information to be taken into account in the preparation of the relevant report, unless it is not practicable for the Territory authority to do so. (Item 110)
10. The financial framework provisions have been re-ordered to assist in their interpretation. (See Schedule 1, Part 3)

Audit

11. Proposed section 48C is amended to require a copy of the report made under that section to be provided to the responsible Commonwealth Minister, who must cause a copy of that report, and a copy of the annual financial statements to be tabled in each House of Parliament as soon as practicable.
12. A new section has been inserted into the financial framework which provides that the Auditor-General will have the power to conduct performance audits on the Norfolk

- Island Administration and/or Territory authorities. Copies of the report must be provided to the Minister for Finance, the Administrator and the responsible Commonwealth Minister and be tabled in both the Commonwealth Parliament, and the Norfolk Island Legislative Assembly. This is consistent with performance audits undertaken under sections 15 and 16 of the *Auditor-General Act 1997*. (Item 110)
13. A new section is inserted which will enable:
 - (a) the CEO of the NI Administration to comment on the proposed reports on a performance audit of the Administration, and
 - (b) the responsible manager of a Territory authority to comment on the proposed reports in relation to a performance audit of that Territory authority made under the new section on performance audits (see no. 6 above). This is modelled on s19 of the A-G Act (including comparable provisions to sub-ss (3)-(5)). (Item 110)
 14. A new section is inserted which enables the Auditor-General to charge audit fees for statement audits made under section 48C of the Norfolk Island Act. This is modelled on section 14 of the Auditor-General Act. (Item 110)
 15. A new section has been inserted into the Bill which provides that the Auditor-General's powers and functions apply in respect of Norfolk Island as provided under the Auditor-General Act and where the scope of that Act does not otherwise extend, the Norfolk Island Act is amended to enable those provisions to apply. (Item 110)
 16. As a result of the insertion of the above new provision, existing sections 51E, 51F and 51G have been repealed as they are no longer required. (Item 112)
 17. Proposed sections 48R and 48S have been amended to provide that regulations can be made in relation to audit generally. (Item 110)

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. B

Senator Lundy asked the following question at the hearing on 12 April 2010:

Can you clarify the reason for specifying chief ministerial appointment of ministers? What is the reason?

The answer to the honourable senator's question is as follows:

The Bill proposes amendments to the *Norfolk Island Act 1979* which would designate the role of the Chief Minister. This is intended to provide clarity and transparency in that office and the roles and responsibilities flowing from it. As amended, the role of the Chief Minister in the Norfolk Island Act will include responsibility for the appointment of Ministers and the allocation of portfolio responsibilities. To reinforce the Chief Minister's accountability to the Legislative Assembly, the amendments contained in the Bill further provide for a statutory no-confidence motion process.

Clearly defining the role and powers of the Chief Minister, the head of government, will strengthen responsible government on Norfolk Island. The responsibility of the Chief Minister to the Legislative Assembly extends to the appointment of Ministers. This provision is to establish clear lines of responsibility between the Ministers and Chief Minister and highlight the important distinction between the functions of the executive and the legislature.

The designation of the Chief Minister and related amendments to the Norfolk Island Act were included in recommendation 17 of the Joint Standing Committee on the National Capital and External Territories report, *Quis custodiet ipsos custodes?: Inquiry into Governance on Norfolk Island*.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. C

Senator Lundy asked the following question at the hearing on 12 April 2010:

To what extent could the expansion of the Commonwealth Ombudsman's jurisdiction pick up concerns and issues from citizens about their rights and their capacity to seek redress if they feel that they have been treated unfairly or have been exposed to harm by members of the community on Norfolk Island?

The answer to the honourable senator's question is as follows:

Part 6 of the Bill proposes minor amendments to the *Norfolk Island Act 1979* and the *Ombudsman Act 1976*. The amendments will enable the Commonwealth Ombudsman to assume the function of the Norfolk Island Ombudsman under Norfolk Island legislation.

The functions of the Norfolk Island Ombudsman will be determined by the Norfolk Island Ombudsman legislation, which has not yet been enacted.

The Department understands however that the proposed Norfolk Island Ombudsman legislation is intended to provide similar functions for the Ombudsman as are provided under Commonwealth legislation. On this basis, it is anticipated that under Norfolk Island legislation the Norfolk Island Ombudsman's main role would be to investigate complaints from individuals, groups or organisations about the administrative actions of Norfolk Island government officials and agencies. What amounts to an 'administrative action' is broadly determined and could include policy development, commercial conduct, the exercise of statutory responsibility, decisions on applications for benefits, concessions or compensation.

The proposed amendments in the Bill, in conjunction with the Norfolk Island Ombudsman Act (when enacted) will enable residents of Norfolk Island to make complaints to the Ombudsman in respect of administrative decisions of the Norfolk Island Administration for consideration, and where appropriate, investigation by an independent body. After an investigation, the Ombudsman may recommend a remedy. Possible remedies include expedited action, change of decision, explanation, apology, reduction or waiver of debts or penalties, or financial compensation.

Where there has been a broader systemic problem, then the Ombudsman may recommend a change to policy, legislation or procedures to remedy the defect. The Ombudsman does not have the power to change an agency's decision, rather he or she relies on a working relationship with agencies to resolve issues.

The amendments further provide that reports provided to the Norfolk Island Government in the role of Norfolk Island Ombudsman must also be provided to the Commonwealth Government. Reports are generally made where there has been a serious administrative deficiency or there is remedial action which the agency should take but does not. This is intended to ensure that both the Norfolk Island and Commonwealth Governments are fully informed of any governance issues on Norfolk Island which arise in the course of Ombudsman investigations. Such reports are also required to be

tabled in Parliament, which is an important part of improving openness and accountability in the government and the public sector.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. D

Senator Adams asked the following question at the hearing on 12 April 2010:

There is the issue of somebody who says that there has been a failure of the health care system on the island to assist then with, for example, a mental health issue... or the resolution of a child welfare issue. I am interested in what our duty of care is as a Commonwealth in the case of failure maybe of the island's law to deal with such an issue?

The answer to the honourable senator's question is as follows:

The determination of the Commonwealth's duty of care owed to Norfolk Islanders is a complex legal issue dependent on the facts and circumstances of each particular individual's case. The Attorney-General's Department is not in a position to provide a formal legal advice on this question.

The Department proposes to respond to the honourable senator's question in the context of the Commonwealth's general responsibilities and duties to the Norfolk Island community.

In 2002 the Hon Wilson Tuckey MP, the then Minister for Regional Services, Territories and Local Government, tabled in the Legislative Assembly *The Federal Government's Interests in, and Obligations to, Norfolk Island*. In considering the Australian Government's obligations to the Norfolk Island community the policy document states:

In summary, the Federal Government retains ultimate responsibility for the welfare of all Australian citizens throughout Australia and has an obligation to protect their basic individual rights. It must therefore encourage strong partnership with all States and Territories.

In this context, the Minister for Home Affairs, the Hon Brendan O'Connor MP, stated in the Territory Law Reform Bill's Second Reading Speech that: 'These reforms... represent the Government's ongoing commitment to fulfilling its obligations to provide the legislative frameworks for the future growth and sustainability of Australia's territories.'

The Australian Government also recognises Norfolk Island self-government as sought and granted to the Norfolk Island community in 1979. Within this context the *Norfolk Island Act 1979* provides mechanisms to allow a degree of Commonwealth oversight of the Norfolk Island legislative process. The Bill will further extend this oversight and enable Commonwealth intervention in Norfolk Island legislation through the provision of advice to the Administrator on the assent to Norfolk Island Bills (including Bills related to both Schedule 2 and 3 matters), as well as enabling the responsible Commonwealth Minister or Governor-General to introduce a proposed law or amending Bill into the Norfolk Island Legislative Assembly.

The Commonwealth's extended legislative authority is intended to be used as a last resort if the Norfolk Island Government does not undertake action to ensure its legislation is consistent with the national interest and Australia's international obligations. The use of this power is a decision that would be made at Ministerial level, therefore the Department is unable to comment on the likelihood of Commonwealth intervention on particular issues.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. E

Senator Lundy asked the following question at the hearing on 12 April 2010:

We received specific evidence from the Retired Soldiers League of Norfolk Island about the Norfolk Island government's failure, in a nutshell, to legislate to enhance their rights relating to their provisions of DVA associated benefits and entitlements. What capacity does this Bill provide for the Commonwealth to express a view or perhaps initiate some activity to resolve outstanding complaints in that regard? What would the process be, given we know this bill does allow for Commonwealth initiated legislation to be addressed or at least debated on Norfolk Island?

The answer to the honourable senator's question is as follows:

The Australian Government is aware of the issues raised by the Norfolk Island Sub-Branch of the Returned and Services League of Australia (RSL) in their submission and testimony to the Committee. The Department understands that the Minister for Veterans' Affairs, the Hon Alan Griffin MP, wrote to the Norfolk Island Government in February 2009 expressing the Australian Government's support for amendments to the *Social Service Act 1980* (NI) to exempt veterans' disability pensions from that Act's income test. The Minister asked the Norfolk Island Government to consider that proposal, but to date has not received a response. In February 2010 the Minister for Home Affairs asked the Administrator to remind the Norfolk Island Government of the earlier approach from Minister Griffin and to encourage it to act on his recommendation.

The Australia Government recognises Norfolk Island self-government as sought and granted to the Norfolk Island community in 1979. The responsibilities of self-government extend to the initiation and passage of legislation for the peace, order and good government of Norfolk Island and its community. The Norfolk Island Act also provides mechanisms to allow for Commonwealth oversight of the Norfolk Island legislative process. The Schedule 3 and non-schedule assent process is an example of the existing checks and balances in the Act.

The Bill proposes to amend the Norfolk Island Act to broaden this oversight to schedule 2 matters, and similarly extends both the Governor-General's and responsible Commonwealth Minister's authority to allow them to introduce a proposed law into the Norfolk Island Legislative Assembly. In both cases, the Norfolk Island Legislative Assembly retains the power to pass, amend or not pass the proposed Bill.

In applying these amendments to the issues raised in the submission from the Norfolk Island Sub Branch of the RSL, this would enable the Commonwealth to intervene at two levels. Firstly, the responsible Commonwealth Minister may provide advice to the Administrator on the assent to Norfolk Island Bills, even where the matter is within Schedule 2. Secondly, in the event that the issue relates to existing legislation, then the responsible Commonwealth Minister, or the Governor-General, would have the authority to introduce a proposed law or amending Bill into the Norfolk Island Legislative Assembly for consideration.

The legislative powers are intended to be used as a last resort if the Norfolk Island Government does not undertake action to ensure its legislation is consistent with the national interest and Australia's international obligations. The use of this power is a decision that would be made at

Ministerial level, therefore the Department is unable to comment on the likelihood of Commonwealth intervention on the particular issues raised in the specified submission.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. F

Senator Lundy asked the following question at the hearing on 12 April 2010:

Would [it] be possible for the department to provide the committee with a list of the original schedule 2 items and the pattern of expansion of that over the years, including the details of that list now under schedule 2?

The answer to the honourable senator's question is as follows:

The preamble to the *Norfolk Island Act 1979* includes the following statement:

AND WHEREAS the Parliament intends that within a period of 5 years after the coming into operation of this Act consideration will be given to extending the powers conferred by or under this Act on the Legislative Assembly and the other political and administrative institutions of Norfolk Island, and that provision be made in this Act to enable the results of such consideration to be implemented.

Section 67 of the Act provides for the making of Regulations. These Regulations 'may repeal or alter any item in, or add any new item to, Schedule 2 or 3'. At commencement of the Norfolk Island Act there were 42 matters listed in Schedule 2 and four listed in Schedule 3 (fishing, customs (other than the imposition of duties), immigration and education). Since 1979 a total of 61 additional matters have been transferred and existing powers have also been varied as part of the transfer process. Each extension or variation of power was the result of consultation and consideration at Ministerial and Departmental level. A list of the changes to Schedule 2 and 3 is at **Attachment A**.

NORFOLK ISLAND ACT 1979**Schedules 2 and 3****Powers transferred in 1979***Schedule 2*

1. The raising of revenues for the purposes of matters specified in this Schedule.
2. Public moneys of the Territory (other than the raising of revenues).
3. Surface transport (including road safety, traffic control, carriers, vehicle registration and the licensing of drivers).
4. Roads, footpaths and bridges.
5. Street lighting.
6. Water supply.
7. Electricity supply.
8. Drainage and sewerage.
9. Garbage and trade waste.
10. Primary production (other than mining or fishing).
11. The slaughter of livestock.
12. Domestic animals (including birds).
13. Public pounds.
14. Pests and noxious weeds.
15. Recreation areas.
16. Cemeteries.
17. Forestry and timber.
18. Fire prevention and control.
19. Quarrying.
20. Building control (including the repair or demolition of dangerous buildings).
21. Advertising hoardings.
22. The prevention and suppression of nuisances.
23. Noxious trades.
24. Gases and hydrocarbon fuels.
25. Firearms.
26. Explosives and dangerous substances.
27. Tourism.
28. Places of public entertainment.
29. Boarding houses and hotels.
30. Museums, memorials and libraries.
31. Foodstuffs and beverages (including alcoholic liquor).
32. Trading hours.
33. Markets and street stalls.
34. Hawkers.
35. Radio and television.
36. Telephone and postal services.
37. Coastlines, foreshores, wharves and jetties.
38. The transporting of passengers or goods to and from ships.
39. The maintenance of rolls of residents of the Territory.
40. The registration of companies and business names.
41. The registration of births, deaths and marriages.

42. Matters in respect of which duties, powers, functions or authorities are expressly imposed or conferred on executive members by or under laws in force in the Territory.

Schedule 3

1. Fishing.
2. Customs (other than the imposition of duties).
3. Immigration
4. Education.

Powers varied on 17 June 1981

Schedule 2

Added to the end of Item 42 “but not including any matter that relates to social service benefits in so far as a duty, power, function or authority is expressly imposed or conferred on the Administration or the Minister in relation to that matter”.

Powers varied on 1 March 1984

Schedule 2

Item 42 is altered by omitting all words after “force” and substituting: “in the Territory other than any matter-

- (a) that relates to immigration or the operation of the Immigration Act 1980 of the Territory; or
- (b) that relates to social service benefits in so far as a duty, power, function or authority is expressly imposed or conferred on the Administration or the Minister in relation to that matter.”

Powers transferred on 12 July 1985

*STATUTORY RULES 1985 NO 173 NORFOLK ISLAND (EXERCISE OF POWERS)
REGULATIONS (AMENDMENT) – 6 ITEMS*

Schedule 2 – new items added

43. Public Service of the Territory.
44. Public works.
45. Lotteries, betting and gaming.
46. Civil defence and emergencies.
47. Territory archives.
48. Matters incidental to or consequential on the execution of executive authority.

Powers transferred/varied on 28 September 1989

*STATUTORY RULES 1989 NO 268 NORFOLK ISLAND (EXERCISE OF POWERS)
REGULATIONS (AMENDMENT) – 36 ITEMS*

Schedule 2 – additions/alterations

36. “Telephone and postal” omitted and “Postal” substituted [ie “Postal services.”].

40. “and business names” omitted [ie “Registration of companies.”].
42. Amended by omitting all the words after “Territory” (first occurring) and substituting: “other than a matter that relates to immigration or the operation of the *Immigration Act 1980* of the Territory”.
48. Omitted and replaced with “The provision of telecommunications services (within the meaning of the *Telecommunications Act 1989*) and the prescribing of rates of charge for those services.”
49. Branding and marking of live-stock.
50. Pasturage and enclosure of animals.
51. Registration of bulls.
52. Bees and apiaries.
53. Exportation of fish and fish products from the Territory.
54. Live-stock diseases (other than quarantine).
55. Plant and fruit diseases (other than quarantine).
56. Water resources.
57. Energy Planning and regulation.
58. Fences.
59. Business names.
60. Navigation, including boating.
61. Price and cost indexes.
62. Fund-raising from the public for non-commercial purposes, and associations registered for fund-raising of that type.
63. Administration of estates and trusts.
64. Census and statistics.
65. Inquiries and administrative reviews.
66. Registration of medical practitioners and dentists.
67. Public health (other than: dangerous drugs, within the meaning of the *Dangerous Drugs Ordinance 1927* of the Territory; psychotropic substances; quarantine).
68. Mercantile law (including sale or lease of goods; charges and liens on goods or crops; supply of services).
69. Law relating to the interpretation of enactments.
70. Civil legal proceedings by and against the Administration of the Territory.
71. Official flag and emblem, and public seal, of the Territory.
72. Fees or taxes imposed by the following enactments of the Territory: *Absentee Landowners Levy Ordinance 1976*; *Cheques (Duty) Act 1983*; *Departure Fee Act 1980*; *Financial Institutions Levy Act 1985*; *Fuel Levy Act 1987*; *Public Works Levy Ordinance 1976*.
73. Protection of birds.
74. Matters incidental to or consequential on the execution of executive authority.

Schedule 3 – additions/alterations

Item 2 was altered by omitting “other than” and substituting “including” [“Customs (other than the imposition of duties)” to “Customs (*including* the imposition of duties)”].

5. Human quarantine.
6. Animal quarantine.
7. Plant quarantine.
8. Labour and industrial relations, employees’ compensation and occupational health and safety.
9. Moveable cultural heritage objects.

10. Social Security.

Powers transferred/varied on 18 June 1992

*STATUTORY RULES 1992 NO 164 NORFOLK ISLAND (EXERCISE OF POWERS)
REGULATIONS (AMENDMENT) – 19 ITEMS*

Schedule 2 – additions/alterations

Item 10 was altered from “Primary production (other than mining or fishing)” by omitting the words in brackets.

Item 17 “Forestry and timber” was repealed.

Item 40 “The registration of companies and business names” was repealed.

75. Remuneration, allowances and other entitlements in respect of services of members of the Legislative Assembly, members of the Executive Council and other offices in or in connection with the Legislative Assembly that can be held only by members of the Assembly.
76. Prices and rent control.
77. Printing and publishing.
78. Public utilities.
79. Housing.
80. Community and cultural affairs.
81. Industry (including forestry and timber, pastoral, agricultural, building and manufacturing).
82. Mining and minerals (excluding uranium or other prescribed substances within the meaning of the *Atomic Energy Act 1953* and regulations under that Act as in force from time to time), within all the land of the Territory above the low-water mark.
83. Provision of rural, industrial and home finance credit and assistance.
84. Scientific research.
85. Legal aid.
86. Corporate affairs.
87. Censorship.
88. Child, family and social welfare.
89. Regulation of businesses and professions.
90. The legal profession.
91. Maintenance of law and order and the administration of justice.
92. Correctional services.
93. Private law.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. G

Senator Lundy asked the following question at the hearing on 12 April 2010:

I would like further detail of the Commonwealth's rationale for assent over the schedule 2 items. Also, was there any other approach than expanding the Commonwealth assent to schedule 2? Was that done because there was concern about the growing list of schedule 2 items and, by definition, the reduced role of the Commonwealth in considering those items?

The answer to the honourable senator's question is as follows:

The Bill proposes to amend the *Norfolk Island Act 1979* to extend the responsible Commonwealth Minister's legislative oversight of Norfolk Island by providing the power to issue instructions on Schedule 2 matters, and requiring that the Administrator act on such instructions (if any). It is envisaged that this power would be used to implement national policy objectives and to ensure that Norfolk Island legislation is consistent with the national interest and international obligations.

To support these changes the Bill also expands the options available to the Norfolk Island Administrator when presented with a proposed law by allowing him or her to refer Bills on Schedule 2 and 3 matters to the Governor-General. For example, the Administrator may choose to refer a matter for the Governor-General's pleasure where the Commonwealth may have a national interest, or where the Administrator's assent, or withholding of assent, could be seen as a conflict of interest or otherwise controversial.

Alternative options to the approach taken in the Bill could include reducing the number of matters in Schedule 2, or removing the distinction between Schedule 2 and 3 altogether. The Bill does neither of these things. The approach taken in the Bill respects the Norfolk Island Government's role as a self governing territory as articulated in the Norfolk Island Act. The authority of the Commonwealth to provide advice on Schedule 2 matters under the Bill is a permissive and not a mandatory provision. The approach recognises the difficulty of making an absolute determination of which particular Schedule 2 matters may affect the national interest or attempting to foresee what issues *will be* of interest to the Commonwealth in the future.

Importantly, Schedules 2 and 3 of the Norfolk Island Act, and the amendments to the assent process for Schedule 2 process under the Bill, do not restrict the powers of the Norfolk Island Legislative Assembly to pass proposed laws. The Schedules simply indicate how the assent process provided for by section 21 of the Act is to operate. The Legislative Assembly has power to 'make laws for the peace, order and good government of the Territory'. That power includes and extends beyond the matters listed in Schedules 2 or 3, with the only exceptions being those four matters listed at section 19 of the Act – acquisition of property otherwise than on just terms, the raising of defence forces, the coining of money and euthanasia.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. H

Senator Lundy asked the following question at the hearing on 12 April 2010:

You mentioned in your opening statement or soon after, I believe, there had been some schedule 3 matters that had proceeded through the NI Assembly about which there had not been prior consultation but, I presume, that, because of the nature of it, Commonwealth assent as still granted. Can you describe the Commonwealth's expectation in relation to consultation and the sorts of matters where that did not occur?

The answer to the honourable senator's question is as follows:

The existing process for the processing of Bills referred to the Minister for instruction under Schedule 3 of the *Norfolk Island Act 1979*, or referred for assent by the Governor-General was outlined by the Department in its opening statement to the Committee at the hearing on 12 April 2010 as follows:

The practice is that once a Bill is referred for Commonwealth action the Department seeks expert advice from any Australian Government agency with responsibility for the subject matter under consideration. For those Bills dealing with potentially contentious or sensitive issues, the Minister for Home Affairs seeks advice from his Ministerial colleagues.

The Commonwealth's preferred approach is that the Norfolk Island Government will consult early in the drafting process rather than wait until the Bill has been passed by the Legislative Assembly. Early consultation during the drafting stage of the Bill enables the Commonwealth to contact and seek advice from subject matter experts in the relevant Australian Government agencies. This advice is then provided to the Norfolk Island Government to enable issues of concern to the Commonwealth to be dealt with in drafting of the Bill and prior to the Bill being introduced and passed by the Norfolk Island Legislative Assembly. Where this occurs, the referral process for the Bill can be shorter and more efficiently managed to minimise delays in assent to the Bill.

In some cases over the past year, Bills dealing with Schedule 3 or non-schedule issues have been passed by the Norfolk Island Legislative Assembly without any prior consultation with the Australian Government. In other cases, even though there was extensive consultation during the drafting stage of the Bill, the Bill which was introduced into the Legislative Assembly included additional provisions, or alternatively, changes were made during the Assembly's consideration of the Bill. In such cases the additional or amended provisions may require further consultation during the referral stage to ensure compliance with national obligations.

Details are included in the list of laws proposed for Commonwealth action during 2009-10 at **Attachment A**.

Norfolk Island Legislation Involving Commonwealth Action – 2009 to 2010

Proposed laws on which Commonwealth action is under consideration

Valuation of Land Bill 2009 (non-schedule - Commonwealth-retained - matter)

The Bill deals with a non-schedule (Commonwealth-retained) matter. It was passed by the Legislative Assembly without any consultation with the Department.

Immigration (Amendment) Regulations 2010 (Schedule 3 matter)

In 2008 the Administrator was instructed to refer to the Minister any advice tendered by the Norfolk Island Executive Council concerning the making of Regulations under the *Immigration Act 1980* (NI) 'prescribing policy or guidelines' (with some minor exclusions).

Social Services (Amendment No 3) Bill 2010 (Schedule 3 matter)

This is the fourth version referred for Commonwealth consideration. Assent was withheld to the first version in 2007. In August 2008 the Norfolk Island Government provided an amended exposure draft for comment. While that draft was still being considered, an almost identical version was introduced into the Assembly on 25 March 2009. A consolidated response from the Attorney-General's Department identifying a range of concerns (and incorporating advice from other Australian Government agencies) was provided on 3 August 2009.

Healthcare (Amendment) Bill 2010 (Schedule 2 and non-schedule)

The Bill deals with some schedule 2 public health matters but also makes provision for the possession of dangerous drugs by optometrists – 'dangerous drugs, within the meaning of the Dangerous Drugs Ordinance 1927 of the Territory' is a non-Schedule matter. The Bill was passed by the Assembly on 27 January 2010 without any consultation with the Commonwealth.

Plant and Fruit Diseases (Amendment) Regulations 2010 (schedule 3 matter)

These proposed Regulations deal with a Schedule 3 quarantine matter which was the subject of extensive consultation with Attorney-General's Department and the Department of Agriculture Forestry and Fisheries (DAFF) from mid-2008. The most recent consultation took place from September 2009 until February 2010 (with DAFF's Chief Plant Protection Office) in the context of the Plant and Fruit Diseases (Amendment) Bill 2009 (see below).

2009 – 2010 – proposed laws referred for Commonwealth action

Public Reserves (Amendment) Bill 2009 (non-schedule - 3 months from referral to assent)

The Bill dealt with a non-schedule land matter and some officer-level consultation took place before the Bill's introduction into the Legislative Assembly.

The Bill was passed by the Assembly at the 17 June 2009 meeting and referred to the Administrator on 11 August. The assent copies referred to the Administrator by the Norfolk Island Government contained a typographical error. The Clerk of the Norfolk Island Legislative Assembly recommended that the Bill should be amended after assent – that advice was not received until 6 October 2009. Federal Executive Council Secretariat agreed with that approach on 22 October 2009. The Act received Royal Assent on 25 November 2009.

Social Services (Amendment No 2) Bill and Social Services (Amendment No 3) Bill (Schedule 3 – 6 months from referral to instructions to assent)

These Bills were passed by the Assembly on 29 July 2009 without consultation with the Department. The Bills were referred to the Administrator on 11 August. The Attorney-General's Department sought advice sought from relevant Australian government agencies with final response received in December 2009. The Minister issued instructions to assent to the Administrator on 9 February 2010.

Plant and Fruit Diseases (Amendment) Bill (Schedule 3 - 6 months from referral to instructions to assent)

This Bill deals with Schedule 3 quarantine matters. Extensive consultation occurred at officer level with the Department and the Department of Agriculture Forestry and Fishing (including the Australian Quarantine and Inspection Service) over 18 months.

The Bill as passed by the Assembly on 26 August 2009 contained provisions not included in earlier proposals. The Administrator referred the Bill to the Minister for Home Affairs on 8 September 2009.

The Attorney-General's Department sought advice from the Department of Agriculture Forestry and Fishing and consultation continued until February 2010.

On 9 March 2010 the Minister instructed the Administrator to assent. (The Minister also instructed the Administrator to refer any advice tendered by the Norfolk Island Executive Council concerning the making of Regulation.)

Superannuation Bill 2009 (exposure draft) (10 months in total – 6 months from request for additional information)

This Bill deals with non-Schedule matters. In April 2009 the Norfolk Island Government sought advice on a proposed compulsory superannuation scheme for private enterprise and self-employed workers. Treasury was consulted and identified a number of concerns.

Subsequently, the Norfolk Island Government sought further information on the taxation implications of a modified version of the proposal. Formal advice was sought from Treasury which was received in February 2010 and provided to the Norfolk Island Administrator. There has been no further action or correspondence on this proposal.

Employment (Amendment) Bill 2009 (exposure draft) (Schedule 3 - 4 months for comments)

An exposure draft of the Bill was tabled in the Legislative Assembly on 28 April 2009. The Norfolk Island community was invited to comment, but the Australian Government was not.

Despite this, the Department referred the Bill to the Department of Education, Employment and Workplace Relations for its views which were provided to the Administrator on 25 August 2009.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. 1

The Committee asked the following question following the hearing on 12 April 2010:

Can you provide an overview of the consultation undertaken by the Attorney-General's Department in regard to the exposure draft of the bill for a) Norfolk Island and b) the Indian Ocean Territories?

The answer to the Committee's question is as follows:

a) Norfolk Island

The former Minister for Home Affairs, the Hon Bob Debus MP announced the proposed Norfolk Island governance reforms by open letter to the Norfolk Island community dated 28 May 2009. On the same day he also wrote to the former Chief Minister, Andre Nobbs setting out the outcome of the Government decision.

In October 2009 on-island consultations on the proposed administrative law reforms was undertaken with the Norfolk Island Legislative Assembly, Administration and community by Commonwealth officers from the Attorney-General's Department, the Office of the Privacy Commissioner, the Commonwealth Ombudsman, the Administrative Appeals Tribunal, and the Australian Government Solicitor.

The current Minister for Home Affairs, the Hon Brendan O'Connor MP visited Norfolk Island and discussed possible reforms with the Norfolk Island Government and community members on 16 and 17 December 2009. During this visit, Mr O'Connor advised the Norfolk Island Legislative Assembly that the Bill was scheduled for introduction in the Autumn sittings, and that on-island consultation would occur early in the new year.

An exposure draft of the Territories Law Reform Bill was developed in consultation with relevant Commonwealth agencies. The exposure draft was released to facilitate consultation with the Norfolk Island Legislative Assembly, Administration and community in February 2010. Officers from the Attorney-General's Department and the Department of Finance and Deregulation conducted meetings with the Norfolk Island Legislative Assembly, Administration and community on the exposure draft Bill from 15-17 February 2010. As part of this consultation, over 200 members of the community attended an information session on the Bill, in addition to a number of community members who attended one on one meetings with the Commonwealth officers. 119 written submissions were received by the Attorney-General's Department in response to the exposure draft Bill by the deadline of 25 February 2010.

The development of the Bill has also been informed by the numerous representations from members for the Norfolk Island community over time to the Minister for Home Affairs on the need for many of the reforms contained in the Bill. Similarly, the Joint Standing Committee on the National Capital and External Territories has consulted extensively on the issues informing the Bill over many years and in numerous reports.

b) The Indian Ocean Territories

The provisions in the Bill relating to the Indian Ocean Territories were developed in close consultation with officers from the Western Australian Government, the Australian Government Solicitor and the Office of Parliamentary Counsel. The terms of the provisions have been agreed by all parties. The new provisions will not have a direct impact on other stakeholders or the communities of Christmas Island and the Cocos (Keeling) Islands.

The communities of Christmas Island and the Cocos (Keeling) Islands were invited to make a submission about the Bill to the Joint Standing Committee on 19 March 2010 through a community bulletin released by the Administrator. The Shires of both Territories were also informed of the Bill and the Committee's inquiry.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
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ATTORNEY-GENERAL'S DEPARTMENT

Question No. 2

The Committee asked the following question following the hearing on 12 April 2010:

Why was the consultation for comment on the Bill extended until 16 April 2010?

The answer to the Committee's question is as follows:

On 24 March 2010, the Minister for Home Affairs, the Hon Brendan O'Connor MP, announced an extended consultation period on the Bill, requesting that comments be provided by 16 April 2010.

The extension of the consultation period is intended to ensure that a rigorous, good faith consultation is undertaken on this significant Bill, including providing the incoming members of the Norfolk Island Legislative Assembly the opportunity to provide comments.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES

ATTORNEY-GENERAL'S DEPARTMENT

Question No. 3

The Committee asked the following question following the hearing on 12 April 2010:

Have any of the comments provided so far during the consultation process led to amendments to the Bill, if so, in what areas?

The answer to the Committee's question is as follows:

A number of amendments were made to the exposure draft Territories Law Reform Bill prior to its introduction into Parliament on 17 February 2010. These amendments were the result of consultations both with Norfolk Island and between Commonwealth Ministers and agencies.

On 24 March 2010, the Minister for Home Affairs, the Hon Brendan O'Connor MP, announced an extended consultation period on the Bill, requesting that comments be provided by 16 April 2010. Further comments received as part of this extended consultation period will be considered by the government.

In summary the amendments made to the Territories Law Reform Bill from the exposure draft Bill released to Norfolk Island on 12 February 2010 to the final Bill introduced into the Commonwealth Parliament on 17 March 2010 are below:

Machinery of Government

- The restriction on the Chief Minister not being eligible to be appointed as the Speaker or Deputy Speaker is expanded so that all Ministers cannot be appointed as the Speaker or Deputy Speaker.
- Subsection 15(3) and Schedule 7 are retained in the *Norfolk Island Act 1979* on the understanding that these provisions are currently being used by the secretariat to attend Executive Council meetings.
- The responsible Commonwealth Minister is now required to place a notice in the Norfolk Island Government Gazette announcing the day specified for a general election under sections 39AB (resolution of no-confidence) and 39AC (dissolution of the Legislative Assembly by the Governor-General).

Financial Framework

- Section 25 of the Act is amended to provide that an enactment, vote, resolution or question, for the appropriation of public money of the Territory, shall not be proposed in the Legislative Assembly unless it has been recommended by message of the Administrator to the Assembly.

- Proposed section 48T is amended to provide that if an enactment is inconsistent with the Commonwealth Finance Minister's Orders, the enactment has no effect to the extent of the inconsistency.
- Proposed section 48P is amended to provide that the Minister for Finance must ensure that the Administration's accounts and records properly record and explain the transactions and financial position of the Administration.
- New section 48Q is added to provide that the responsible manager/s of a Territory authority must ensure that the Territory authority's accounts and records properly record and explain the transactions and financial position of that Territory authority.
- Proposed section 48B is amended to provide that the Minister for Finance must prepare annual financial statements and that the annual financial statements must be prepared in accordance with the regulations and the Commonwealth Finance Minister's Orders.
- New sections are inserted into the financial framework which provide that the Chief Executive Officer and or the Minister for Finance can request a Territory authority to provide information in order to prepare the reports and statements required to be produced by the Chief Executive Officer and the Minister for Finance under the Norfolk Island Act. Territory authorities are required to comply with the request in time to allow the information to be taken into account in the preparation of the relevant report, unless it is not practicable for the Territory authority to do so.
- The financial framework provisions are re-ordered to assist in their interpretation.

Audit provisions

- Proposed section 48C is amended to require a copy of the report made under that section to be provided to the responsible Commonwealth Minister, who must cause a copy of that report, and a copy of the annual financial statements to be tabled in each House of Parliament as soon as practicable.
- A new section is inserted into the financial framework which provides that the Auditor-General will have the power to conduct performance audits on the Norfolk Island Administration and/or Territory authorities. Copies of the report must be provided to the Minister for Finance, the Administrator and the responsible Commonwealth Minister and be tabled in both the Commonwealth Parliament, and the Norfolk Island Legislative Assembly. This is consistent with performance audits undertaken under sections 15 and 16 of the *Auditor-General Act 1997*.
- A new section is inserted to enable:
 - a. the CEO of the NI Administration to comment on the proposed reports on a performance audit of the Administration, and
 - b. the responsible manager of a Territory authority to comment on the proposed reports in relation to a performance audit of that Territory authority

made under the new section on performance audits (see above). This is modelled on s19 of the Auditor-General Act (including comparable provisions to sub-ss (3)-(5)).

- A new section is inserted which enables the Auditor-General to charge audit fees for statement audits made under section 48C of the Norfolk Island Act. This is modelled on section 14 of the Auditor-General Act.
- A new section is inserted into the Bill which provides that the Auditor-General's powers and functions apply in respect of Norfolk Island as provided under the Auditor-General Act and where the scope of that Act does not otherwise extend, the Norfolk Island Act is amended to enable those provisions to apply.
- As a result of the insertion of the above new provision, existing sections 51E, 51F and 51G are repealed as they are no longer required.
- Proposed sections 48R and 48S are amended to provide that regulations can be made in relation to audit generally.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. 4

The Committee asked the following question following the hearing on 12 April 2010:

The Norfolk Island Government stated that they supported less costly and complex proposals for administrative schemes more suitable for smaller jurisdictions as proposed by the Commonwealth Ombudsman. Are you able to expand on this?

The answer to the Committee's question is as follows:

As stated in the Attorney-General's Department's opening statement to the Committee hearing on 12 April 2010, the manner of implementation of the freedom of information, privacy and administrative appeals tribunal reforms in the Territories Law Reform Bill is intended to enable Norfolk Island to take advantage of the Commonwealth's experience and resources.

Norfolk Island's small population size provides its own unique challenges for the operation of administrative law. For example, the small population creates difficulty in providing an 'arms-length' independent appeals process on-island. The approach taken in the Bill will overcome this difficulty by facilitating the use of established Commonwealth review processes and agencies.

Administrative law schemes are already well established at the Commonwealth level. The extension of Commonwealth administrative law mechanisms will enable the Norfolk Island Government and community to access expert knowledge, experience and resources in administrative law including both in the provision of legislative frameworks and in the application of that legislation through the operation of agencies such as the Office of the Privacy Commissioner and the Administrative Appeals Tribunal.

Regardless of whether Commonwealth administrative law mechanisms were extended to Norfolk Island through Commonwealth legislation or through a combination of Norfolk Island and Commonwealth legislation, by necessity, Commonwealth agencies would be expected to play a significant and ongoing educative role about the rights and obligations established by the introduction of administrative law schemes in relation to the community of Norfolk Island and its public sector. The extension of Commonwealth legislation to Norfolk Island mitigates the burden imposed on Commonwealth agencies in providing such support and assistance to Norfolk Island.

In addition to the practical advantages to the approach taken in the Bill, there are also significant policy advantages to providing a level of harmonisation and consistency with the Commonwealth in the provision of rights and obligations in respect of administrative law. The approach taken in the administrative law reforms will ensure that the standards of administrative law enjoyed by Australians on the mainland are similarly extended to Norfolk Islanders. The reforms will allow the Norfolk Island community to better scrutinise the actions of the Norfolk Island Government and Administration and safeguard personal information of the community held by the Administration.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
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ATTORNEY-GENERAL'S DEPARTMENT

Question No. 5

The Committee asked the following question following the hearing on 12 April 2010:

What assurances were given by the Norfolk Island Government in 2006 that would address the inadequacies of the current Norfolk Island financial framework?

The answer to the Committee's question is as follows:

The Norfolk Island Government published a media release in April 2006 launching a strategic vision statement for Norfolk Island. The statement, *Norfolk Island – The future: An outline of leadership action from the Norfolk Island Government*, was issued by the Norfolk Island Government in response to concern expressed by the Australian Government about the Island's financial capacity and proposals for governance reforms.

The 2006 vision statement set out the framework for Norfolk Island's future policies and programs and outlined three key actions aimed at delivering a sustainable future for Norfolk Island:

- (i) Reinvigorate the Norfolk Island economy
- (ii) Structural reform, and
- (iii) Engage in constructive dialogue with the Commonwealth.

Key features of the first aim of the statement, to reinvigorate the Norfolk Island economy, was the promotion of tourism and the securing of airline services. The Norfolk Island economy is highly dependent on tourism. Tourism numbers have steadily declined since 2000, with 2008/09 figures below those projected in a 2006 Econtech report to ensure the economic stability of the industry on the Island.

The collapse of Norfolk Jet in 2007 led to the establishment of Norfolk Air by the Norfolk Island Government, which is heavily subsidised by public funds. Norfolk Air is currently running at a loss, and is expected to lose money in the 2009/10 financial year.

The statement also sought to 'implement short-term revenue and expenditure reforms to improve the current budgetary situation'. The Department is not aware of any steps undertaken to achieve this, although it is possible the Administration may have introduced internal guidelines to address aspects of this.

The statement aimed to 'develop and implement a long-term business plan incorporating measures to manage recurrent revenue and expenditure, as well as long-term capital expenditure'. The current Norfolk Island budget does not contain any projections beyond the current budget year, and financial data released throughout the year by the Norfolk Island Government does not contain any forward estimates.

The statement aimed to 'restructure the revenue base through implementation of a broad-based consumption tax and removal of some existing taxes and levies'. Certain levies including the

Financial Institutions Levy and the 'cold bed tax' were removed in favour of a Goods and Services Tax, which was introduced in 2007 at 9%, and was increased in 2009 to 12%.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
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ATTORNEY-GENERAL'S DEPARTMENT

Question No. 6

The Committee asked the following question following the hearing on 12 April 2010:

Has a study or evaluation of the Norfolk Island a) economy and b) Government been undertaken? If so, can you provide the information to the committee?

The answer to the Committee's question is as follows:

The Commonwealth either commissioned or performed three separate reports into Norfolk Island's economy and Government in 2005/06. Two reports were conducted by independent contractors, and the third was conducted by the Commonwealth Grants Commission.

The Department of Transport and Regional Services was responsible for Territories matters in 2005. A report was commissioned by the Department, and was undertaken by Acumen Alliance. The report focused on the current and future financial position of the Norfolk Island Government in the short to medium term. The report found that the current Norfolk Island financial model was unsustainable. A copy of the report is at **Attachment A**.

The Commonwealth Grants Commission completed a review of the financial capacity of Norfolk Island in September 2006. The report by the Commonwealth Grants Commission is extensive, and covered a range of options including consideration of various funding models for Norfolk Island. The Report provides an estimate of how much financial assistance might be needed from the Australian Government to allow Norfolk Island to meet the cost of providing comparable State and local government services, having regard to the Island's revenue raising capacity and other circumstances. The report is publicly available at the Commonwealth Grants Commission website: http://www.cgc.gov.au/state_finances_inquiries/other_inquiries2/norfolk_island_inquiry_2007/norfolk_island_review_2006. A copy of the report is at **Attachment B**.

The Department of Transport and Regional Services commissioned a report by the Centre for International Economics in October 2006. The report was a further study into the economic sustainability of the current Norfolk Island model. The report has not been published and is therefore provided to the Committee on an **in-confidence basis**. A redacted version of this report was provided to the Norfolk Island Government following a request made by them under the *Freedom of Information Act 1982* (Cth). A copy of this redacted version of the report is at **Attachment C**.

The Department understands that in 2006 the Norfolk Island Government commissioned Econtech to prepare a report, *Modelling the Norfolk Island Government's Financial Position*, to examine its current and future financial position in light of concerns by a number of recent studies. The report is publicly available on the Norfolk Island Government's website at: http://www.info.gov.nf/news/Information/Econtech_NIG_final_report.pdf



Department of Transport and Regional Services

Norfolk Island Government

Financial Advisory Report

NOVEMBER 2005

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1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

The Department of Transport and Regional Services commissioned a review of the financial position of the Norfolk Island Government (NIG) on behalf of the Australian Government. This review analysed both the current financial position and the future financial position of the NIG in the short to medium terms and addressed the following terms of reference:

- A detailed examination of the NIG's revenues, recurrent and other expenditures, liabilities and cash reserves;
- Whether the NIG is currently solvent and is likely to become insolvent in the next 6-12 months based on current policies;
 - If so, the options available to prevent this and an assessment/ranking of the options for implementation;
 - Analysis of the risks associated with implementing each of the options;
- A forecast of the NIG's future financial position for the next five years based on current policies;
- An analysis of the relationship between tourist numbers and NIG revenues, based on the past five years;
- Asset and infrastructure investment patterns by the NIG and the future funding implications of the Asset Management Plan, either based on the draft or final document. Consideration should also include an analysis of the risks and the implications of any proposed asset replacement plan not being met;
- The ability/capacity of the NIG to fund increased levels of debt for capital assets replacement based on current revenue collection methods and cash reserves, without compromising recurrent expenditure on administration and services; and
- Assessment of the quality of relevant Norfolk Island financial and budgetary information.

1.2 FINDINGS

In addressing the terms of reference, we make the following findings:

1. As at 30th September 2005 cash reserves totalled \$11.3m which means that the NIG is not currently insolvent. However, the current financial position of the NIG is forecast to deteriorate considerably within two years. If the NIG undertook the minimal required capital expenditure to maintain the island's living standards, the financial model forecasts that cash reserves

will be reduced to \$2,762,100 by 30th June 2006 and that the NIG will deplete all operating cash reserves by the end of June 2007;

2. In terms of implementing remedial strategies it is critical to recognise un-sustainability. It is far easier to develop rescue plans 12- 18 months out from a point of insolvency rather than at the point of insolvency;
3. The detailed examination of the NIG's revenues, recurrent and other expenditures, liabilities and cash reserves indicates that the NIG is currently at/or approaching the point of un-sustainability. Furthermore, based on its current fiscal management policies, the modelling indicates that the NIG is unable to provide both the level of services to the island that currently exist (or should exist) and maintain the level of assets required to provide for those services.
4. Technically, from a pure accounting definition perspective, the NIG is not insolvent. This, however, is only because it has the capability to "pull the economic levers" and raise additional income when needed, or, as it has done in the past, asset strip the public utilities and publicly owned enterprises to meet cash shortfalls. Both of these temporary remedies to avoid insolvency have short life spans. The modelling predicts that the NIG will be insolvent within 2-3 years;
5. The analysis of the relationship between tourist numbers and NIG revenues over the last ten years shows a positive correlation of 0.96. A correlation of such a high statistical magnitude indicates significant dependency and total elasticity. Any minor change in tourist numbers incurs a proportional and almost immediate impact on government revenues;
6. The model shows that tourists directly contribute a minimum of 50% of the NIG's revenue. We are unable to determine the revenue that is generated directly from residents who are dependent on tourism for their livelihood; however a reasonable estimate of a further 20% would not be unrealistic;
7. The financial modelling estimates that tourist numbers would have to increase to over 100,000 each year (current tourist numbers approximate 32,000) to generate sufficient revenues for the NIG to adequately finance the capital requirements of NI, replace existing run down assets and achieve self sustainability.
8. The management and maintenance of public assets over the last 20 years has been less than optimal. This has emanated from the NIGs inability to design and implement long term fiscal strategies to secure the long term financial security of Norfolk Island. If suitable policies are not implemented immediately the model predicts a major deterioration in the

- living standards for a majority of the permanent residents of Norfolk Island within two to three years;
9. The modelling shows that the NIG is incapable of financing any further debt unless debt is invested in profit making activities in excess of the interest cost;
 10. The optimum capital expenditure requirement used in models 1 and 2 of \$46m immediately, \$1.3 in 2006-07, \$4.6m in 2007-08, \$4.5 in 2008-09 and \$7.1m in 2009-10 to maintain public infrastructure to a reasonable standard has been based on the Asset Management Plan commissioned by the NIG. This report was not complete at the time of the review, and on completion, may suggest higher levels of capital expenditure.
 11. The modelling has confirmed a direct relationship between tourist numbers and NIG revenues. However, the current financial position of the NIG has resulted from a series of complex interrelated factors over and above a short term fall in tourist numbers. It is essential that the severity and complexity of the situation be fully appreciated and solutions not be concentrated on tourism only;
 12. Acumen did not undertake an audit of the NIG. However, the quality of relevant financial and budgetary information used for the modelling appeared to be accurate, complete and adequate. This does not mean that the financial data is suitable for management and budgetary purposes. Adoption of relevant accounting standards, true accrual accounting, more relevant management accounting and financial management techniques and improvements in management reporting and performance management systems would facilitate more informed decision making.
 13. The budget developed by the NIG is an accounting budget based around levels of revenue and expenditure required to get from one year to the next. It does not forecast forward estimates and is therefore short term in nature. It is not a strategic economic statement in which holistic consideration is given to the achievement of long term macro and micro economic outcomes aimed at stimulating the economy, addressing pending social and environmental needs, providing for future generations and assuring long term sustainability and growth.
 14. The current financial strategy of delaying capital expenditure to fund operational expenditure will provide sufficient cash for operations in the short term. However, this strategy is unsustainable in the medium to longer terms and will ultimately result in deterioration in living standards.

1.2.1 Overall conclusion

The financial analysis and modelling has demonstrated that the current financial position of the NIG is characterised by:

- A relatively stable revenue base;
- Significant increases in the costs of the welfare system and the operation of the public service;
- Increasing salary costs in the GBE sector; and
- The deferral of major capital expenditure.

These characteristics have been in place for a number of years (and under previous administrations) and have now resulted in a clear picture of un-sustainability under current policies and financial strategies. In effect, the current situation has been predicted in previous reports on the financial situation of Norfolk Island.

It is reasonable to conclude that if action is not taken immediately and major fiscal reforms implemented the current standard of living for all Norfolk Islanders will significantly deteriorate within the immediate short term period of two years.

The findings need to be interpreted in the context of the size of the island and the difficulty in implementing unpopular, but necessary, financial reforms eg broadening the tax base. In this regard, there are also substantial issues surrounding the ability of the NIG to design, implement and manage a taxation system that incorporates residents - specifically compliance, enforcement and collections management.

An alternative is to place taxation in the hands of the Australian Government rather than it being administered by the NIG in order to protect privacy issues, ensure enforcement and provide a cost-effective collection system that will not be a burden to the NIG.

1.3 MODELLING SCENARIOS

The financial position of the NIG was modelled against three scenarios:

- 1) Tourist numbers restricted by the existing Air Nauru contract (27,400);
- 2) Tourist numbers increasing to 31,000 by brokering alternative airline arrangements to increase seat capacity; and
- 3) The number of tourists required to achieve self sustainability under the current financial strategies and policies.

The snapshot of the results of the modelling are as follows:

Scenario 1

Cash reserves will reduce to \$2,762,100 by 30 June 2006 and the NIG will consume all cash reserves by the end of 2007 based on minimum capital requirements

Scenario 2

Cash reserves will reduce to \$3,766,900 by 30 June 2006 and the NIG will consume all cash reserves by April 2007 based on minimum capital requirements

Scenario 3

The model predicts that tourist numbers would need to increase to approximately 100,000 to provide sufficient net revenues to support current financial strategies and policies, generate sufficient cash for an adequate maintenance programme, provide for an optimal capital investment programme and sufficient capital reserves to fund the ongoing replacement of assets as and when required (eg the replacement of the hospital building within 15 years).

The findings need to be interpreted in the context of the size of the Island and the associated difficulty in implementing unpopular but necessary financial reform eg broadening the tax base.

1.4 REVIEW METHODOLOGY

The development of this financial assessment is based upon a clear understanding of the interrelationship of the fundamental financial elements within the NIG. Consequently our approach involved identifying, reviewing, and then deriving a value for each one of the following financial elements of the NIG over a five year period. The review included detail analysis of;

- assets;
- revenue and expenditure;
- cash flow; and
- the financing of assets and working capital, (with a particular focus on the funding for the replacement of infrastructure)

both within the main administration of government and the Government Business Enterprises (GBE). Upon completion of this exercise, a dynamic financial model

was developed to estimate the financial position of the NIG over the next five years.

In undertaking this review Acumen held discussions with the following people;

1. NIG Chief Minister – Geoffrey Gardner;
2. NIG Minister for Finance – Ron Nobbs;
3. Administrator – Grant Tambling;
4. Official Secretary – Michael Stephens;
5. NIA CEO – Steve Mathews;
6. NIA CFO – Barry Wilson;
7. Queensland Deputy Auditor General – Eric Muir;
8. Members of the Queensland Audit Office external audit team;
9. Norfolk Island Telecom – Kim Davies;
10. Norfolk Island Hospital – Rees Waldon;
11. Norfolk Island Tourism – Steve McInnes;
12. Norfolk Island Electricity – John Christian;
13. Norfolk Island Airport – Glenn Robinson;
14. Norfolk Island Water Assurance – Neil Tavener;
15. Norfolk Island Customs & Immigration – Alan Buffett;
16. Roads – Peter Davidson;
17. Norfolk Island Liquor Bond – Doug Jackson;
18. Senior Member of the Norfolk Island Administration – Allen Bataille;
19. A number of business owners including tourist operators;
20. A representative of the Chamber of Commerce.

and reviewed the following documentation, reports and financial information:

1. Norfolk Island Annual Reports (2000/01 to 2004/05);
2. NIG Financial Statements (2000/01 to 2004/05);
3. NIG Tourist Bureau Financial Statements (2001/02 to 2004/05);
4. Norfolk Island Hospital Enterprise Financial Statements (2001/02 to 2004/05);

5. NIG 2005/06 Budget;
6. NIG Tourist Bureau 2005/06 Budget;
7. Norfolk Island Hospital Enterprise 2005/06 Budget;
8. Norfolk Island Government Asset Register;
9. Norfolk Island Government Tourist Bureau Asset Register;
10. Norfolk Island Hospital Enterprise Asset Register;
11. Norfolk Telecom – Ten Year Strategic Telecommunications Plan 2005/06 to 2014/15 (Overview, Context and Recommendations);
12. NIG Asset Maintenance Plan;
13. Loan Agreement – Resurfacing of the Norfolk Island Airport Runways;
14. Nauru Air Corporation and the Government of Norfolk Island Charter Agreement.

2. FORECAST FINANCIAL POSITION OF THE NORFOLK ISLAND GOVERNMENT

2.1 DEVELOPMENT OF AN ECONOMIC MODEL

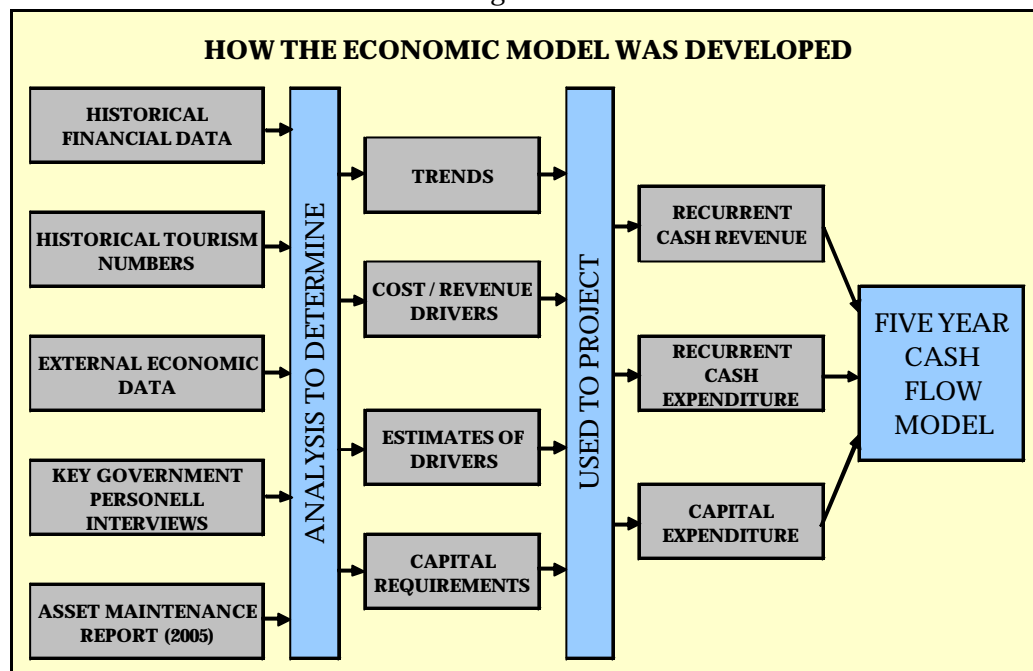
2.1.1 Model Overview

To assist in developing a financial position of the NIG an extensive economic model was developed to forecast the cash position of the Norfolk Island Government on a monthly basis from October 2005 through to 30 June 2010. Determination of the cash position is critical as it establishes both the liquidity and hence the viability of an organisation. This model was based on a detailed review of historical financial and non financial details, external economic data as well as discussions with the key personnel in the Norfolk Island Administration, Legislative Assembly and material GBEs.

In order to assist in determining the financial sustainability of the NIG we have developed flexibility in the model to deal with the following three scenarios:

1. Continuation of the current Air Nauru contract;
2. Alternative airline arrangement provided independently of Air Nauru;
3. Sufficient tourist numbers to deliver a balanced budget as well as for adequate reserves for all future capital replacement to maintain living standards.

Diagram 1



2.1.2 Underlying Assumptions

In order to develop the model a significant number of assumptions were made. In all instances a conservative approach has been applied in developing these assumptions. These assumptions differ slightly based on each separate scenario. Below are the underlying assumptions consistent to each scenario:

2.1.2.1 *Tourism*

1. The model is based on 31,000 tourists visiting Norfolk Island;
2. Average stay per tourist is 7.35 days;
3. 77.5% of all tourists to Norfolk Island are from Australia;
4. The percentage of tourists for each month (given no airline restrictions) is consistent with historical trends;
5. Analysis of income and expenditure trends attributable to tourists is based on financial results and tourist numbers over the previous 5 years. Revenue attributable to each tourist is accordingly calculated to be:
 - Customs duty based on 45% of revenue - \$49.35 per head;
 - Fuel levy based on 40% of revenue - \$5.00 per head;
 - Financial Institution Duty based on 35% of revenue - \$10.37 per head;
 - Norfolk Postage based on 20% of revenue - \$2.31 per head;

- IDD Telephone charges based on 50% of revenue - \$34.08 per head;
- Electricity revenue based on 40% of revenue - \$97.50 per head;
- Workers Compensation based on 40% of revenue - \$21.34 per head;
- Liquor Sales based on 90% of club and restaurant sales and historical average of tourist sales - \$70 per head.

Revenue from the resident population is assumed to remain constant.

2.1.2.2 Economic Data

6. General Inflation is constant at 2.8% per annum. Wages are anticipated to increase at 3.3% per annum whilst fuel is expected to increase at 10% per annum;
7. All government charges per unit are assumed to be constant with the exception of customs duties and liquor prices which are expected to increase with inflation;
8. No interest has been applied to cash reserves and or debt;
9. Resident population (inclusive of Temporary Entry permit and General Entry permit holders) is assumed to remain constant;

2.1.2.3 Opening Position

10. The cash and term deposits held by the NIG at 30 September 2005 amount to \$13,650,900. Of this \$138,200 is held for KAVHA fund, \$2,133,800 in trust accounts and \$16,200 quarantined to be paid to the Commonwealth government in relation to the Cascade Cliff loan;

Accordingly the opening cash balance for the model is \$11,362,700;

2.1.2.4 Airport Loan

11. The balance of the Commonwealth Airport loan not drawn down as at 30 September 2005 will be drawn down prior to 30 June 2006;
12. Loan repayments to the Commonwealth government will be consistent with the requirements of the Airport loan agreement;
13. The Norfolk Island Government will meet its obligation under the Airport Loan Agreement to set aside specific amounts towards the subsequent resurfacing of the airport runways;

14. The financial obligations on the NIG under the Airport Loan Agreement have been deferred for three years. Accordingly the first loan repayment and trust contribution are not required until June 2009.
15. No interest will be applied to the airport loan as per the Airport Loan Agreement;

2.1.2.5 Welfare System / Health Care

16. As at 30 September there are currently 118 welfare recipients with an average fortnightly payment of \$363.15 each. The number of recipients is assumed to grow by 5% per year, whilst the average payment is expected to increase by 3%;
17. The number of Medivacs required to be funded by the NIG is expected to be seven in 2005/06 increasing by one each year. The average cost for each medivac is \$26,000 in 2005/06 increasing with inflation;
18. The number of medical procedures at the hospital is assumed to increase at 10% per annum with the ageing of the population. Costs associated with each procedure are expected to increase with inflation;
19. The hospital subsidy is assumed to be paid on a just-in-time basis, i.e. the hospital carries no cash reserve;

2.1.2.6 Asset Maintenance / Capital Requirements

20. Where the Asset Maintenance report has been completed for the assets in question the capital replacement requirements and timing has been applied as stipulated;
21. Where no Asset Maintenance report is available the capital requirement has been estimated in conjunction with the relevant manager / official of the Norfolk Island government. In circumstances where the timing of the requirement is unclear the expense has been applied uniformly over the period of the model;

2.1.2.7 Other

22. The electricity output is based on 3.5 kilowatt hours per litre of diesel consumed;
23. Electricity wastage through the reticulation network is five percent of production;
24. Rock at the Cascade quarry will run out in 2 years time. Annual contribution to the revenue fund is \$74,000.

25. Timing of liquor sales to residents is consistent with historical trends;
26. Liquor purchases (cost of goods sold) are assumed to remain at 61% of liquor sales.
27. Collection of Electricity and Telecom revenue is based on the following collection patterns:
 - 60% in the month in which the bill is issued;
 - 30% one month after issuing the bill;
 - 8% the following month;
 - 2% of invoices issued are never realised.

All other income streams (with the exception of airline ticket sales – covered separately) are assumed to be collected in the month in which the service is provided;

28. All expenditure is assumed to be paid in the month in which incurred.

2.2 MODEL LAYOUT

The opening cash balance for the model (\$11,362,700) is based on the bank reconciliation provided by the NIG accounts department as at 30 September 2005. The balance was then reduced for amounts held for specific purposes (including KAVHA and trust monies).

In order to arrive at the net operating cash flow for each month the amount of recurrent cash outflows is subtracted from the recurrent operating cash inflows.

Recurrent cash inflows are those cash receipts that the NIG can expect to collect based on current government policy including all taxes, custom duties, fees and charges, liquor sales and GBE revenues. Recurrent operating cash outflows include all cash payments incurred by the NIG in delivering government services. No depreciation expense is included as it is not a cash payment but rather an accounting entry to reflect the consumption of fixed assets.

The next step is to add the net cash flows from financing activities to the net operating cash flow. Financing cash flows are those received from finance arrangements reduced by any cash payments made as a result of contractual obligations with respect of those arrangements. Currently, the only loans that the NIG has are with the Commonwealth government. One of the loans is for the resurfacing of the airport runways and the other is for Cascade Cliff.

At this point in order to arrive at the closing cash balance the model is split into two scenarios:

- one based on the minimum capital expenditure and;
- the other on optimal capital expenditure.

The minimum capital expenditure is that amount that is required to maintain the current standard of living. Optimal capital expenditure is the amount required to deliver a similar level of government services and standard of living to that of comparable regional communities on the mainland. In either case the capital requirement has been determined based on the “NIG Asset Maintenance Plan” and interviews of key NIG personnel.

In order to arrive at the closing cash balance based on the minimum capital expenditure the following calculation is performed:

Opening Cash Balance Minimum capital expenditure
Add: Net Operating Cash Flow
Add: Net Financing Cash Flow
Less: Minimum Capital Expenditure

Similarly to arrive at the closing cash balance based on optimal expenditure the following is applied:

Opening Cash Balance Optimal capital expenditure
Add: Net Operating Cash Flow
Add: Net Financing Cash Flow
Less: Optimal Capital Expenditure

The closing cash balance in both instances is then carried forward as the opening cash balance for the following year.

The financial position of the NIG was modelled against three scenarios:

- 4) Tourist numbers restricted by the existing Air Nauru contract (27,400);
- 5) Tourist numbers increasing to 31,000 by brokering alternative airline arrangements to increase seat capacity; and
- 6) The number of tourists required to achieve self sustainability under the current financial strategies and policies.

The snapshot of the results of the modelling are as follows:

Scenario 1

Cash reserves will reduce to \$2,762,100 by 30 June 2006 and the NIG will consume all cash reserves by the end of 2007 based on minimum capital requirements

Scenario 2

Cash reserves will reduce to \$3,766,900 by 30 June 2006 and the NIG will consume all cash reserves by April 2007 based on minimum capital requirements

Scenario 3

The model predicts that tourist numbers would need to increase to approximately 100,000 to provide sufficient net revenues to support current financial strategies and policies, generate sufficient cash for an adequate maintenance programme, provide for an optimal capital investment programme and sufficient capital reserves to fund the ongoing replacement of assets as and when required (eg the replacement of the hospital building within 15 years).

The findings need to be interpreted in the context of the size of the Island and the associated difficulty in implementing unpopular but necessary financial reform eg broadening the tax base.

2.3 SCENARIO # 1 – TOURIST NUMBERS RESTRICTED BY THE EXISTING AIR NAURU CONTRACT

2.3.1 Model Results

Norfolk Island Government Summary		2005/06	2006/07	2007/08	2008/09	2009/10
<i>SCENARIO # 1: CONTINUATION OF CURRBET AIR NAURU CONTRACT</i>						
<i>Cashflow forecast</i>		<i>(Nine months only)</i>				
Opening Cash Balance - Minimum Capital Expenditure	a	11,362,700	2,762,183	(331,731)	(4,222,328)	(10,111,554)
Operating Cash Inflows						
<i>Cash Received</i>						
Charter Flight Revenue		8,771,839	14,618,447	14,619,469	14,620,053	14,620,053
Custom duties		3,059,013	4,095,019	4,210,781	4,329,508	4,451,583
Departure Fees		756,960	970,440	970,560	970,560	970,560
Electricity Revenue		2,442,711	3,169,081	3,169,240	3,169,240	3,169,240
Financial Institutions Levy		710,537	934,537	934,579	934,579	934,579
Fuel Levy		262,223	343,438	343,458	343,458	343,458
Landing Fees		1,188,021	1,671,957	1,672,169	1,672,169	1,672,169
Liquor Sales		2,967,288	3,953,970	4,065,756	4,180,394	4,298,264
Postal Service Revenue		523,705	695,411	695,420	695,420	695,420
Telephone Revenue		2,484,973	3,295,430	3,322,867	3,350,933	3,379,789
Other Revenue		4,124,654	5,502,114	5,456,070	5,459,816	5,476,404
Total Cash received	b	27,291,924	39,249,843	39,460,368	39,726,130	40,011,519
<i>Cash Used</i>						
Air Nauru Contract		7,761,417	9,997,798	9,997,798	9,997,798	9,997,798
Hospital Subsidy		632,836	931,854	958,129	985,144	1,012,921
Maintenance		825,130	1,128,579	1,160,400	1,193,119	1,678,635
Other Expenses		7,977,088	11,043,615	11,203,983	11,435,841	12,288,878
Power House Fuel		1,750,786	2,508,957	2,771,821	3,062,067	3,382,706
Telecommunication subcontract (Reach)		762,989	1,010,172	1,021,147	1,032,373	1,043,916
Salaries & Wages (incl on costs and staff costs)		6,641,527	9,117,336	9,412,189	9,716,853	10,031,653
Welfare		1,800,667	2,605,447	2,825,500	3,076,268	3,338,930
Total Cash used		28,152,440	38,343,758	39,350,966	40,499,462	42,775,436
Net Cash to/from Operating	b - c	(860,517)	906,086	109,402	(773,332)	(2,763,916)
Financing Activities						
<i>Cash Received</i>						
Loan Drawdown - Commonwealth Government		8,260,000	-	-	-	-
Total Cash Received	f	8,260,000	-	-	-	-
<i>Cash Used</i>						
Commonwealth Loan - Repayments		-	-	-	600,000	1,200,000
Runways Trust Fund		-	-	-	515,893	493,026
Total Cash used	g	-	-	-	1,115,893	1,693,026
Net Cash to/from Financing Activities	h=f-g	8,260,000	-	-	(1,115,893)	(1,693,026)
Investing Activities						
<i>Cash Used</i>						
Runway resurfacing		12,000,000	-	-	-	-
Minimum capital requirement		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Net Cash to/from Investing Activities	j	16,000,000	4,000,000	4,000,000	4,000,000	4,000,000
CLOSING CASH POSITION	j	2,762,183	(331,731)	(4,222,328)	(10,111,554)	(18,568,496)
Optimal Capital Requirements¹						
Roads		32,407,200	1,100,000	4,020,000	2,440,000	4,670,000
Airport		12,039,700	-	250,000	1,720,000	125,000
Norfolk Island Liquor Supply		50,000	50,000	25,000	-	10,000
Norfolk Island Electricity		40,000	-	-	-	2,000,000
Norfolk Island School		265,000	-	-	-	-
Waste Management Centre		147,000	147,000	147,000	147,000	147,000
Norfolk Telecom		809,300	-	1,000	-	-
Other		176,200	99,600	194,900	169,000	180,500
	i	45,934,400	1,396,600	4,637,900	4,476,000	7,132,500

¹ Optimal capital expenditure is the amount required to deliver a similar level of government services and standard of living to that of comparable regional communities on the mainland

Table 1

2.3.2 Outcomes of the Model

1. By 30 June 2006 the model projects cash reserves will be reduced to \$2,762,100 and that the NIG will run out of cash by the end of June 2007; (blue line in diagram 2)
2. The optimal capital requirement based on the Asset Management Plans received to date actually requires a total of \$46m to be spent in this financial year, and a further \$17m over the remaining 4 years;

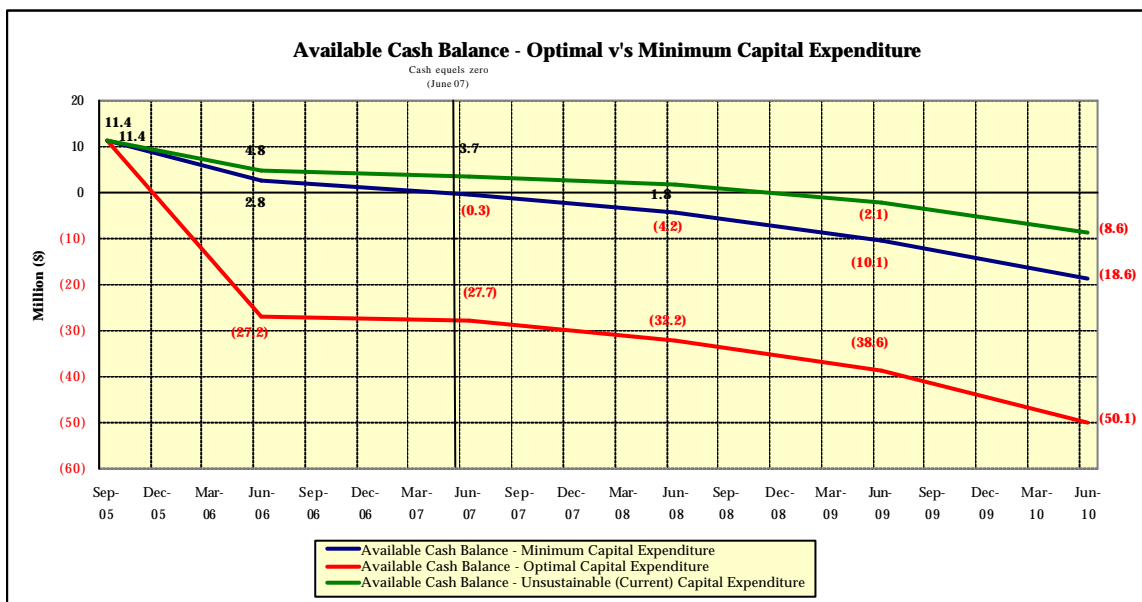


Diagram 2

3. By the 2007/08 financial year the combined operating surpluses of the GBE's will be insufficient to cover the operating deficit of the Revenue Fund. This is primarily the result of increasing welfare costs associated with an ageing population as well as forecast increases in world fuel prices;

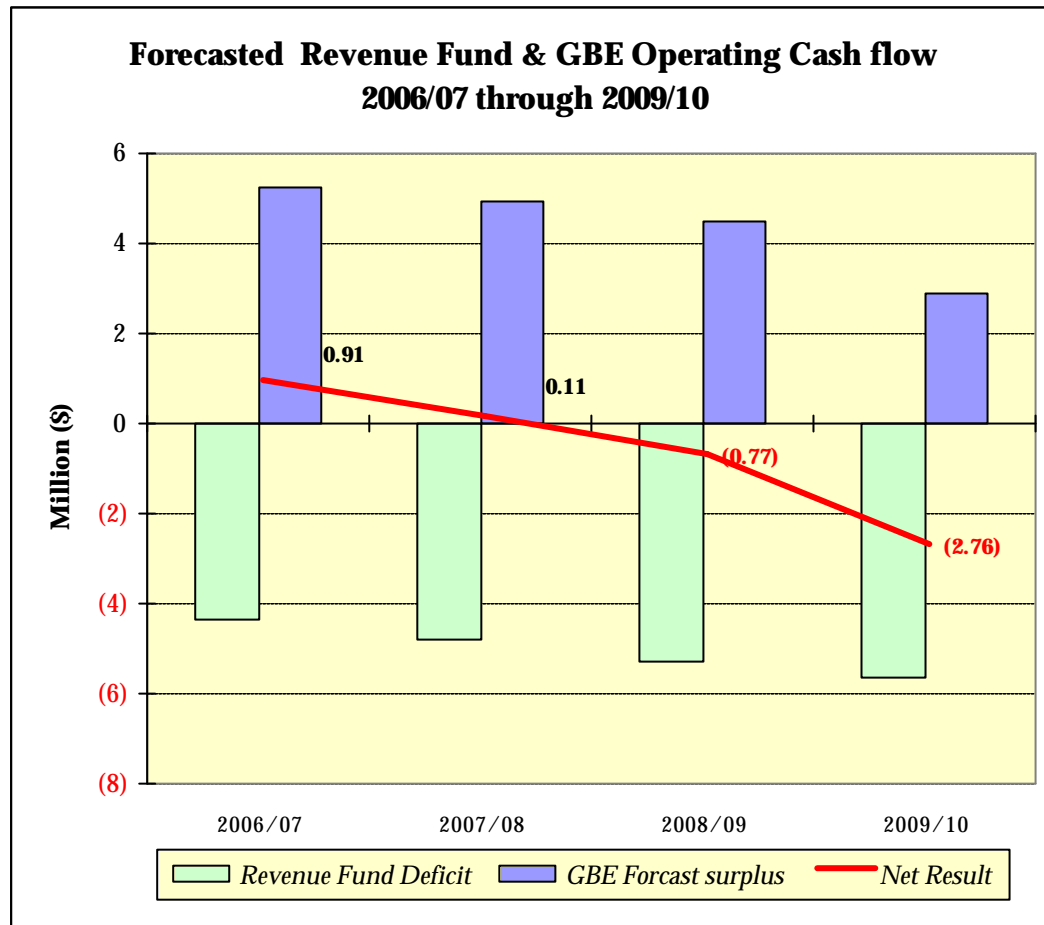


Diagram 3

4. Without consideration for depreciation and appropriations the model predicts continuous deficit budgets from 2007/08 unless significant reductions in expenditure are implemented;
5. The current revenue and expenditure patterns are not sustainable without significant subsidies from the Commonwealth;
6. The current charter agreement with Air Nauru is profitable and makes a positive contribution to the operating revenues of the NIG;
7. The Norfolk Island Government will not be able to service its obligations under the current airport loan without cutting government services leading to a further reduction in residents' standard of living;

2.3.3 Observations from the model

1. As at 30th September 2005 cash reserves totalled \$11,362,700;

2. Even if the NIG restricted its capital expenditure to current inappropriate levels of \$2m per annum the model estimates that the NIG will run out of cash in December 2008; (green line in diagram 2)
3. The number of tourists from Australia will be restricted due to the capacity of the flights from Sydney and Brisbane to 20,400. Accordingly total tourist numbers for each year are expected to be approximately 27,400.

2.3.4 Additional Assumptions

1. For the month of October 2005 the cost of the Air Nauru charter is \$1,096,219 (based on \$252,585 per week). Beyond this the cost is assumed to be fixed at \$833,150 (based on 4.32 weeks at \$191,970). The differential in October 2005 is due to an additional flight being scheduled from Sydney over and above the contract with Air Nauru;
2. It is assumed that Air Nauru will not apply a fuel levy as allowed under the current contract. As at 30 September 2005 none had been applied;
3. The Air Nauru contract will remain in place for the duration of the model;
4. Commission paid to Qantas will remain at 19% of ticket price (excluding taxes). The balance will be paid as follows:
 - 80% in the month in which the flight is taken;
 - 20% one month after the flight is taken.
5. The Air Nauru aircraft is restricted to 140 passengers per leg;
6. There will be two return flights per week from Sydney and two from Brisbane;
7. All tourists from Queensland will embark the Air Nauru aircraft in Brisbane and all other passengers from Australia will originate their journey from Sydney. Based on historical tourist numbers it is assumed that 68% of Australian tourists embark the flight in Sydney and 32% in Brisbane;
8. The number of resident trips to Australia each year would be 4,917 with 52% to Sydney and 48% to Brisbane. It is assumed that the timing of resident trips will be consistent with previous years;
9. When there is a shortage of seats on an Air Nauru flight it is assumed that a resident will obtain a seat at the expense of a tourist;

10. Ticket prices per return ticket will be \$540 per tourist and \$500 per resident. Taxes per return ticket of \$147 will be charged on each ticket;
11. The percentage of tickets presented until June 2006 that no revenue will be collected by the NIG (due to the demise of Norfolk Jet Express) is:

Oct-05	20%
Nov-05	20%
Dec-05	15%
Jan-06	15%
Feb-06	10%
Mar-06	10%
Apr-06	10%
May-06	0%
Jun-06	0%

Beyond June 2006 it is assumed that no Norfolk Jet Express vouchers will be presented.

2.4 SCENARIO # 2 – ALTERNATIVE AIRLINE ARRANGEMENT TO NORFOLK ISLAND

2.4.1 Model Results

Norfolk Island Government Summary		2005/06	2006/07	2007/08	2008/09	2009/10
<i>SCENARIO # 2: INDEPENDENT AIRLINE PROVIDER</i>						
<i>Cashflow forecast</i>						
		<i>(Nine months only)</i>				
Opening Cash Balance - Minimum Capital Expenditure	a	11,362,700	3,766,900	(1,140,958)	(6,840,371)	(14,533,517)
Operating Cash Inflows						
Cash Received						
Charter Flight Revenue		-	-	-	-	-
Custom duties		3,130,625	4,217,878	4,337,105	4,459,394	4,585,131
Departure Fees		787,350	1,021,320	1,021,440	1,021,440	1,021,440
Electricity Revenue		2,475,125	3,232,613	3,232,772	3,232,772	3,232,772
Financial Institutions Levy		721,044	952,129	952,171	952,171	952,171
Fuel Levy		267,289	351,920	351,940	351,940	351,940
Landing Fees		1,208,295	1,563,731	1,563,943	1,563,943	1,563,943
Liquor Sales		3,038,901	4,076,830	4,192,079	4,310,279	4,431,812
Postal Service Revenue		526,047	699,332	699,341	699,341	699,341
Telephone Revenue		2,519,840	3,355,249	3,384,373	3,414,172	3,444,812
Other Revenue		4,133,581	5,517,250	5,471,429	5,475,404	5,492,227
Total Cash received	b	18,808,098	24,988,251	25,206,592	25,480,856	25,775,588
Cash Used						
Air Nauru Contract		-	-	-	-	-
Hospital Subsidy		632,836	931,854	958,129	985,144	1,012,921
Maintenance		825,130	1,128,579	1,160,400	1,193,119	1,690,570
Other Expenses		6,228,733	8,546,478	8,704,180	8,933,709	9,803,206
Power House Fuel		1,780,816	2,563,570	2,832,153	3,128,716	3,456,333
Telecommunication subcontract (Reach)		776,936	1,034,099	1,045,749	1,057,669	1,069,925
Salaries & Wages (incl on costs and staff costs)		6,618,779	9,086,082	9,379,895	9,683,484	9,997,174
Welfare		1,800,667	2,605,447	2,825,500	3,076,268	3,338,930
Total Cash used		18,663,897	25,896,109	26,906,006	28,058,108	30,369,060
Net Cash to/from Operating	b-c	144,200	(907,858)	(1,699,414)	(2,577,253)	(4,593,472)
Financing Activities						
Cash Received						
Loan Drawdown - Commonwealth Government		8,260,000	-	-	-	-
Total Cash Received	f	8,260,000	-	-	-	-
Cash Used						
Commonwealth Loan - Repayments		-	-	-	600,000	1,200,000
Runways Trust Fund		-	-	-	515,893	493,026
Total Cash used	g	-	-	-	1,115,893	1,693,026
Net Cash to/from Financing Activities	h=f-g	8,260,000	-	-	(1,115,893)	(1,693,026)
Investing Activities						
Cash Used						
Runway resurfacing		12,000,000	-	-	-	-
Minimum capital requirement		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Net Cash to/from Investing Activities	j	16,000,000	4,000,000	4,000,000	4,000,000	4,000,000
CLOSING CASH POSITION		3,766,900	(1,140,958)	(6,840,371)	(14,533,517)	(24,820,015)
Optimal Capital Requirements ¹						
Roads		32,407,200	1,100,000	4,020,000	2,440,000	4,670,000
Airport		12,039,700	-	250,000	1,720,000	125,000
Norfolk Island Liquor Supply		50,000	50,000	25,000	-	10,000
Norfolk Island Electricity		40,000	-	-	-	2,000,000
Norfolk Island School		265,000	-	-	-	-
Waste Management Centre		147,000	147,000	147,000	147,000	147,000
Norfolk Telecom		809,300	-	1,000	-	-
Other		176,200	99,600	194,900	169,000	180,500
		45,934,400	1,396,600	4,637,900	4,476,000	7,132,500

¹ Optimal capital expenditure is the amount required to deliver a similar level of government services and standard of living to that of comparable regional communities on the mainland

Table 2

2.4.2 Outcomes of the Model

1. By 30 June 2006 the model projects cash reserves will be reduced to \$3,766,900 and that the NIG will run out of cash by the end of April 2007;
2. The optimal capital requirement based on the Asset Management Plans actually requires a total of \$46m to be spent in this financial year, and a further \$17m over the remaining 4 years;

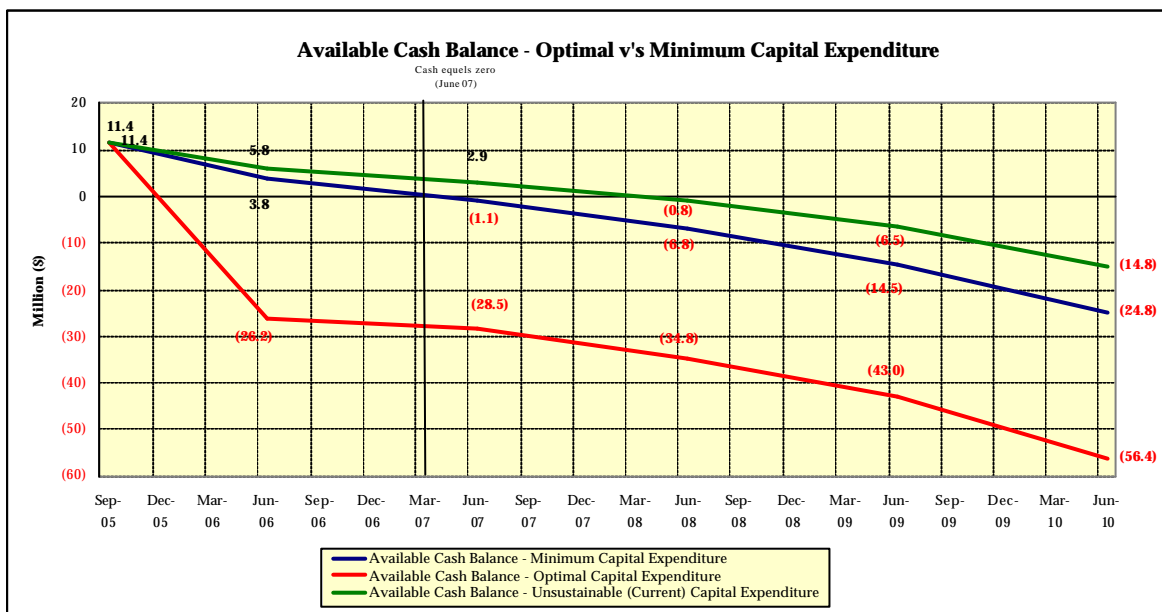


Diagram 2

3. In the 2006/07 financial year the combined operating surpluses of the GBE's will be insufficient to cover the operating deficit of the Revenue Fund. This is primarily the result of increasing welfare costs associated with an ageing population as well as increases in world fuel prices;

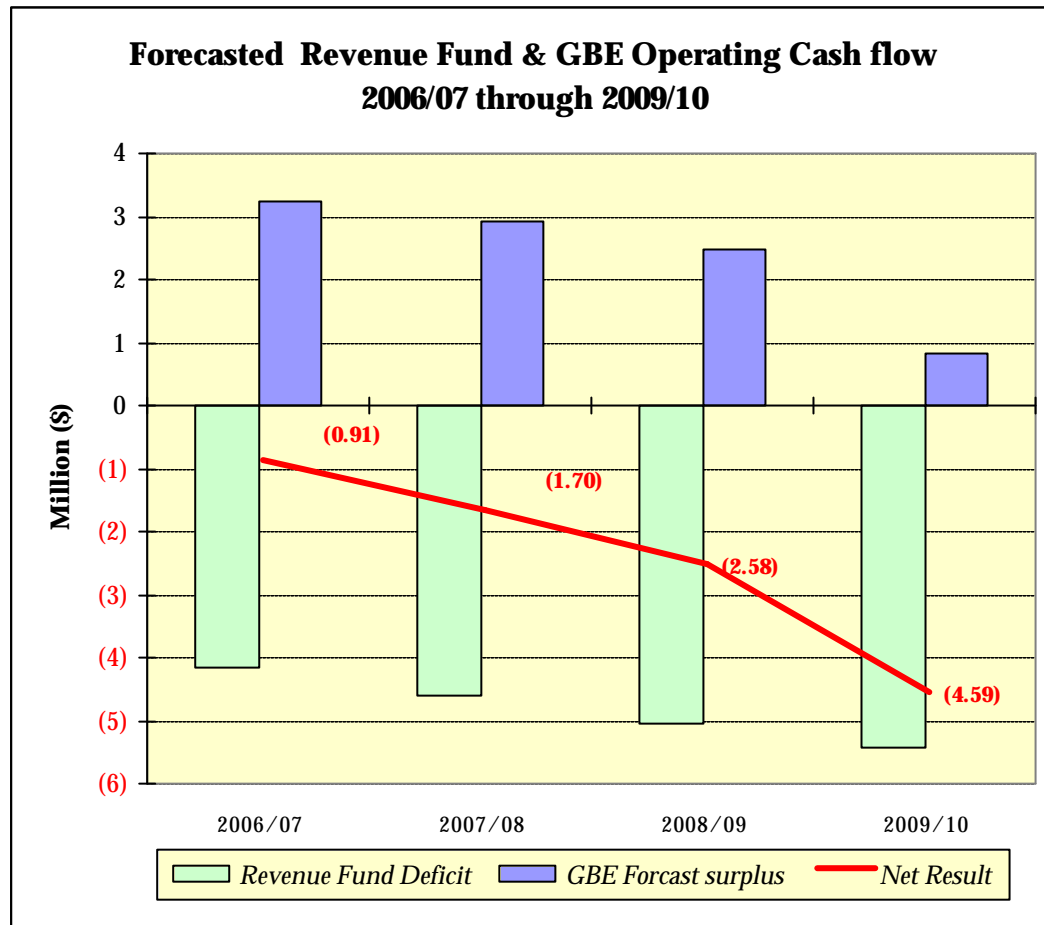


Diagram 3

4. The Norfolk Island Government will not be able to service its obligations under the current airport loan without cutting government services leading to a further reduction in residents' standard of living;

2.4.3 Observations from the model

1. As at 30th September 2005 cash reserves totalled \$11,362,700;
2. Even if the NIG restricted its capital expenditure to current inappropriate levels of \$2m per annum we estimate that the NIG will run out of cash in May 2008;
3. Though there are an additional 3,600 tourists to Norfolk Island the additional revenue, in 2006, collected through increased departure fees, customs duties and GBE revenue of \$356,800 doesn't compensate NIG for the loss in the charter flight operating surplus of \$2,016,800.

2.4.4 Additional Assumptions

1. Flights to and from Australia will be provided by an independent airline provider.
2. The NIG will not be required to provide any financial assistance or incentives to the provider.
3. The provider will be able to provide sufficient services to meet market demand.
4. There is no need for capital expenditure by Norfolk Island Airport over and above the \$12 million resurfacing of the runways.

2.5 SCENARIO # 3 – SUFFICIENT TOURISTS TO PROVIDE A SUSTAINABLE FUTURE.

2.5.1 Model Results

Scenario three attempts to determine the number of tourists that would be required for the NIG to be financially sustainable.

Norfolk Island Government Summary

SCENARIO # 3 – SUFFICIENT TOURISTS TO PROVIDE A SUSTAINABLE FUTURE

Cashflow forecast

		2005/06 (Nine months only)	2006/07	2007/08	2008/09	2009/10
Opening Cash Balance - Minimum Capital Expenditure	a	11,362,700	7,686,131	11,081,917	13,701,471	14,323,650
Operating Cash Inflows						
Cash Received						
Charter Flight Revenue		-	-	-	-	-
Custom duties		7,008,414	9,448,155	9,715,078	9,989,004	10,270,654
Departure Fees		2,434,566	3,186,705	3,186,915	3,186,915	3,186,915
Electricity Revenue		4,708,363	6,123,659	6,124,001	6,124,001	6,124,001
Financial Institutions Levy		1,290,587	1,700,835	1,700,908	1,700,908	1,700,908
Fuel Levy		541,890	712,903	712,938	712,938	712,938
Landing Fees		4,118,377	5,389,245	5,389,616	5,389,616	5,389,616
Liquor Sales		6,916,689	9,307,107	9,570,052	9,839,889	10,117,335
Postal Service Revenue		652,974	866,186	866,202	866,202	866,202
Telephone Revenue		4,407,888	5,901,807	6,002,843	6,106,473	6,213,025
Other Revenue		5,422,408	7,235,140	7,198,827	7,212,550	7,239,396
Total Cash received	b	37,502,156	49,871,741	50,467,378	51,128,495	51,820,989
Cash Used						
Air Nauru Contract		-	-	-	-	-
Hospital Subsidy		632,836	931,854	958,129	985,144	1,012,921
Maintenance		825,130	1,128,579	1,160,400	1,193,119	2,059,501
Other Expenses		8,632,262	11,787,004	12,034,802	12,356,830	13,904,281
Power House Fuel		3,396,896	4,884,267	5,395,962	5,960,989	6,585,183
Telecommunication subcontract (Reach)		1,532,155	2,052,723	2,093,137	2,134,589	2,177,210
Salaries & Wages (incl on costs and staff costs)		6,618,779	9,086,082	9,379,895	9,683,484	9,997,174
Welfare		1,800,667	2,605,447	2,825,500	3,076,268	3,338,930
Total Cash used	c	23,438,725	32,475,955	33,847,824	35,390,423	39,075,200
Net Cash to/from Operating	b-c	14,063,431	17,395,786	16,619,554	15,738,073	12,745,789
Financing Activities						
Cash Received						
Loan Drawdown - Commonwealth Government		8,260,000	-	-	-	-
Total Cash Received	f	8,260,000	-	-	-	-
Cash Used						
Commonwealth Loan - Repayments		-	-	-	600,000	1,200,000
Runways Trust Fund		-	-	-	515,893	493,026
Total Cash used	g	-	-	-	1,115,893	1,693,026
Net Cash to/from Financing Activities	h=f-g	8,260,000	-	-	(1,115,893)	(1,693,026)
Investing Activities						
Cash Used						
Runway resurfacing		12,000,000	-	-	-	-
Cash reserve - Capital Replacement		5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Minimum capital requirement		4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Additional Capital Requirement		5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Net Cash to/from Investing Activities	j	26,000,000	14,000,000	14,000,000	14,000,000	14,000,000
CLOSING CASH POSITION		7,686,131	11,081,917	13,701,471	14,323,650	11,376,413
CAPITAL REPLACEMENT RESERVES (CASH)		5,000,000	10,000,000	15,000,000	20,000,000	25,000,000

Table 3

2.5.2 Outcomes of the Model

1. The NIG requires in excess of 100,000 tourists each year in order to cover all capital requirements including replacement of assets now run down, maintenance of these assets and long term replacement.
2. Cash reserves to replace assets as at 30 June 2010 will equal \$25 million. Cash balances (after capital reserves) will remain at \$11.3 million.

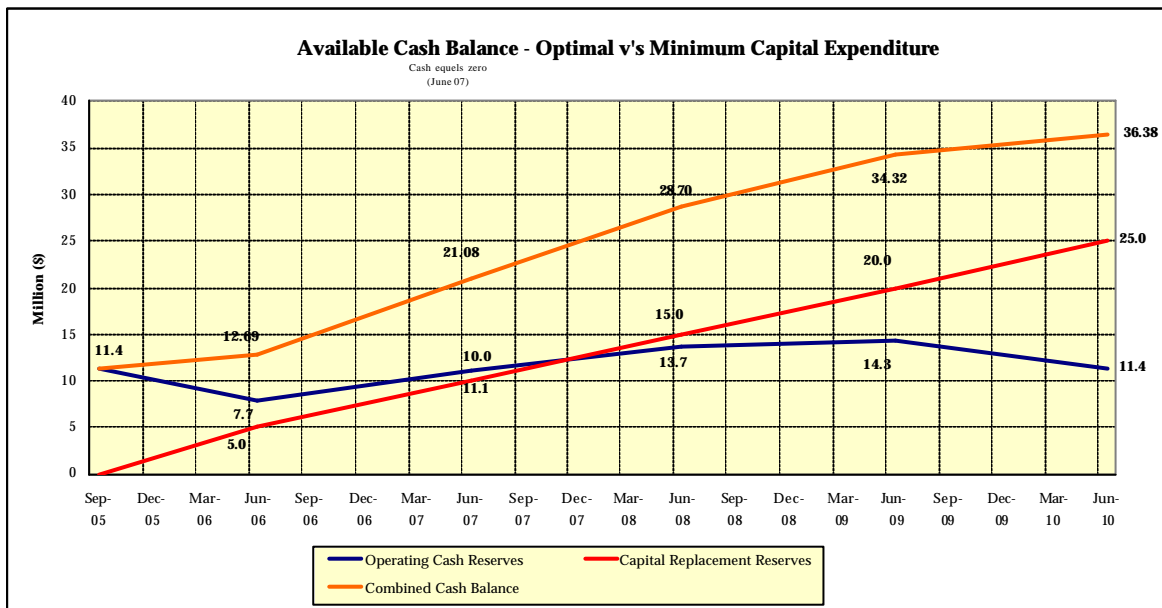


Diagram 2

3. In the 2006/07 financial year the combined operating surpluses of the GBE's will be \$12.0 million whilst the revenue fund will contribute \$5.4 million. Note, however, the net surpluses will fall over the five years to \$11.4 million in 2009/10

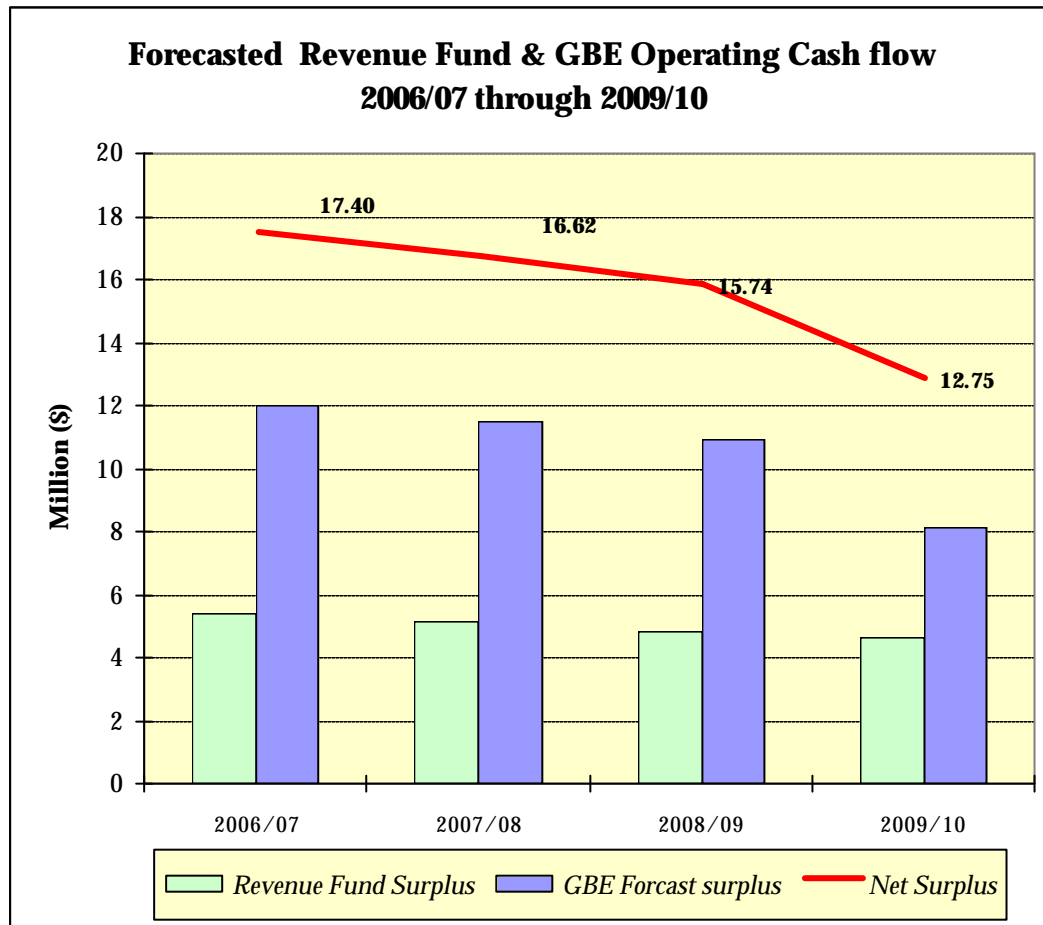


Diagram 3

2.5.3 Additional Assumptions

1. The number of tourists to Norfolk Island is sufficient to generate an operating surplus over the next five years to:
 - a. Cover “minimum capital requirements” (namely those to maintain the current state of capital assets held by the NIG)
 - b. Cover “capital improvement in capital assets” (over a five year timeframe) to such a level as would be comparable with a regional community in Australia.
 - c. Build up sufficient cash reserves to allow the replacement of capital assets as and when they require replacement.

Based on these assumptions as at the end of five years (June 2010) Norfolk Island will have sufficient cash reserves to allow for future capital replacement as well as carrying a suitable asset base to allow delivery of government services. From this point it will only be necessary for the NIG to run sufficient operating surpluses to cover capital replacement.

2. Minimum capital requirements are assumed to be \$4 million a year.
3. The amount required for capital improvement in assets is assumed to be \$6 million a year. This is arrived at by deducting the “minimum capital requirement” over the next five years from the “optimal capital requirement” as defined previously, divided over the five year period.
4. The amount of cash reserves required to allow for capital replacement is assumed to be \$5 million per annum. This is based on the cost of asset replacement being \$100 million whilst assuming a useful life on average of those assets of 20 years (that is progressively over a 20 year period the NIG will have to spend \$100 million on asset replacements).
5. Flights to and from Australia will be provided by an independent airline provider. The aircraft operator will be able to provide sufficient aeroplane services to meet market demand and the NIG will not be required to provide any financial assistance or incentives to the provider.
6. There is no need for capital expenditure by Norfolk Island Airport over and above the \$12 million resurfacing of the runways.

2.5.4 Interpretation of Outcomes

In order to achieve a balanced and sustainable financial position it is necessary to generate additional operating surpluses over and above those in Scenario # 1 of \$79.9 million over five years. This clearly can not be achieved solely through tourism as tourist numbers in excess of one hundred thousand are neither achievable nor sustainable for the following reasons:

1. The resident population would on average be out numbered by tourists. If, as historically has been the case tourists stay on average 7.35 days there would be in excess of 2,000 tourists on the island at any point in time.
2. Assuming that tourist numbers remain constant from month to month, which is not the case, there would have to be a minimum of fifteen flights on and off the island each week (assuming no upgrade to airport runways).
3. The dramatic increase in tourist numbers from current levels would require substantial capital investment by both the public and private sectors such as:
 - a. Additional tourist accommodation;
 - b. Road improvements;
 - c. Electricity grid and telecommunication infrastructure upgrades;

2.6 ALTERNATIVE REVENUE SOURCES

The issue of alternative revenue sources has adequately been debated in the following documents;

- The 1997 Access Economics report
- The 1997 Grants Commission Report
- The Focus 2002 Review
- The 2004 Taxation Options for Norfolk Island Discussion Paper (Department of Treasury Paper).

Each of these reports advocated diversity and a change in the revenue source of the Norfolk Island Government and recommended a taxation system that moves away from taxing tourists and making residents more accountable.

We are concerned over the naive belief by certain sections of the Norfolk Island community (including that of the Government and business community) that the long term sustainability issues of Norfolk Island are tourist related and will be resolved purely by increased tourist numbers or alternatively that there exists some “white knight” industry that will save the island.

The scope of additional revenue raising from existing sources appears limited:

1. Tourists are already taxed to the point that makes Norfolk Island an un-competitive tourist environment.
2. High charges to residents for utilities already exist. For example price rises in electricity have only just increased.

Alternative sources providing for diversity in revenue raising appears to be the optimal solution.

Extraordinary wealth exists on Norfolk Island with this wealth being held by individuals who are willing to have their assets protected , legal rights upheld, health, education and living standards maintained, commercial practices regulated, sovereignty of the island protected , human rights maintained and a host of other benefits that sound government provides (most of which are provided by the Australian Government).

It is our belief (as it was with the previous reports) that Norfolk residents can afford to contribute to the provision of general services they consume through a more broadly based taxation system.

There is however an issue of compliance, enforcement and collections management. Consequently an alternative taxation system may best be put in the hands of the Australian Government rather than administered by the NIG in order to protect privacy issues , ensure enforcement and provide a cost effective collection system that will not be a burden to the NIG.

3. EXAMINATION OF NORFOLK ISLAND FINANCIALS

3.1 INTRODUCTION

The two main components of the NIG financial framework are the central Revenue Fund and the Government Business Enterprises (GBEs). The Revenue Fund is responsible for the day to day running of the NIG and the provision of services to the Norfolk Island community such as health, education, welfare and roads. In support of this, GBEs are government owned monopolies that provide essential services and infrastructure such as telecommunications, electricity, and sewerage. The GBEs operate as separate entities and, due to their monopolistic status, derive revenues to pay dividends to the Revenue Fund. Some GBEs such as the Museum and K.A.V.H.A. receive grants from the NIG. GBEs also pay management fees to the Revenue Fund for administrative services.

The diagram and table below show the NIG structure and a summary of the inter-entity transactions for the year ended 30th June 2005 respectively.

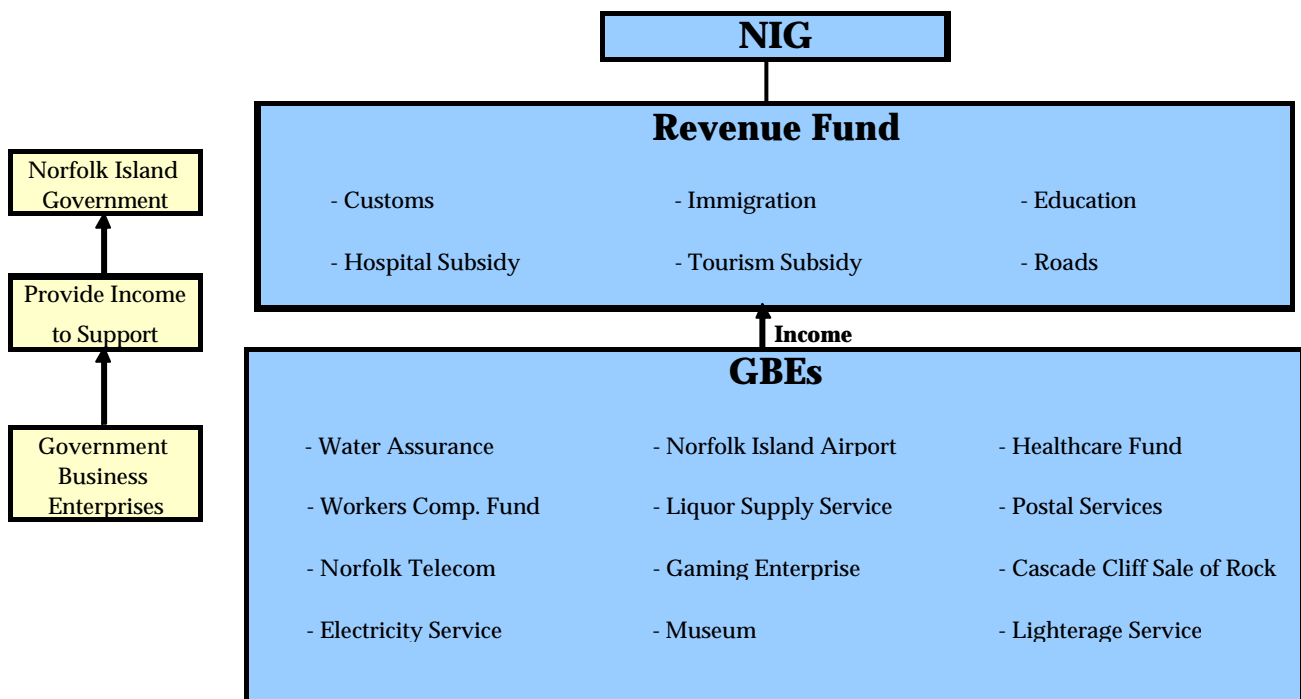


Diagram 4

Summary of the inter-entity transactions for the year ended 30th June 2005 respectively

GBE	Dividend	Grant	Management Fee
Water Assurance Fund	-	-	25,000
Norfolk Island Airport	185,000	-	100,000
Healthcare Fund	-	-	10,000
Workers Compensation Fund	-	-	20,000
Liquor Supply Service	1,231,952	-	20,000
Postal Services	100,000	-	20,000
Norfolk Telecom	-	-	92,000
Gaming Enterprise	250,000	-	2,000
Cascade Cliff Sale of Rock	-	-	23,000
Electricity Service	200,000	-	85,000
Museum	-	(100,000)	2,000
Lighthouse Service	-	-	25,000
K.A.V.H.A.	-	(308,000)	-
Total	1,966,952	(408,000)	424,000

Table 2

In examining the financial position of the NIG this report has focused on the consolidated position of the government which includes both the Revenue Fund and the GBEs. In generating this review Acumen did not undertake an audit of the NIG and as such the financial data supplied by the NIG has been assumed to be accurate.

Tables 3 and 4 demonstrate that the NIG relies heavily on the income from the GBEs to fund the running of government. Historically the Liquor Supply Service and Norfolk Telecom have provided the two largest sources of this income. The tables below outline the net assets, operating surplus (deficit) and dividends for the Revenue Fund and the GBEs.

Revenue Fund	2004/05	2003/04
Assets	13,118,950	15,480,149
Liabilities	2,057,262	2,020,626
Net Assets	11,061,688	13,459,523
Operating Surplus (Deficit)	(4,014,787)	(1,959,546)
Dividend from GBEs	1,616,952	3,211,071
Net Surplus (Deficit)	(2,397,835)	1,251,525

Table 3

Total of GBEs	2004/05	2003/04
Assets	22,689,128	22,438,605
Liabilities	1,751,415	2,624,231
Net Assets	20,937,713	19,814,374
Operating Surplus (Deficit)	2,740,291	3,319,212
Dividend Paid to Revenue Fund	(1,616,952)	(3,211,071)
Net Surplus (Deficit)	1,123,339	108,141

Table 4

The dividend revenue paid to the NIG has decreased significantly during 2004/05 due to the absence of a dividend from Norfolk Telecom. Under normal circumstances Norfolk Telecom would have paid a dividend in excess of \$1.2 million.

From just two years analysis it is possible to highlight a number of concerning issues:

1. The increase in the operating deficit from \$1.959m to \$4.014m;
2. More importantly, the failure by the GBEs to fund this deficit. Whereas in 2003/04 the operating surplus from the GBEs of \$3.3m funded the \$1.9m deficit of the NIG, in 2004/05 surpluses from the GBE were unable to fund the operating losses, resulting in an overall net deficit of \$2.4m.

The other concerning issue is the reduction in operating surplus of the GBEs, thereby indicating a fall in the return on assets. Whilst this normally would not be an issue for a government, it is a concern for a government that is funded by monopolies. Falling returns on assets in government owned monopolies are usually very good indicators of asset stripping or operational inefficiencies.

Given that the net cost of social services such as hospitals, roads, welfare, and education are funded through the distribution from these monopolies, it is imperative that assets are maintained to a level that assures sufficient revenue is derived from them. This imperative assumes that the GBE's are managed efficiently.

Diagram 5 analyses the operating surplus as a proportion of the assets maintained by the NIG. It is in effect, the NIG's return on assets.

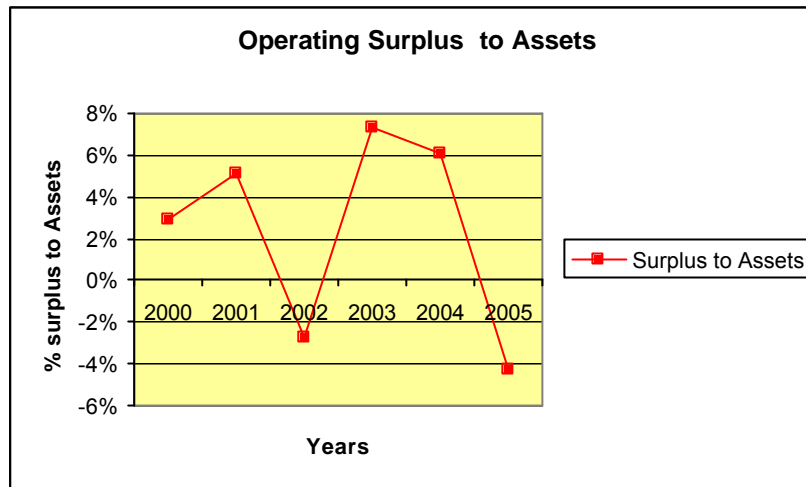


Diagram 5

This is an extremely useful summary and overview of the financial dilemma of the NIG because it indicates three pertinent issues. Firstly, the declining revenues from assets resulting from either operating inefficiencies or asset run down, resulting in an inability to fund future recurrent expenditure. Secondly, by referring to Diagram 6 the strong relationship between operating surpluses and hence performance of the NIG to tourist numbers is identified. This implies thirdly, that the capacity to increase revenues and hence surpluses to upgrade and replenish assets to acceptable levels is intrinsically linked to a variable (tourists) that the NIG has effectively no control over.

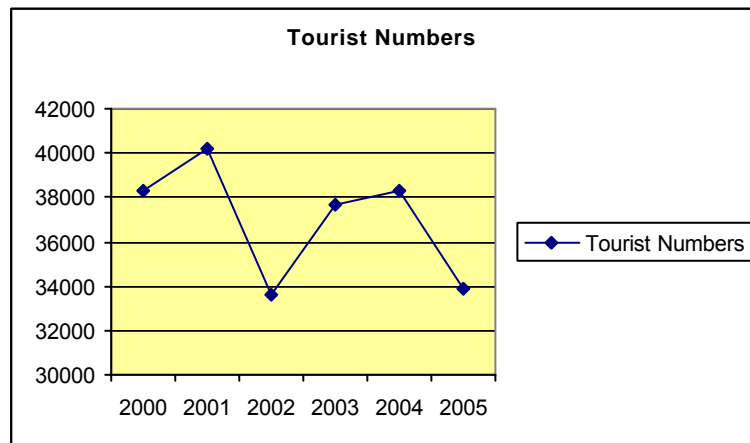


Diagram 6

Basically, because of its current revenue raising structure the NIG has almost no control over its destiny.

3.2 SOLVENCY OF THE NIG

The method of measuring an organisation's short term liquidity position or solvency is by comparing the values of "current assets" with "current liabilities". In essence this is measuring the cash or access to cash the NIG has immediately

available to enable it to pay the debts that will fall due within the current financial period.

Three ways of analysing this relationship and hence the solvency of the NIG are to undertake the following ratio analysis;

1. Current ratio
2. Quick ratio
3. Working Capital Ratio

3.2.1 Current Ratio

The first test of an organisation's financial position is whether it will have sufficient cash over the immediate future to meet its short term liabilities as they fall due. Unless the answer here is positive, the organisation is in a financial crisis irrespective of its operating surplus performance. The current ratio aims at identifying how much cash is available to meet the immediate short term debt. Whilst it is usually a good indicator for the corporate sector, it has its limitations within the public sector. The reasons being that, usually, at any time a government has the capacity to generate cash by increasing revenues from duties or taxes and secondly, unlike commercial organisations, governments (as with the NIG) rarely have onerous ongoing interest commitments to external financial institutions.

Acumen has calculated the current ratio position of the NIG as at the 30 June 2005.

Ratio	Current Ratio Calculation
<u>Current Assets</u> Current Liabilities	2.08

This can be interpreted that for every \$1 of immediate debts the NIG has \$2.08 in current assets to repay this debt. Whilst a ratio of one is standard, most types of organisation can effectively operate with a current ratio much less than this value. This is particularly relevant to an organisation that derives revenues from long term infrastructure assets like a government that can easily raise revenues.

3.2.2 Quick Ratio

The disadvantage of the Current Ratio is that it does not distinguish between different types of current assets, some of which are far more liquid than others. Hence, a more realistic approach is to remove the current assets that can not be used to eliminate debt or meet financial commitments. The quick ratio is the same as the current ratio but removes inventories or stock on hand from the equation. The reason for this is that often inventories cannot be quickly converted into cash and in instances of a "fire sale" often do not realise their full value.

Ratio	Quick Ratio Calculation
<u>Current Assets (less inventories)</u> Current Liabilities	1.55

Again this can be interpreted that for every \$1.00 of immediate debt the NIG has \$1.55 in cash to pay for this debt.

In interpreting these two ratios, technically from a pure accounting definition perspective the NIG is not insolvent. However, there are a number of issues that need to be taken into consideration. Firstly, ratios assume a point in time and do not take into consideration demands on cash through the normal day to day operations of the organisation and secondly they do not recognise dramatic change in circumstances.

3.2.3 Working Capital Ratio

The issue of cash availability or working capital availability is particularly critical to the NIG where a significant proportion of its cash is generated both directly and indirectly from tourists. Working capital is effectively a measure of liquidity and financial management. It is a most important value as it represents the amount of day to day operating cash available to the NIG to carry out the function of government, especially the payment of salaries.

Working capital needs can only be met from three sources, operating surpluses, loans or from the disposal of assets. Hence, as a government grows and provides additional services to the public or the cost of existing services increase, it needs to constantly contribute to the working capital balance to sustain itself. Therefore as an indicator of prudent fiscal management one would expect to see the proportion of the NIG's working capital being maintained within the levels of both revenue and expenditure and that ideally this proportional growth is funded from operating surpluses.

Any increases in the proportion of working capital over time would indicate two key issues:

1. That the day to day funding of operations of the Public Service has grown and that more cash is being channelled into operational activities and;
2. That this cash is being diverted away from asset /capital replacement expenditure in preference to fund operational expenditure.

These outcomes are usually a result of inefficient treasury management, cash-flow management or debt management procedures.

The working capital analysis illustrated in Diagram 7 indicates exactly this scenario.

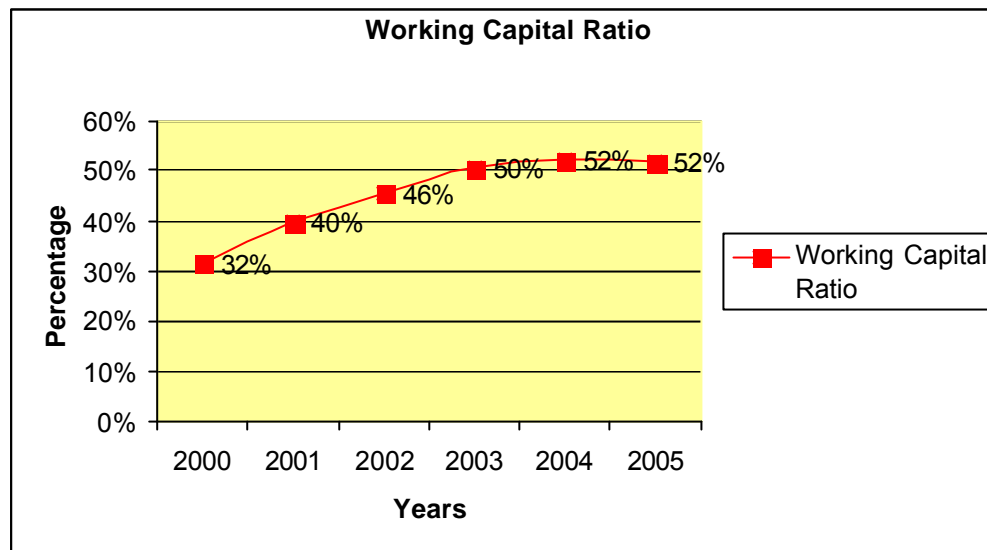


Diagram 7

We can interpret this data by saying that in 2000 where as 32 cents of every dollar raised from revenue was used to fund the cash flow of the NIG's day to day operations, this has now increased to 52 cents by the end of 2005. An increase of 65%.

This scenario is supported by an increase in cash reserves of over 100% (excluding airport loan) from \$5.4m in 2000 to \$10.8m (30 June 2005), a significant increase in debtors of 100% to \$4m and a marginal increase in the quantities of stock held. Conversely, liabilities over the same period have only increased \$800K.

In an environment of efficient fiscal management, one would expect that as the revenue base grows then the working capital requirements as a ratio would remain relatively constant, if not decrease. If, however, a government is paying more for salaries due to an increase in the size of the public sector, more welfare payments, not collecting its debts and generally not managing its overall cash in a timely fashion then the amount of working capital it requires would increase. We believe this to be the case of the NIG. As the NIG has required more and more cash to fund the operations of government it has financed this cash by channelling necessary expenditure away from capital asset replacements and into the payment of salaries, welfare, healthcare, education and other operational expenditures.

3.2.4 Asset Base Ratios

Any significant increase in the working capital ratio would immediately suggest that this has been at the expense of fixed assets. Meaning that, as a proportion of

the size of government, if liquid assets (cash) have increased, then fixed capital assets must have decreased.

Acumen reviewed the assets base of the NIG over the last five years and can confirm that there has been a significant reduction in the fixed asset base of the NIG. Diagram 8 shows that as a proportion of total Government net worth or wealth, fixed assets have decreased from 83% of equity to 67% of equity.

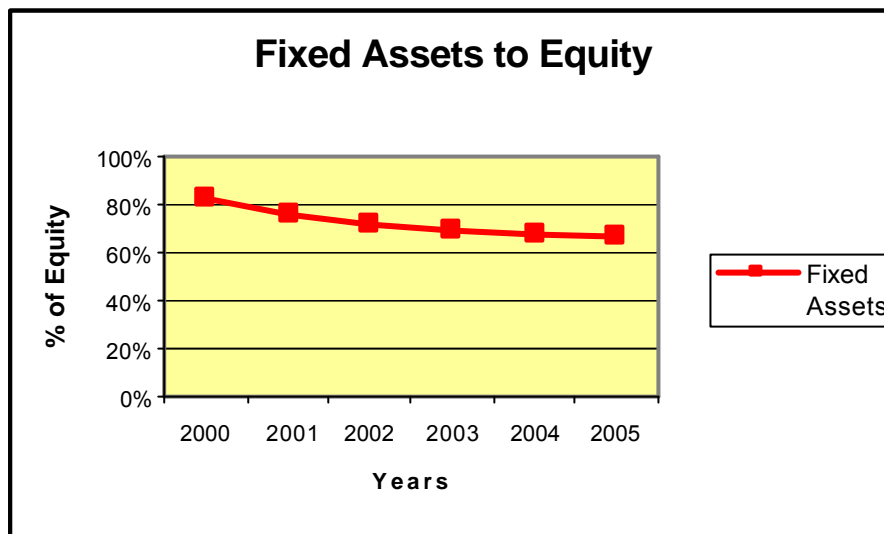


Diagram 8

Diagram 9 highlights the movement between the NIG's asset make up showing the decrease in fixed assets and the increase in current assets over the last five years.

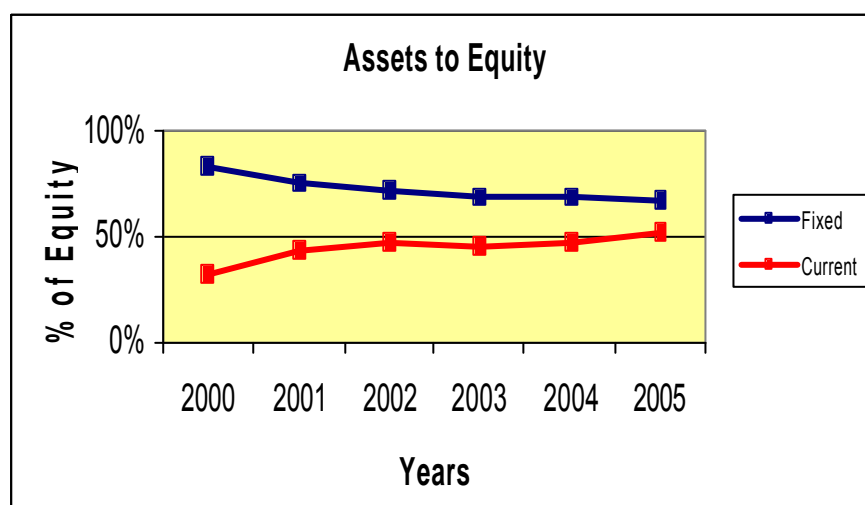


Diagram 9

This decrease and the rate of decrease in fixed assets is disturbing given that most revenues, if not all revenues are derived from the fixed assets of the NIG and confirms that the increase in operational day to day functions of the NIG have

been funded at the expense of maintaining the revenue producing assets of the NIG. This policy, consistently adopted by the NIG, has been extremely short sighted and has now placed the NIG at a point of un-sustainability.

The reason being that the NIG now has to spend on average \$12m every year over the next five years just to restore and maintain the standard of wealth and hence the standard of living of the residents. The critical issue is that the NIG can not generate sufficient revenues to sustain that level of capital expenditure whilst maintaining current expenditure levels and revenue raising sources.

The issue of asset management is addressed further in this report. However, succinctly, we do not believe that the NIG under its current policies and fiscal management practices has the capacity to replace these assets to a level of acceptable standards in both the short and long term and, as a result, there is serious risk that the standard of living for the majority of residents will decrease within two years.

3.2.5 Summary

In addressing the issue of solvency we make the following statements:

1. Given the limitations of generating revenue and current expenditure patterns it is inevitable that deficit budgets will be required over the next 2 years;
2. These budget deficits can be funded by existing cash reserves of approximately \$11m;
3. Technically the NIG is not insolvent i.e. it can meet its current obligations;
4. However its solvent position is derived only because it is not undertaking the necessary capital expenditure;
5. If basic capital expenditure was undertaken, we expect that the cash reserves will be depleted by June 2007 and hence the NIG will move into insolvency by this period;
6. If the NIG neglects capital expenditure it runs the risk of depleting the revenue producing assets and hence the capacity to maintain current levels of revenue;
7. Therefore, based on the fact that the NIG must undertake some degree of capital expenditure we believe that its position whilst solvent is one of un-sustainability.

3.3 REVENUE ANALYSIS

The adverse financial position of the NIG can be directly attributed to the refusal by the NIG to address the issue of revenue diversity. Although this issue has been raised in every financial and economic report into NI since the mid nineteen nineties, it still remains the single most contributing factor to the well being of the island.

For many years the people of Norfolk Island have elected to pay minimal tax, financing their standard of living through revenue raised substantially from tourism whilst making insufficient provisions out of this income for the funding of essential infrastructure.

In terms of revenue we make the following comments:

1. Since 2001 whilst revenues have increase on average 1.7% in nominal terms, in real terms they have consistently decreased;
2. The impact of a changing tourist market, the reluctance to diversify the revenue base and the reluctance to significantly increase the population level means that under current policies the NIG's revenue raising capacity has more than likely reached its limit;
3. We estimate that 50-70% of revenue is directly and indirectly related to tourists;
4. Because of the high percentage of reliance on tourists, revenue management is effectively uncontrollable by the NIG.

3.4 EXPENDITURE ANALYSIS

3.4.1 Overview

In reviewing expenditure, we have tried to identify where operating expenditure has been growing at the fastest rate, thereby indicating where fiscal expansion has occurred. The first step in this process is to group expenditure items as outlined in table 5.

Expenditure 2005	
Employee Costs	9,240,700
Maintenance & Repairs	1,564,900
Grants, Subsidies & Contributions	1,928,400
Welfare	2,210,000
Other Operational Costs	8,350,800
Total	\$23,294,800

Table 5

Diagram 10 demonstrates the relativity of the expenditure groups for the 2005 year.

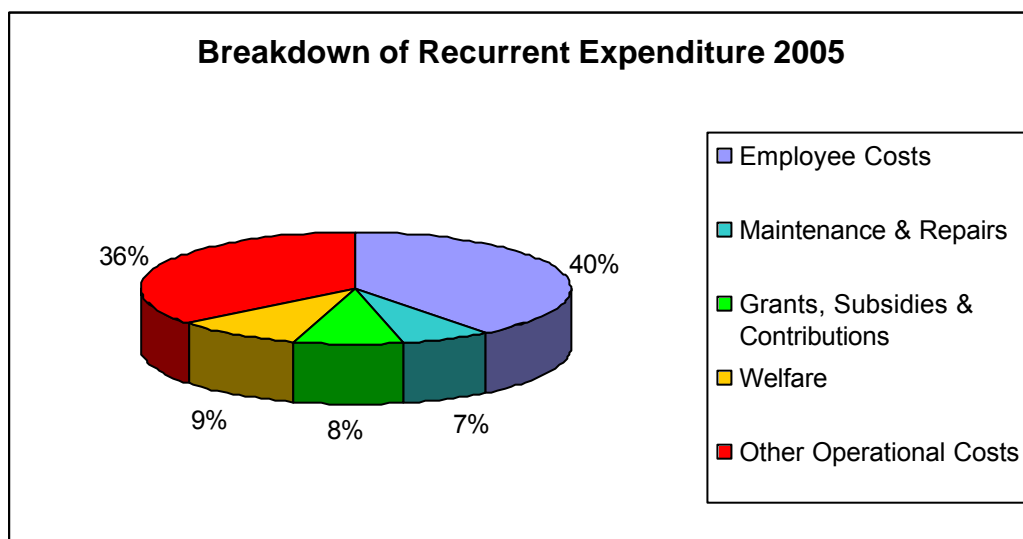


Diagram 10

3.4.2 Recurrent Expenditure

Review of the recurrent expenditure identifies that over the last five years there has been a significant increase in two main areas. Firstly, the size of the public service and the associated salary expenditure and secondly, welfare. Since 2002 public sector salary costs has increased approximately 20% whilst welfare payments have increased over 40%. Other discretionary payments such as grants and submissions have also increased 20%. Simultaneously over the same period maintenance of assets has been maintained to 2002 actual levels but decreased both in real terms and as a proportion of total expenditure, as has general operating expenditure.

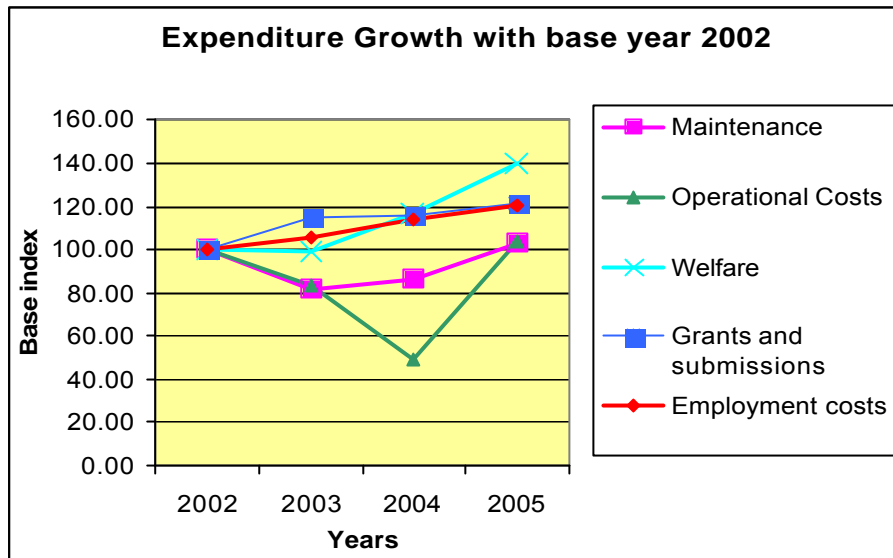


Diagram 11

3.4.2.1 Salaries and Wages

Since 2000, the public sector wages bill has increased approximately 7% a year and now represents over 40% of the NIG's operational expenditure budget. This is an alarming expansion of a public sector with such a small revenue base and population, particularly at a time when there has been a decline in tourist numbers.

3.4.2.2 Education

The impact of salaries increases is highly prevalent in overall education cost. The NIA has a contract with the NSW Department of Education for the supply of education to the Island. As a consequence wage increases are tied to the NSW certified agreement. This recurrent cost is committed and unavoidable and will be subject to further increases thereby adding additional long term pressures to the NIA's overall operation cost.

3.4.2.3 Welfare Benefits

Given the demographics of the island and current economic and social welfare policies we are concerned over the NIG's capability to continually manage and finance its current and immediate future welfare system and question if, as a recurrent expense, it has been fully costed.

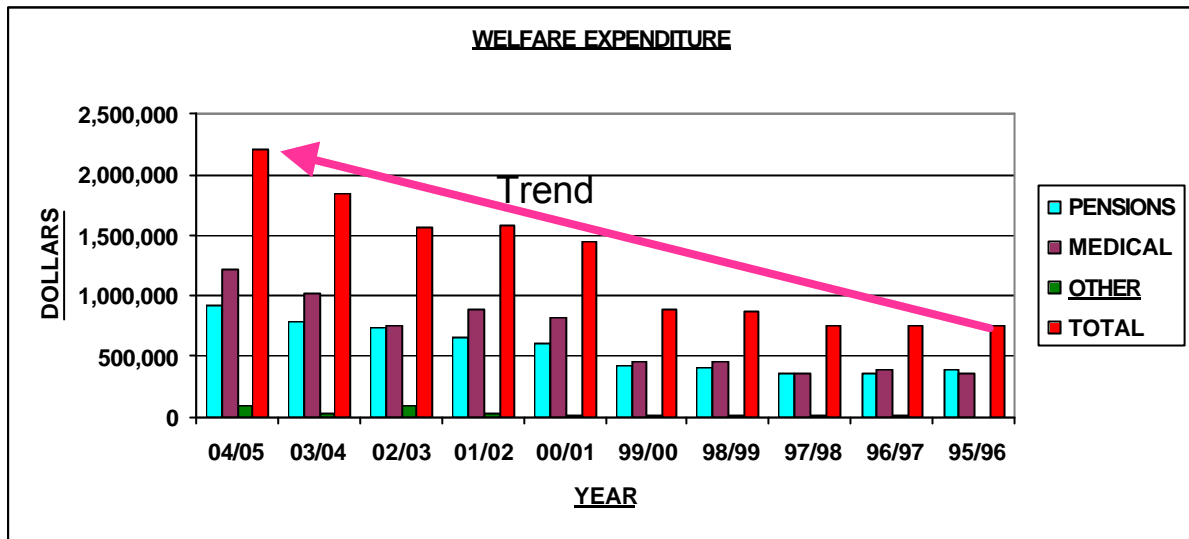


Diagram 12

There are also some anomalies with the welfare system.

- The welfare system is open to wide ranging exploitation. Wealthy older owners of property can be eligible for welfare by transferring their Island assets to their children. Income verification on the island is almost impossible. Confirmation of overseas asset holdings and income is also impossible.
- It is estimated that approximately 25-30 % of the island residents have an Australian Medicare card (making no contribution to the Australian tax system);
- The “superannuation fund” for the public sector is a saving fund. Over the working life the government contributes on average 5% of salaries to the fund. Employees also contribute to the fund. Upon retirement the employee receives an unconditional lump sum, is entitled to spend it in its entirety and is then eligible to welfare payments.

3.4.2.4 Maintenance

There is a concern that in real terms maintenance expenditure has decreased. This would support the concept that not only are assets not being replaced, but operation expenditure savings are being achieved by reducing the maintenance on assets, further contributing to their devaluation, reduction in useful life and income generating capacity.

3.4.2.5 Power House Fuel

All electricity on the island is produced by diesel generation. Significant increases in the price of fuel have impacted dramatically on the cost of production over the last year. This increase in cost of production has had an impact on the dividends available and diminishes the levels of revenue to the NIG for redistribution.

The recovery of future fuel price increases is a risk to the NIG as electricity prices have only recently increased. Politically there is very little scope for the NIG to increase electricity prices further to mitigate future price rises.

Procrastination on the part of previous Legislative Assemblies and the NIG to address alternative power opportunities is well known and well documented. In the current financial situation the NIG does not have the necessary capital funds to invest in alternative power sources.

3.4.2.6 Hospital Subsidy

The ageing population will, in the very near future, place increasing demands on the hospital and welfare system, in particular in the areas of aged care. As a result, it is estimated that over the next 5 years there will be a need for the NIG to increase its subsidy to the hospital at a rate significantly greater than inflation.

3.5 LIABILITIES ANALYSIS

Overall the NIG has very limited amounts of gearing or liabilities. As fiscal management has deteriorated over the last five years there has been a slight decrease in current liabilities emanating from the day to day management of operational expenditure. However, overall these are general trading liabilities within the GBEs.

In summary there are no concerns over the existing levels of current liabilities.

3.5.1 Long Term Liabilities

The only significant long term liability is the loan to finance the airport runway improvements. Repayment of this loan impacts on the cash reserves and we expect that the NIG will not be in a position to make any repayments on this loan. Furthermore, the requirement under the loan agreement to deposit money in trust for future airport maintenance is unlikely to be achieved.

3.5.2 Provisions and other commitments.

Overall provisions and other commitments are immaterial. Irrespective of their immateriality, given that cash reserves are forecast to be consumed at an accelerating rate, it is likely that within two years the NIG will not have the cash to

pay these commitments when they arise. Of particular concern will be employee entitlements.

3.6 ASSET MANAGEMENT

The 1997 Access Economics' report, the 1997 Grants Commission report and the Focus 2002 Review all warned of, and highlighted asset stripping and asset run down had been occurring. Due to the current and past policies adopted by the NIG, the NIG has passed the point where it is able to replace and maintain the optimum level of infrastructure. That is, the NIG does not, and is unlikely to have in the future the capacity to replace the assets and hence the wealth of the island to acceptable levels.

We have reviewed the asset management plan completed to date. Unfortunately not all the evaluations of the assets were completed at the time of our review. However the table on the following page shows a summary of the reports completed to date and highlights the significant and imminent hurdle faced by the NIG.

1. SUMMARY

Following is a summary of the life cycle costings prepared for all built assets and infrastructure audited to date:

Facilities	Non-Statutory Backlog Total		Statutory Backlog Total		Preventative Maintenance Total	Reactive Maintenance Total	Capital Replacement Total	Capital Investment Total	Total Expenditure
	Maint.	Refurb.	Maint.	Refurb.					
Hospital	\$29,300	\$20,000	\$800	\$31,900	\$306,900	\$413,300	\$1,390,050	\$151,000	\$2,343,250
Public Library	\$1,150			\$3,000	\$3,000	\$52,350	\$11,100	\$5,000	\$75,600
Radio	\$1,250		\$50	\$2,000	\$13,700	\$75,800	\$41,500	\$55,000	\$189,100
Telecom	\$1,900		\$400	\$7,000	\$678,400	\$429,550	\$587,600	\$4,500	\$1,709,350
Roads	\$37,200	\$31,270,000				\$13,593,040	\$37,880,000	\$3,300,000	\$86,080,240
Police Station	\$1,950		\$100	\$5,100	\$30,000	\$105,700	\$15,500		\$158,350
Radio Shack	\$200		\$7,500	\$78,500			\$4,000		\$90,200
Rawson Hall	\$12,600		\$1,450	\$11,500	\$63,700	\$151,600	\$133,300		\$374,150
Satellite Building	\$2,200		\$7,500	\$64,000			\$29,400		\$103,100
Airport	\$33,400		\$1,400	\$4,900	\$725,000	\$466,600	\$592,000	\$12,960,000	\$14,783,300
Bicentennial centre	\$27,300		\$1,100	\$14,300	\$151,700	\$498,900	\$365,200	\$80,000	\$1,138,500
TOTALS	\$148,450	\$31,290,000	\$20,300	\$222,200	\$1,972,400	\$15,786,840	\$41,049,650	\$16,555,500	\$107,045,140

At this point of time, cash flow is adequate to meet day to day operational activities should no capital expenditure occur. We estimate that if the NIG undertook their normal level of capital replacement they would run out of cash in September 2008.

The unfortunate issue is that the NIG's normal level of capital expenditure has been inadequate to maintain the level of services and living standards of the residents. There is simply not enough cash (nor future revenue generating opportunities) for the NIG to undertake the required asset and maintenance expenditure and hence we conclude that their position is one of un-sustainability.

We would strongly emphasise that the timing of the recognition of un-sustainability is critical. It is far easier to develop rescue plans 12- 18 months out from a point of insolvency rather than at the point of insolvency.

In summary we make the following comments with regards to assets and infrastructure investments.

1. In two years the NIG will not have the capacity to maintain existing assets;
2. The NIG is incapable of sustaining any further debt for any non-revenue producing capital investments, in particular infrastructure expenditure such as roads, schools, hospitals, harbour areas or internal government capital expenditure (ie. system upgrades) ;
3. In terms of both a financial and an economic fiscal management perspective, the management of public assets over the last 20 years can only be described as less than optimal. If not addressed immediately we predict a major deterioration in the living standards for a majority of the permanent residents of Norfolk Island within two to three years.

4. REVIEW OF MAJOR GOVERNMENT BUSINESS ENTERPRISES

All significant GBEs were included in the financial review. The remainder of this section is an analysis of each GBE reviewed and includes:

- A snapshot of their actual and forecast financials;
- A commentary on their financial position; and
- A discussion of risks and issues confronting each GBE.

4.1.1 Overall observations

The review showed that the majority of GBEs have maintained a stable revenue base but employee costs have increased markedly. In order to maintain the historical levels of dividends, capital maintenance and investment programmes have been delayed resulting in a run down of infrastructure assets.

Electricity generation has traditionally been profitable, however, rising fuel prices and the inability to raise prices further has resulted in an inability to maintain dividend levels.

In an optimum environment, governments develop policies which take into account the future capital investment needs of GBEs before determining dividend levels. The NIG has not developed such a policy which has resulted in asset stripping, a lack of consistency in dividends from year to year and deterioration in infrastructure.

4.2 NORFOLK ISLAND HOSPITAL

	Actual		Forecast		
	2003/04	2004/05	2005/06	2006/07	2007/08
Revenue	2,492,948	2,813,962	2,895,000	3,165,000	3,468,000
Expenditure *	3,568,108	3,673,966	3,667,000	4,215,368	4,675,220
Net Position	(1,075,160)	(860,004)	(772,000)	(1,050,368)	(1,207,220)
Capital Requirements	n/a	n/a	372,600	269,600	249,600
Dividend to NIG	(843,500)	(843,500)	n/a	n/a	n/a
Dividend as % of Revenue	(34%)	(30%)	n/a	n/a	n/a

* Excludes Depreciation, Management Fees and Dividends paid to the NIG

Table 6

The Norfolk Island Hospital is operated by the Norfolk Island Hospital Enterprise (NIHE) and under the *Hospital Act 1985* is responsible for the efficient and effective management of the hospital.

4.2.1 Financial Position

The hospital is partly funded by a subsidy from the NIG (\$843,000 in 2004-05) which over the last four years has equated to approximately 23.2% of revenue. The hospital charges Norfolk Island residents for most services based on the scheduled fees prescribed by the Australian Medicare system even though Medicare does not operate on Norfolk Island. Tourists are charged an additional surcharge of ninety percent for services. The Hospital Pharmacy, the only one on the island, also makes a contribution to the overall funding of the hospital. Over the past four years this contribution to overall operating costs has on average exceeded \$175,000.

Under the current funding policies revenues from each of the core medical services fails to recover costs. Over the past four years salaries have exceeded 58% of total expenses. Unlike the remainder of the public sector there has been only a minimal increase in salaries of approximately 0.5%. Consistent with the mainland the hospital has also incurred increases in insurance premiums of approximately 370% over the last four years. In an environment of near static funding this has required funds to be redirected from maintenance and capital expenditure activities to cover increased operating costs.

Historically the hospital has been able to maintain the book value of its plant and equipment, however the estimated capital requirements for medical equipment over the next five years to be \$1.09 million. This ignores the need for significant maintenance requirements of the hospital estimated to be \$0.3 million over the same period.

4.2.2 Risks and Issues

The main issues facing the hospital are an ageing of the population and the increasing age of the hospital buildings.

The ageing of the population is already impacting on the hospital with twelve of the hospitals twenty six beds allocated to aged care. The hospital provides the only aged care facility on the island. Whilst this is currently not an issue there has been a significant increase in occupancy in recent years. Recent changes to the pricing of aged care beds has resulted in an improved recovery of costs whilst changes in collection from the welfare system has resulted in 75 percent of aged pensions of those permanently in hospital being paid directly. While hospital management believes the hospital is currently able to deal with the ageing of the

population an assessment has to be made of the hospital's ability to cope beyond three years.

The ageing hospital buildings will put significant financial pressure on the hospital's financial operations. In recent years the normal maintenance of the building has not occurred due to the overall fiscal position of the NIG. There is also a need for the ultimate replacement of the hospital within ten to fifteen years.

4.3 AIR NAURU CHARTER FLIGHTS

	Actual		Forecast		
	2003/04	2004/05	2005/06	2006/07	2007/08
Revenue	-	486,089	11,696,000	14,618,000	14,619,000
Expenditure *	-	1,116,947	12,769,000	12,602,000	12,608,000
Net Position	-	(630,858)	(1,073,000)	2,016,000	2,011,000
Capital Requirements	n/a	n/a	-	-	-
Dividend to NIG	-	(630,858)	n/a	n/a	n/a
Dividend as % of Revenue	n/a	(130%)	n/a	n/a	n/a

* Excludes Depreciation, Management Fees and Dividends paid to the NIG

Table 7

As a result of Norfolk Jet Express (NJE) going into liquidation in early June 2005 the NIG was required to provide an air link between Australia and Norfolk Island. In June 2005 the government entered into a contract with Air Nauru under which the NIG provides air services using an Air Nauru aircraft. Under this agreement the NIG charters the aircraft from Air Nauru but is responsible for all ticket sales. The NIG has a secondary agreement with Qantas to provide ticket services and baggage handling for which Qantas is paid a 19% commission on all ticket sales.

4.3.1 Financial Position

In order to maintain tourism numbers and confidence the NIG agreed to recognise tickets sold by the then defunct NJE. As a result in the initial period the NIG made significant losses on the airline as it was required to pay Air Nauru almost \$200,000 a week with minimal income. Consequently, during the first four months expenditure exceeded receipts by more than \$1 million dollars.

Based on the capacity of the Air Nauru plane and historical Australian travelling patterns the maximum number of tourists that can be transported from the mainland is approximately 20,400. In this instance, based on current ticket pricing it is estimated the profit in 2006-07 would be \$2.0 million from the charter flight agreement. In addition to this the NIG would receive an additional \$1.2m by way of landing fees to the Norfolk Island Airport. From our calculations, the operation of the Air Nauru charter is profitable and will continue to be profitable should tourist numbers remain at current levels.

OPERATING STATEMENT (FORECAST 2005-06)	
REVENUE	
Tourist Sales (at \$540 per return flight)	11,046,000
Resident Sales (at \$500 per return flight)	1,870,000
	<u>12,916,000</u>
Add: Ticket taxes	
- Fuel Levy	1,142,000
- Insurance	290,000
- Landing Fees (Norfolk)	1,084,000
- Landing Fees (Brisbane / Sydney)	711,000
	<u>3,227,000</u>
Less: Qantas booking fees	(2,453,000)
Add: Air Freight & Mail	600,000
NET CHARTER REVENUE	14,290,000
LESS: EXPENDITURE	
Air Nauru Contract (\$833,150 per month)	9,998,000
Ticket Taxes	
- Insurance	290,000
- Landing Fees (paid to Norfolk Island airport)	1,282,000
- Landing Fees (Brisbane / Sydney)	841,000
Salaries and Wages	31,000
Sundry costs	160,000
	<u>12,602,000</u>
NET CONTRIBUTION TO GOVERNMENT REVENUE	1,688,000
Add back: Landing Fees paid to Norfolk Island Airport	1,282,000
REAL CONTRIBUTION DIRECTLY THE NIG	2,970,000

Table 8

4.3.2 Risks and Issues

The main risks facing the NIG associated with the current contract is that Air Nauru only has one aircraft and is only required to give eight weeks notice to remove the aircraft from the route.

Secondly, the use of Air Nauru restricts the capacity to increase tourist numbers to the Island. Accordingly the NIG is negotiating with other airlines that operate larger planes.

4.4 NORFOLK ISLAND ELECTRICITY

	Actual		Forecast		
	2003/04	2004/05	2005/06	2006/07	2007/08
Revenue	3,095,735	3,105,984	3,257,000	3,169,000	3,169,000
Expenditure *	2,123,390	2,379,632	3,190,000	3,358,000	3,645,000
Net Position	972,345	726,352	67,000	(189,000)	(476,000)
Capital Requirements	n/a	n/a	40,000	-	-
Dividend to NIG	80,000	285,000	n/a	n/a	n/a
Dividend as % of Revenue	3%	9%	n/a	n/a	n/a

* Excludes Depreciation, Management Fees and Dividends paid to the NIG

Table 9

Norfolk Island Electricity maintains the electricity generation equipment and the reticulation network for all of Norfolk Island. Currently all electricity is generated from diesel fuel generators.

4.4.1 Financial Position

Revenue from the sale of electricity in the 2004-05 financial year was \$3.06 million which has steadily increased from \$2.66 million in the 2000-01 financial year. This has been principally achieved through increased charges. Due to the lack of other taxation options the NIG uses this monopoly to fund other government functions. The price of electricity is currently set at \$0.44 per kilowatt hour which has increased significantly in recent years due to upward trends in world fuel prices.

The primary cost of electricity generation on Norfolk Island is diesel fuel which at 1 October 2005 cost 0.9635 per litre; this translates to a production cost of \$0.29 cents per kilowatt hour (based on 3.32 kilowatts per litre).

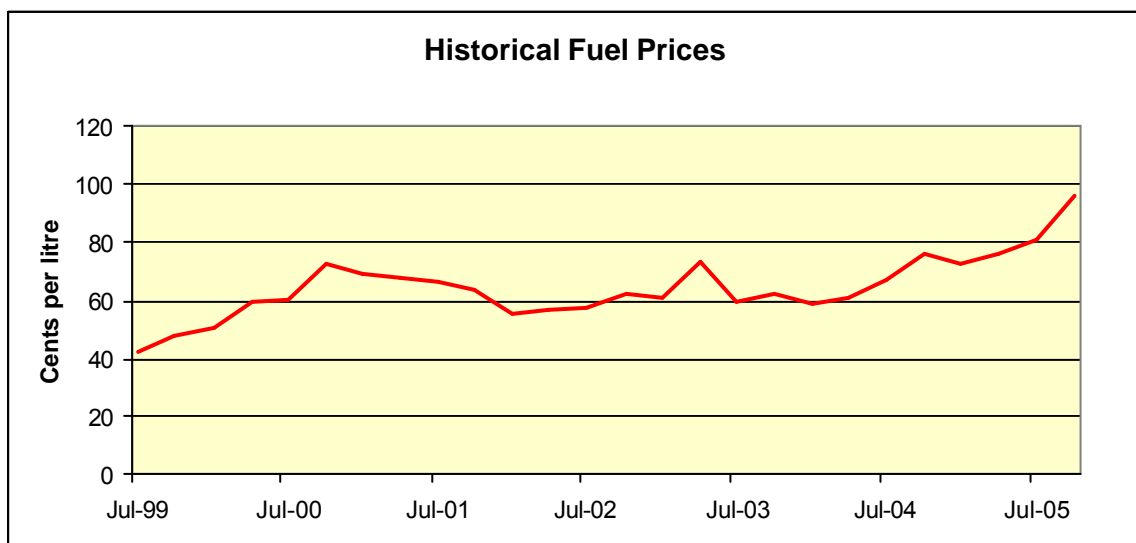


Diagram 13

Based on the financial statements as at 30 June 2005 the electricity generators are nearing the end of their useful life and are written down to 21% of their original cost (31% as at 30 June 2002). The island currently has six operational generators which to replace would cost an estimated \$1 million each. The electricity manager stated that the written down value of the assets does not reflect the useful life of a generator if it is well maintained. He feels though maintenance costs are steadily increasing (currently around \$150 thousand per annum) that only two generators require replacement in the next five years with the rest in approximately ten years. Based on current demand the reticulation network is adequate for the foreseeable future

4.4.2 Risks and Issues

The island's dependency on diesel fuel for electricity is causing significant pressure on the NIG due to spiralling cost of fuel which has increased by more than 26% in the last six months. It is feared if prices continue to increase that the cost of production may become higher than the price that can be collected from consumers. If it is assumed that fuel prices increase at ten percent per annum over the next five years the fuel cost by 2010 would be \$0.47 per kilowatt hour (currently \$0.29). Based on current consumption and cost structure, if the NIG is unable to increase the price paid by consumers the cash deficit in 2009-10 will be \$1.9 million as against the \$0.6 million surplus before depreciation in 2004-05.

There has been a realisation by the NIG that the use of diesel fuel is not sustainable and an alternative power source is required in the medium term. Feasibility studies undertaken by the NIG indicate that the best options for Norfolk Island are either tidal or wind power. However, as stated earlier, the NIG does not have the necessary capital funds to invest in alternative power sources.

4.5 NORFOLK ISLAND LIQUOR SUPPLY

	Actual		Forecast		
	2003/04	2004/05	2005/06	2006/07	2007/08
Revenue	4,487,277	4,101,072	3,961,000	3,959,000	4,071,000
Expenditure *	3,146,206	2,889,120	2,833,000	2,830,000	2,884,000
Net Position	1,341,071	1,211,952	1,128,000	1,129,000	1,187,000
Capital Requirements	n/a	n/a	50,000	50,000	25,000
Dividend to NIG	1,341,071	1,211,952	n/a	n/a	n/a
Dividend as % of Revenue	30%	30%	n/a	n/a	n/a

* Excludes Depreciation, Management Fees and Dividends paid to the NIG

Table 10

The Norfolk Island Government Liquor bond has the sole authority for the importation and sale of liquor products to Norfolk Island.

4.5.1 Financial Position

The pricing of liquor is based on a fixed mark-up percentage added to the landed cost. The mark-up percentage is dictated by the NIG and is applied to products based on class (i.e spirits, wines, light beer, mid strength beer or full strength beer). The current mark-ups applied range between 40% and 180%. The liquor bond is responsible for the collection of the liquor licensing fee which is charged on all sales to licensed premises at a flat ten percent on the retail price.

Besides the direct costs associated with the purchase of stock the main expense of the liquor bond is salaries and wages. As with the rest of the public service there has been a substantial increase in staffing costs without any offset in productivity gain.

The main asset of the liquor bond is stock which at anytime is between \$0.4 and \$1.0 million. Average stock levels through out the year are \$0.5 million with a substantial spike in the lead up to Christmas. The only capital requirements in the next five years are a new shop fit-out and carpet (\$50 thousand), delivery truck (\$25 thousand) and a website (\$10 thousand). Negotiations are currently underway to establish a duty free outlet at the airport; this should not have significant costs over and above a shop fit-out (\$50 thousand).

4.6 NORFOLK TELECOM

	Actual		Forecast		
	2003/04	2004/05	2005/06	2006/07	2007/08
Revenue	3,786,179	4,124,957	3,413,000	3,396,000	3,423,000
Expenditure *	2,049,382	2,140,313	3,268,000	2,230,000	2,279,000
Net Position	1,736,797	1,984,644	145,000	1,166,000	1,144,000
Capital Requirements	n/a	n/a	809,300	-	1,000
Dividend to NIG	1,940,000	92,000	n/a	n/a	n/a
Dividend as % of Revenue	51%	2%	n/a	n/a	n/a

* Excludes Depreciation, Management Fees and Dividends paid to the NIG

Table 11

Norfolk Telecom provides the public with both local and international telecommunications services. These services include the provision of local public switched communications, international direct dialling (IDD) and the operation of the Norfolk Telecom ISP (internet service provider). The provision of off island telecommunications is made possible via an operating agreement between Reach Global Services Limited and the NIG.

4.6.1 Financial Position

Norfolk Telecom does not charge for local telephone calls but instead charges an over inflated per minute price for IDD calls. It is perceived that having such a pricing structure will enable the revenue from IDD calls to compensate for and provide the ability to have free local phone calls, thus targeting tourists as the main source of income. This strategy has enabled Norfolk Telecom to consistently pay a dividend in excess of \$1 million to the NIG.

The operation of the Norfolk Telecom ISP has proved to be another major source of revenue for Norfolk Telecom. During the 2004/05 financial year Norfolk Telecom has implemented ADSL broadband to supersede the old dial up service and provide a faster, more reliable internet connection.

At present Norfolk Telecom has a contract with Reach Global Services who provide the satellite telecommunications link for both inbound and outbound IDD traffic. The operating charges from the Reach Global Services contract make up the largest source of expenditure for Norfolk Telecom. Since its inception more than four and a half years ago the charges under the 'Reach contract' have become somewhat burdensome for Norfolk Telecom. The pricing under the current contract is higher than the current market price for such services. However, the 'Reach contract' is due to expire in April 2006, at which point Norfolk Telecom has the ability to negotiate a new contract with another carrier.

Staff salary and wages costs are the second largest item of expenditure for Norfolk Telecom and constituted some 27% of all expenditure over 2004/05. Staff costs have been consistently high, growing at an average rate of 5.3% during the past four years.

The NIG commissioned a report to develop a ten year strategic telecommunications plan for Norfolk Telecom. The plan recommended the implementation of Broadband technology as well as a GSM cellular mobile network. As a result, Norfolk Telecom has recently introduced ADSL Broadband technology to the island at a speed of 128 Kbits/s. Broadband is now available to the majority of the island with only a handful of private residences not being included in the coverage as the investment in infrastructure to include these properties far outweighs any future returns.

In the very near future Norfolk Telecom will be requesting tenders for the implementation of a GSM cellular mobile network on the basis of the recommendations outlined in the strategic telecommunications plan. It is envisaged that initial installation costs of the GSM network will be in the vicinity of \$800,000.

Although Norfolk Telecom consistently produces profits in excess of \$1 million, these profits are generally transferred to the NIG to fund other government operations. As Norfolk Telecom has not been able to set aside its profits for future capital requirements it is unclear how the installation of the GSM network will be funded.

4.6.2 Risks and Issues

As Norfolk Telecom is highly dependant on IDD call charges for revenue, it is imperative that the illegal use of voice over internet protocol (VoIP) software such as Skype is kept to a minimum. VoIP software enables users to make free international phone calls via a computer and internet connection, thus bypassing the toll on IDD calls. There is a real possibility that the use of VoIP software will seriously erode the profits of Norfolk Telecom on which the NIG relies heavily to provide funds for the Norfolk Island community.

The recent 'Norfolk Telecom – Ten Year Strategic Telecommunications Plan' report shows the projected profit and loss for Norfolk Telecom to 2015. However, we have a number of reservations over the financial viability of this plan. These reservations centre on the optimistic projected revenues for both the proposed GSM network and ADSL Broadband network. We would recommend further evaluation to ensure the validity of the numbers and the assumptions made within the report to arrive at these projections.

4.7 Norfolk Island Airport

	Actual		Forecast		
	2003/04	2004/05	2005/06	2006/07	2007/08
Revenue	1,970,428	2,264,822	1,684,000	1,772,000	1,772,000
Expenditure *	1,009,872	1,541,672	1,809,000	2,907,000	2,920,000
Net Position	960,556	723,150	(125,000)	(1,135,000)	(1,148,000)
Capital Requirements	n/a	n/a	12,039,700	-	250,000
Dividend to NIG	90,000	285,000	n/a	n/a	n/a
Dividend as % of Revenue	5%	13%	n/a	n/a	n/a

* Excludes Depreciation, Management Fees and Dividends paid to the NIG

Table 12

The Norfolk Island Airport consists of two asphalt sealed runways, an asphalt sealed apron from the primary runway leading to the airport terminal and the terminal itself. The operation and management of the airport was handed over to the Norfolk Island Legislative Assembly in 1991.

Current airport traffic includes regular public transport (RPT) airlines servicing the island and various other non RPT airlines and light aircraft. The two major RPT airlines are Air New Zealand which utilises a Boeing 737-300 from Auckland and Air Nauru that operates a Boeing 737-400 from Sydney and Brisbane. The Air Nauru flights have been chartered by the NIG following the collapse of Norfolk Jet Express in early June 2005. The details of these charter flights are outlined in the section entitled 'Air Nauru Charter Flights'.

The airport receives the vast majority of its income (95.8%) from RPT landing fees based on a per passenger charge. These landing fees are included in the taxes, levies and charges paid by each passenger upon purchase of an airline ticket to Norfolk Island. The remaining income received by the airport is made up of smaller inflows such as income from investments and security screening charges.

As a result of Norfolk Jet Express collapsing on the 3^d June 2005 the Norfolk Island Airport has reported \$473,000 of bad or doubtful debts. The debt is in the form of landing fees owed to the airport by Norfolk Jet and a minimal amount, if any, is likely to be received from the Norfolk Jet liquidators.

During the past five years the Norfolk Island Airport has made a cumulative deficit of more than \$1.3 million which has been funded by accumulated surpluses. As a consequence, the airport has been unable to 'put aside' any cash for future capital requirements. As a result, now that resurfacing of both runways is required the NIG has found it necessary to finance this project through a \$12 million loan from the Commonwealth. The loan is essentially an interest free loan

(subject to several conditions) that originally required repayments on the first day of June and the first day of December in each year commencing on 1 June 2006 to 1 December 2015. The original agreement also stipulated that the NIG should make yearly deposits in to the 'Runways Trust Fund' from 30 June 2006 to 30 June 2020 and that the total minimum amount deposited, including the projected interest should be no less than \$17.5 million. Whilst the Australian Government has deferred both the repayments of the loan and contributions to the trust fund for 3 years, it would have been highly unlikely that the NIG would have been able to meet the repayments and deposit the required amounts in to the trust fund in the next two to three years. Furthermore, if the cost of the airport resurfacing project significantly exceeds the \$12 million loan and additional funds are required, it is unclear as to where these funds will be sourced.

The airport apron leading from the main runway to the airport terminal is also due to be resurfaced but has not been included in the resurfacing work scheduled under the \$12 million agreement. If the apron was to be included in the scheduled resurfacing work it would cost an estimated additional \$800,000 as the work could utilise the same machinery as that used for the runway resurfacing. However, if the resurfacing of the apron was delayed it would cost an estimated \$1.6 million as the large machinery would have to be re-sent to Norfolk Island in order to complete the work separately.

In addition to the resurfacing work the airport manager, as well as the customs and immigration manager has expressed a need to extend the airport terminal at an estimated cost of \$125,000. It is currently believed that the customs and immigration area within the terminal is far too small to effectively process both inbound and outbound passengers. The extension of the terminal would allow customs and immigration officers to carry out their tasks more effectively.

4.8 IMMIGRATION AND CUSTOMS

The Norfolk Island Customs section provides an assessment and collection of customs duty payable on goods imported into the Island, border protection and arrival and clearance formalities for passengers, aircraft and ocean vessels.

The customs duty received from imports is a major source of revenue for the NIG and is closely linked to tourist numbers. It has typically generated revenue of \$3.5 to \$3.9 million per annum during the past five years, while expenses for Customs and Immigration are generally around \$0.5 million. This trend is expected to continue in the foreseeable future despite revenues from customs duties declining by 11% over the past five years.

There are a number of capital requirements that have been highlighted by the Customs and Immigration manager. Firstly, both the immigration and the customs IT systems need to be upgraded at an estimated cost of \$200,000. Secondly, a mezzanine floor is required at the Customs office at Burnt Pine at a cost of \$45,000. Finally, as outlined earlier under the airport section, an extension to the arrivals hall of the airport terminal at a cost of \$125,000 is required.

At present, goods imported are not held by customs until the relevant duty is paid. Instead, the goods are collected by the owners immediately after they have been landed and the duty is then paid at a later date. As customs officers are not able to reconcile physical items against invoices (on which the duty to be paid is based) there is potential for the importer to evade duties payable to the NIG. Consequently there is a need for a holding warehouse to be built so that imported goods can be held until such time as the duty is paid. This will ensure customs duty is paid on a timelier basis and customs officers will be able to reconcile physical goods with the invoices on which the duty is based. We are unable to determine the cost of building such a facility and have not included this in our capital projections.

4.9 WATER ASSURANCE FUND

	Actual		Forecast		
	2003/04	2004/05	2005/06	2006/07	2007/08
Revenue	527,166	612,945	563,000	573,000	583,000
Expenditure *	400,755	394,593	600,000	575,000	588,000
Net Position	126,411	218,352	(37,000)	(2,000)	(5,000)
Capital Requirements	n/a	n/a	147,000	147,000	147,000
Dividend to NIG	25,000	20,000	n/a	n/a	n/a
Dividend as % of Revenue	5%	3%	n/a	n/a	n/a

* Excludes Depreciation, Management Fees and Dividends paid to the NIG

Table 13

The Water Assurance Fund can be broken down into two sections, namely water assurance and waste management. The objective of the water assurance section is to develop, maintain and operate the Water Assurance Scheme as well as approve and inspect sewer connections and septic tanks. The Waste Management Centre provides a facility for sorting household and business waste for recycling and processing.

The water assurance fund obtains the vast majority of its revenue from two sources. The first is effluent disposal charges that are based on a per household fee for private residences and a per customer fee for commercial properties. These charges are generally increased in line with inflation. The second major source of revenue is the waste management levy. This levy was introduced during 2003/04 based on a flat fee of \$15 per cubic meter of imported goods and has not been increased since its inception.

Salaries and wages constitute the Water Assurance Fund's largest expense with the majority coming from the labour intensive waste management section. The salaries and wages from this section represented 81% of the revenue received from the waste management levy during 2004/05.

In general, the Water Assurance Fund collects enough revenue to cover its day-to-day operating expenses. As a result, deficits have not exceeded \$40,000 and surpluses have not exceeded \$70,000 (excluding revenue from internal asset transfers) during the past five years. However, this has led to insufficient funds for capital investments, which in the past have been sourced from the NIG or through Commonwealth grants.

At present, the NIG has postponed \$310,000 worth of the Water Assurance Fund's capital requirements. These requirements include plant and equipment for waste management and sewerage treatment as well as buildings and other infrastructure. In addition to this, the Water Assurance Fund requires \$200,000 to establish a facility to turn sludge into garden fertiliser and a further \$220,000 for various other small capital investments.

4.10 NORFOLK ISLAND GOVERNMENT TOURIST BUREAU

The Norfolk Island Government Tourist Bureau (Bureau) is a body corporate whose primary functions are to encourage travel to and around Norfolk Island, seek feedback on Norfolk Island tourism and offer advice to the NIG on any matters concerning Norfolk Island tourism.

The major costs for the Bureau are supplier and services expenses with 74% of costs borne from advertising, promotions and trade shows. There is prevailing thought within the NIG that greater expenditure in this area will lead to an increase in tourists. However, spending in these three areas has increased by 32% over the past four years while tourist numbers have increased by only 0.6% over the same period.

By far the largest source of revenue for the Bureau is the annual government grant from the NIG. The grant given to the Bureau for 2004/05 was \$950,000 compared to the next largest revenue source, fees and commissions, which constituted \$78,000 for the same year.

As a result of increased spending on advertising, promotions and trade shows without increased revenues (excluding the government grant) the Bureau has experienced losses for the past three financial years. These losses have been funded through increases in the grant from \$826,000 in 2002 to \$950,000 in 2005. In addition to these losses, liabilities of the Bureau have consistently increased, while total assets have decreased. This suggests that the NIG will have to fund the Bureau's ever increasing deficits if the current belief that tourist numbers hold the single key to the islands future economic success continues.

The Bureau does not have a large amount of capital infrastructure and does not plan to expand its current operations. As a result, both current and future capital expenditure is expected to be minimal.

5. THE RELATIONSHIP BETWEEN TOURIST NUMBERS AND NIG REVENUE

Both the NIG and the private sector on Norfolk Island are heavily geared towards tourism. Furthermore, the NIG is reliant on the private sector for additional revenue through the provision of services and various duties. As a result, sustained decreases in tourist numbers will lead to decreased direct revenue for the NIG and a shrinking private sector will compound the problem further.

Many of the GBEs consciously target tourists as their main source of revenue. This scenario is no more prevalent than in Norfolk Telecom where international calling charges are severely inflated while local calls remain free. Therefore, it comes as no surprise that an analysis of the relationship between tourist numbers and NIG revenues over the last ten years has revealed a positive correlation of 0.96. A correlation of such a high statistical magnitude indicates significant dependency and total elasticity. As a consequence, any minor changes in tourist numbers incur a proportional and almost immediate impact on government revenues.

With this in mind we estimate that tourists directly contribute a minimum of 50% of the NIG's revenue. We are unable to determine the revenue that is generated directly from residents who are dependent on tourism for their livelihood, however a reasonable estimate of a further 20% would not, in our view, be unrealistic.

The recent decrease in tourist numbers paints a bleak picture for the NIG given the strong correlation outlined above and the high percentage of NIG revenue derived from tourism.

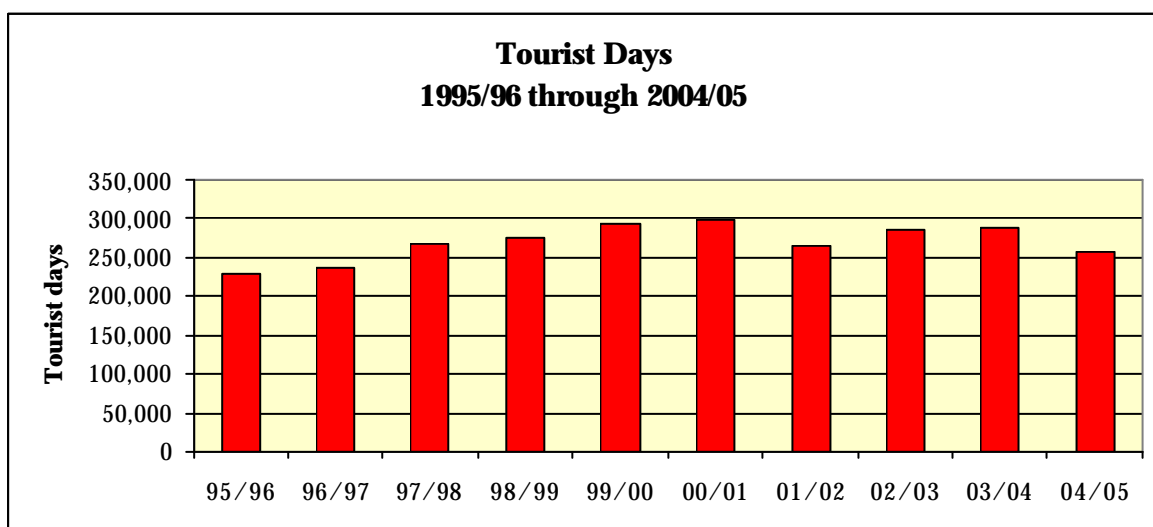


Diagram 14

6. QUALITY OF THE NORFOLK ISLAND GOVERNMENT FINANCIAL AND BUDGETARY INFORMATION

The relevant financial and budgetary information produced by the NIG is accurate, complete and adequate. However, the adoption of relevant accounting standards, true accrual accounting, more relevant management accounting and financial management techniques would enhance the financial decision making of the NIG.

There is a real need for stakeholders to be provided with relevant information on which to base their decisions. At present, only very limited, basic and high level information is produced. This information provides a general overview of the NIG but does not present financial information on which decisions can be made with a high level of certainty.

The budget developed by the NIG is an accounting budget based around levels of revenue and expenditure required to get from one year to the next. It is not a strategic economic statement in which holistic consideration is given to the achievement of long term macro and micro outcomes aimed at stimulating the economy, addressing pending social and environmental needs, providing for future generations and assuring long term sustainability and growth.



Australian Government

Commonwealth Grants Commission

**Review of the financial capacity
of Norfolk Island
2006**

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2006 FINAL REPORT

Review of the financial capacity of Norfolk Island 2006

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ELECTRONIC VERSIONS

The final report is available on the Commission's web site at <http://www.cgc.gov.au>.

The Commission's *Preliminary report on the financial capacity of Norfolk Island*, dated 30 June 2006, and related *Staff paper — supporting information, July 2006*, are also available on the website.



Australian Government

Commonwealth Grants Commission

Chairman Alan G Morris

Senator the Hon Richard Colbeck
Parliamentary Secretary to
the Minister for Finance and Administration
Parliament House
CANBERRA ACT 2600

Dear Parliamentary Secretary

As required by the terms of reference, which you sent to the Commission on 1 May 2006, we are writing to provide you with a final report on the financial capacity of Norfolk Island.

The Commission had provided a preliminary report to you on 30 June 2006.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alan Morris'.

Alan Morris
Chairperson

A handwritten signature in black ink, appearing to read 'Ross Williams'.

Ross Williams
Member

A handwritten signature in black ink, appearing to read 'Glenn Appleyard'.

Glenn Appleyard
Member

29 September 2006

Cypress Court, 5 Torrens Street, Braddon ACT 2612

Tel: (02) 6229 8811
Fax: (02) 6229 8809
Internet: www.cgc.gov.au
Email: alan.morris@cgc.gov.au

ACKNOWLEDGEMENTS

We are grateful for the ready co-operation extended to the Commission by the Norfolk Island Government and its staff, the Administrator and Official Secretary and their staff and the Australian Government Department of Transport and Regional Services. Without that co-operation, the completion of this report would not have been possible.

We acknowledge with gratitude the extensive participation of the Norfolk Island community, both in our discussions on the Island and by way of written submissions. These contributions added welcome depth and new dimensions to our understanding of the relevant issues.

We also acknowledge the dedication and professionalism of the staff of the Commission involved in the production of this report.

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OVERVIEW

THE TASK

- 1 The Commission has been asked to advise on how much financial assistance is needed from the Australian Government to enable State and local government-type services to be provided on Norfolk Island at comparable Australian levels (and existing debts to be serviced), if comparable Australian revenue raising efforts were made, and if services were delivered at the average level of efficiency. Advice on how much local government funding might be provided, consistent with local government funding arrangements applying in the rest of Australia, has also been sought.

THE AMOUNT OF ASSISTANCE

- 2 The history and geography of Norfolk Island have shaped a community with unique characteristics. When compared with similar sized communities elsewhere in Australia, including those on other small islands, the Norfolk Island Government delivers a different mix of services and raises revenue in very different ways. For example:
 - comparable communities would have access to a range of services or subsidies that are not presently available on Norfolk Island; in comparable communities there would be significant transport related expenses by government and subsidies to offset higher electricity costs;
 - comparable communities face very different user charging regimes for some services; for example, they pay less for their health and welfare services; and
 - comparable communities raise much more of their revenue from land.
- 3 We make no value judgment on the appropriateness of these different arrangements, but ask: what do other similar communities spend on the services they receive and how do they raise their revenue? That provides a guide as to how much it would cost to deliver a similar range of services and how much could be raised if similar revenue measures were introduced.
- 4 In preparing our estimates, we have recognised some special circumstances that affect the cost of service provision and the ability to raise revenue on Norfolk Island. Consistent with

our approach in other inquiries, we have excluded from that list special circumstances that arise from the policy decisions of the Norfolk Island Government.

- 5 The special circumstances we have recognised include:
- the remote location of the Island, which increases the costs of services;
 - the importance of tourism, with its implications for revenue raising capacity and service delivery in some areas;
 - the low level of wages, which reduces the cost of delivering services; and
 - the higher per capita costs of governing a small remote community, although we have not provided for the full costs of many State government head office functions.
- 6 We have concluded that the Australian Government would need to provide some \$9.1 million to enable comparable State and local services to be delivered on the Island, with comparable revenue efforts and with services delivered at average efficiency. Our estimate also allows for the existing loans to be repaid. Table 1 provides more information.

Table 1 Financial assistance required for comparable State and local government services on Norfolk Island, 2004-05

	2004-05	
	\$pc	\$'000
State-type financial assistance (A)	3 259	6 561
Local government financial assistance (B)	642	1 292
Loan repayment over 10 years (C)	596	1 200
Total financial assistance required (A) + (B) + (C)	4 497	9 053

- 7 The level of financial assistance we have identified can be broken down into several distinct components.
- Some \$3.3 million is required to close the existing government deficit for the State and local government sectors.
 - Some \$4.3 million is required for higher levels of expenses where current service provision is lower than in comparable communities, including some \$1.6 million to enable an operating subsidy to be paid to the electricity Government Business Enterprise (GBE) so that power could be sold to consumers at a tariff similar to that charged in comparable communities.
 - Some \$1.5 million is required to offset lower user charges, mainly in the health area, when those are set in line with comparable communities.
 - Overall assistance is reduced by some \$1.2 million from comparable revenue efforts.
 - \$1.2 million to allow the existing loans to be repaid, which was not included in 2004-05 estimates of Island expenses.
- 8 We think it is important to emphasise the following.

- We have made no adjustments to the 2004-05 data we have used in reaching our conclusions about the fiscal capacity of Norfolk Island, to account for possible changes to governance arrangements or for the possible introduction of Australian Government services or taxes. Such changes could have a significant impact on the fiscal capacity of Norfolk Island. For example, if income tax were imposed, wage and salary levels would be likely to increase and prices of goods and services could increase. These changes would have wide ranging implications for the assessments of revenue raising capacity and expenses that we have undertaken, as they would impact on both tax bases and the cost of providing government services. The other studies the Australian Government has commissioned on the effect of different governance and taxation arrangements may allow the Australian Government to adjust our estimates.
- As our estimates relate to 2004-05 data, they would need to be adjusted for any more recent data on Island population, tourist numbers, movements in wages and prices, and in economic conditions before use.
- Different decisions could be made on what services to provide or how revenues are collected from Norfolk Island from those of comparable State and local governments. This would mean that what services cost or what revenue is actually raised would differ from our assessments.
- The assessments of service cost often rely on the observed cost in comparable communities, adjusted for known special circumstances on the Island. If services were delivered in a different way, say with a different level of efficiency, costs could be higher or lower than we have estimated. If a service were provided by a contractor, the price could be marginal or average cost-based and could differ from our estimates. Decisions on how services are actually delivered may mean that costs differ from those we have estimated.

LOCAL GOVERNMENT ASSISTANCE

- 9 We have provided estimates of how much assistance might be provided to local government under the two models currently in use elsewhere in Australia. In both we have included a provision for local road funding and specific purpose payments (SPPs) consistent with the treatment of other local governments.
- 10 If funding for local government were provided in the same way as for local government through the States or to the ACT, then total funding of some \$187 000 would need to be provided to Norfolk Island. That would be based on a common per capita figure, rather than geared to the financial capacity of local government on the Island. Table 2 provides further information.

Table 2 State/ACT -type funding for local government funding, 2004-05

	2004-05	
	\$pc	\$'000
General purpose funding	53	107
Local roads funding	24	48
Australian Government SPPs	16	32
Total	93	187

- 11 If funding for local government were provided in the same way as for the Indian Ocean Territories (IOTs), we estimate local government funding from the Australian Government at \$1.3 million. This requires more financial assistance than the option above because it is based on the financial capacity of local government on the Island. Table 3 provides further information. In compiling this estimate, we have not applied a scaling factor to the local government fiscal gap on the Island, although this is common practice in the IOT context. The Commission cannot make a judgment on the appropriate size of the scaling factor. That is a matter for government.

Table 3 IOT-type funding for local government 2004-05

	2004-05	
	\$pc	\$'000
Local government financial assistance from Table 4.2	642	1 292
Minus Australian Government local roads grants and SPPs for local governments	40	80
General purpose funds ^(a)	602	1 212
Plus Australian Government local roads grants and SPPs for local governments	40	80
Total	642	1 292

- (a) A scaling adjustment of about 90 per cent is commonly applied to this figure in the IOT context, but has not been applied here.

CHAPTER 1

INTRODUCTION

- 1 On 20 February 2006, the Minister for Local Government, Territories and Roads, the Hon Jim Lloyd MP announced the Australian Government's intention to consider alternative governance models for Norfolk Island in two broad categories — a 'modified self-government model' (with greater powers for involvement by the Australian Government than currently exist) and a 'local government model' (in which the Australian Government might assume responsibility for State-type functions).
- 2 The Minister also announced that the Government would seek advice, including from the Commonwealth Grants Commission (the Commission), about appropriate funding and governance arrangements. On 1 May 2006, the Hon Senator Richard Colbeck, the Parliamentary Secretary to the Minister for Finance and Administration gave terms of reference to the Commission. These are reproduced in Box 1-1.
- 3 The Commission's response to the terms of reference will form part of a range of advice that the Australian Government has sought to inform a decision on future governance arrangements. The Government has also sought advice from:
 - the Australian Bureau of Statistics (ABS), which released the results of a Norfolk Island Business Survey on 22 June 2006;
 - the Centre for International Economics, which is undertaking an economic impact assessment of the proposed governance changes; and
 - all Australian Government agencies, which are reviewing legislation, programs and services to identify any issues that could arise from their extension to Norfolk Island.
- 4 The Commission has been asked to advise on how much financial assistance the Australian Government would need to provide to enable State and local government-type services to be provided on the Island at comparable Australian levels, if comparable Australian revenue raising efforts were made, and if services were delivered at the average level of efficiency. Advice on how Norfolk Island might be funded, consistent with local government funding arrangements applying in the rest of Australia, has also been sought.

- 5 The Commission has not been asked to consider the capacity of Norfolk Island to pay Australian Government taxes, such as income tax or a goods and services tax, or the cost of delivering Australian Government-type services, such as Medicare and social security benefits. Nor has it been asked to make a judgment about the mix and rates of taxes that should be collected on Norfolk Island or the types and levels of services that should be provided. That is a matter for governments.

Box 1-1 Terms of reference for the Norfolk Island Inquiry 2006

Pursuant to Section 16C of the Commonwealth Grants Commission Act 1973, I ask the Commission to advise on the financial capacity of Norfolk Island (henceforth, the Island) to provide State and local government services comparable to the services available in comparable communities in the States and Territories (henceforth, the States)¹, having regard to the circumstances of the Island and assuming that the Island makes the Australian average revenue raising effort from its State and local government equivalent revenue bases and that the Island operates at the average level of efficiency.

In particular, advice is sought on:

- (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island Government operates at the same level of efficiency as State and local governments;
- (ii) the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges;
- (iii) the amount of financial assistance needed from the Australian Government to allow the Island to meet the cost of providing the services mentioned above (including the actual cost of servicing its existing loan agreements) having regard to the Island's capacity to raise revenue also mentioned above; and
- (iv) how much local government funding the Australian Government might provide to Norfolk Island on a basis consistent with local government funding arrangements applying in the rest of Australia.

The Commission is to provide a preliminary report by end June 2006 and a final by the end of September 2006.

APPROACH TO THE INQUIRY

- 6 We have conducted the inquiry in two stages.
- 7 In the first stage, an issues paper (*CGC 2006/1 Review of the financial capacity of Norfolk Island*) was released on 24 February 2006. Submissions on the issues were sought by 7 April 2006.

¹ In the remainder of this report, the words 'State' and 'States' include the ACT and the Northern Territory unless the context indicates otherwise.

- 8 Following the release of the issues paper, the Chairman of the Commission and a staff member visited the Island from 8 to 11 March 2006. They met with elected representatives and others on the Island and conducted a public meeting.
- 9 Thirty-nine submissions have been received from the Norfolk Island Government and other interested parties. Some submissions raised issues that went beyond the terms of reference. These issues have been referred to the Departments of Transport and Regional Services (DOTARS) and the Treasury, as appropriate. A list of the submissions received is at Attachment F and, apart from four submissions for which confidentiality was requested and a petition, copies are available on the Commission's website, <http://www.cgc.gov.au/>.
- 10 Commission staff visited the Island during the period 3 to 6 May 2006 to conduct further inquiries, focusing on collecting relevant information. The Norfolk Island Government Administration provided data on the Island's finances and operations. Discussions were also held with service providers, such as at the school and the hospital.
- 11 Delivery of a preliminary report to the Minister on 30 June 2006 and preparation of a supporting information paper by staff concluded the first stage of the inquiry.
- 12 In the second stage, we held a conference on the Island on 17 and 18 August 2006 to discuss issues raised by the preliminary report with the Norfolk Island Government, its Administration and other interested parties. These consultations were important in testing staff estimates contained in the report against Island views. It also provided an opportunity to check the accuracy of our understanding of Norfolk Island circumstances and to close any outstanding data gaps. It was an essential part of the process leading to the final report.
- 13 The changes in the assessments since the preliminary report are the result of that consultation process and the receipt of additional information. The main changes include the introduction of specific factors to recognise the special circumstances of Norfolk Island — its wage levels, its isolation and large number of tourists — and the inclusion of an assessment to allow a Norfolk Island 'State' government to subsidise the cost of generating power so that tariffs comparable to comparable communities in the rest of Australia can be charged.

METHODS

- 14 The Commission has been asked by the Australian Government for advice on how much financial assistance the Australian Government might provide, assuming that the Island makes the Australian average revenue raising effort, to allow Norfolk Island to meet the cost of providing State and local government services:
 - 'comparable to the services available in comparable communities';
 - 'having regard to the circumstances of the Island'; and
 - assuming 'that the Island operates at the average level of efficiency'.

- 15 We have not considered how the total financial assistance might be provided. For States and local governments, it is provided as a mix of general revenue assistance, which can be spent as governments wish, and specific purpose assistance, which must be spent on the purpose for which it is provided. Our recommendations relate only to the total amount that might be provided.
- 16 To answer the question of how much financial assistance in total might be provided, we have calculated:
- how much revenue could be raised from comparable State and local government taxes (Norfolk Island's revenue raising capacity); and
 - what it would cost to deliver comparable State and local government services (its required expenses).
- 17 We did this in a way which recognised what is done in comparable communities, how the circumstances of the Island influence revenue raising capacity and required expenses, and what is sensibly meant by the average level of efficiency of operation.
- 18 We have used approaches similar to those used by the Commission in its State finances work and in the 1997 Norfolk Island Inquiry², modified to reflect the current terms of reference.
- 19 We are aware of a range of reports on Norfolk Island³, but we have not used the data or conclusions in them to answer the questions we have been asked. We have undertaken the inquiry independently and used our own judgment to reach the conclusions in this report.
- 20 We have based our conclusions on what the data for 2004-05 and our own investigations revealed about the fiscal capacity of Norfolk Island. Importantly, we have made no adjustments to the data to account for possible changes to governance arrangements or for the possible introduction of Australian Government services or taxes. These changes could have a significant impact on the fiscal capacity of Norfolk Island. For example, if income tax were imposed, wage and salary levels would be likely to increase and prices of goods and services could increase. These changes would have wide ranging implications for the assessments of revenue raising capacity and expenses we have undertaken as they would impact on both tax bases and the cost of providing government services. The other studies the Australian Government has commissioned may quantify these impacts and the Australian Government would then need to adjust our estimates accordingly.

² Commonwealth Grants Commission, *Report on Norfolk Island 1997*, Australian Government Publishing Service, Canberra.

³ Joint Standing Committee on the National Capital and External Territories (JSCNCET) (2003), *Quis custodiet ipsos custodes? Inquiry into Governance on Norfolk Island*, Canberra. See www.aph.gov.au. JSCNCET (November 2005), *Norfolk Island Financial Sustainability: The Challenge — Sink or Swim*, Canberra. See www.aph.gov.au. Acumen Alliance (November 2005), *Norfolk Island Government Financial Advisory Report*. See www.dotars.gov.au/localgovt/publications.

Comparable communities and the circumstances of the Island

- 21 The terms of reference ask us to advise in relation to 'services comparable to the services available in comparable communities' in the States, 'having regard to the circumstances of the Island'. The comparable communities and special circumstances concepts are important. Together they recognise that while Norfolk Island requires services similar to those available in comparable communities, there might be circumstances that mean those services will not be provided at the same cost.
- 22 The terms of reference also recognise that the financial assistance should be calculated on the assumption that Norfolk Island makes the same effort to raise revenues as in a comparable community, unless there are circumstances that prevent this. We have adopted the range of taxes and charges observed in comparable communities in preparing our estimates. We have not sought to vary that observed tax policy to account for the special circumstances of Norfolk Island, for example, the importance of tourism to the economy.
- 23 In its work the Commission has generally considered Norfolk Island as being comparable to a small, remote community in an existing State, requiring State and local services, which such a community would receive from those two tiers of government. There is one exception. Current governance arrangements on the Island provide for a mix of State and local governments. Our estimates provide for the cost of both a local government legislature and administration and a State legislature and administration, appropriately scaled. If governance arrangements were to be different from this, our estimates would need to be adjusted accordingly.
- 24 The comparable community concept does not rely on a direct comparison with another actual community. We acknowledge that a community directly comparable to Norfolk Island may not exist, though different communities provide relevant comparisons for certain services. It is important to establish a base (from a comparable community) and to adjust this for the circumstances of Norfolk Island, such as its economy, demography, size and isolation.
- 25 We have used two approaches. Sometimes we have constructed a virtual comparable community using averages from real communities or the States as a whole, and made adjustments for Norfolk Island's special circumstances. For example, for most State revenue assessments, we have applied all-State average tax rates to Norfolk Island revenue bases. For many expense assessments, we have used the all-State average expense and adjusted this to reflect the lower salary levels that apply on Norfolk Island, the higher isolation costs and the impact of Norfolk Island's large tourist population. Sometimes we have used the King Island⁴ or Northern Territory experience to provide the base before adjustment.
- 26 Alternatively, we have used what actually happens on Norfolk Island, where the services are provided, or revenues raised, in a similar way to those in comparable communities in the rest

⁴ King Island is a remote and isolated island off the coast of Tasmania in Bass Strait. It had a population of 1632 in 2004-05 and a relatively healthy economy dependent on primary production and tourism.

- of Australia. Where appropriate, further adjustments were made to align service costs with a fully comparable level. School education is an example of a situation in which this model has been used. Service provision is by a teaching service contracted from the New South Wales Department of Education using the curriculum and the standards of that education system.
- 27 The choice of approach depended on the information available on each type of State or local government service, the way the service is delivered on the Island and availability of information for a comparable community.
- 28 In all cases, we undertook a reality check of how any special circumstances on Norfolk Island might affect how services are provided or revenues raised. For example, we sought evidence from the Norfolk Island community or other sources to check whether the expenses allowed would actually allow comparable services on Norfolk Island to be delivered. We also checked whether a special circumstance might prevent a type of tax being applied, or make it impractical because the Norfolk Island tax base would not sustain it.
- 29 We are aware that the ‘Norfolk way’, the way in which the Norfolk Island community supports its members, means that costs are often lower on Norfolk Island. We are also aware of certain unique styles of tax imposed on Norfolk Island, with no State or local government equivalent in the rest of Australia.
- 30 We have not treated the ‘Norfolk way’ as a special circumstance in our work. This is important. If a different range of services is chosen by a representative government, or they are provided in different ways, for example through the community based approach typified by the ‘Norfolk way’, that will result in either some excess fiscal capacity that can be used for other purposes or a fiscal gap that will need to be closed. The choices made about comparable communities and special circumstances for this report do not imply any expectation that Norfolk Island would be committed to the particular range and level of services and taxes on which the assessment has been made; nor that the ‘Norfolk way’ need be usurped.
- 31 The assessments measure the financial capacity to deliver a similar range and level of services as are provided in ‘comparable communities’ in the same way as they are provided in those communities, if comparable taxes are levied.

Average efficiency

- 32 The Commission’s terms of reference ask it to assume that an Island Government would operate at the average level of efficiency in its delivery of services. Therefore, the estimates that have been compiled are based on what it would cost to deliver the service at an average level of efficiency in comparable communities in the rest of Australia.
- 33 In general, we have assumed that the average level of efficiency is reflected in the average amount spent by the States or comparable communities. We have also considered whether the way a service is provided on Norfolk Island is with the same level of efficiency as in comparable communities.

- 34 There is one exception: overhead costs. Our assessments do not include the full allowance that might be required to enable Norfolk Island to cover the additional head office costs that it might incur if it were a State independently performing the full range of functions of, for example, a department of education, health or a separate treasury. We do not consider that necessary or sensible for a community of 2000 people.
- 35 In fact, current models of service delivery on Norfolk Island already outsource a range of such functions. So, whether argued from first principles or from a comparison with current practice, we consider that it is not necessary to assume that the full cost of maintaining head office type functions in the rest of Australia should be included in what it might cost to deliver services on Norfolk Island at the average range and levels provided in the States.
- 36 We have concluded therefore that, while some allowance for the higher per capita costs of general public services, such as the operation of the Legislative Assembly, is justified, large scale allowances for service delivery head office costs are not.

THE FINAL REPORT

- 37 This report answers the question of how much financial assistance might be needed from the Australian Government to allow Norfolk Island to meet the cost of providing comparable State and local government services, having regard to the Island's revenue raising capacity and other circumstances.
- Chapter 2 sets out our understanding of the circumstances of Norfolk Island and the issues of relevance to the Commission's response;
 - Chapter 3 provides our estimates of:
 - how much revenue could be raised from comparable State and local government taxes (Norfolk Island's revenue raising capacity); and
 - what it would cost to deliver comparable State and local government services, including the actual costs of servicing existing loan requirements (its required expenses); and
 - Chapter 4 provides estimates of how much financial assistance might be required from the Australian Government.
- 38 A number of attachments support these findings. These include comparisons of Norfolk Island's revenues and expenses with those of the States (Attachment A) and calculations of special circumstances adjustments, revenue raising capacity and required expenses (Attachments B to E).
- 39 We think it is important to emphasise the following.

- As discussed in paragraph 20, these estimates make no allowance for changes to the Island economy and circumstances that might occur consequent to changes to governance arrangements or to the possible introduction of Australian Government services or taxes.
- They relate to 2004-05 data which would need to be adjusted for any more recent data on Island population, tourist numbers, movements in wages and prices, and in economic conditions.
- Different decisions could be made on what services to provide or how revenues are collected from Norfolk Island from those of comparable State and local governments. This would mean what services cost or what revenue is actually raised would differ from our assessments.
- The assessments of service cost often rely on the observed cost in comparable communities, adjusted for known special circumstances on the Island. If services were delivered in a different way, say with a different level of efficiency, costs could be higher or lower than we have estimated. If a service were provided by a contractor, the price could be marginal or average cost based and could differ from our estimates. Decisions on how services are actually delivered may mean that costs differ from those we have estimated.

CHAPTER 2

DEALING WITH SPECIAL CIRCUMSTANCES

INTRODUCTION

- 1 The terms of reference ask the Commission to advise on the financial capacity of Norfolk Island, ‘having regard to the circumstances of the Island’. We have interpreted ‘circumstances’ as those characteristics of the Island, its people or community which would:
 - increase or reduce the cost of delivering similar services, compared to the cost in a comparable community elsewhere in Australia; or
 - vary the revenue that could be collected from comparable revenue policies.
- 2 These ‘characteristics’ are not matters of choice of those living on the Island. Rather they are inherent characteristics which have an impact on what revenue can be raised and what it will cost to deliver services. Importantly not all differences between the Island and comparable communities are treated as ‘special circumstances’. Those which arise because of policy choices on the Island are excluded.
- 3 The characteristics that make Norfolk Island different from many other Australian communities are:
 - its remoteness and isolation;
 - its island status;
 - its population characteristics, including the age distribution of its population and the large number of tourists on the Island at any one time;
 - its culture;
 - its economy, including its dependency on tourism and low wage levels; and
 - its governance arrangements.
- 4 Some of these differences are relevant to Norfolk Island’s financial capacity and are treated as special circumstances. Some are not. This chapter sets out our understanding of these circumstances. We have identified how the special circumstances of the Island might cause

its revenue raising capacity or what it might cost to deliver comparable services to differ from that of comparable communities. The details of the calculations pertaining to these special circumstances are provided in the attachments.

GENERAL DESCRIPTION

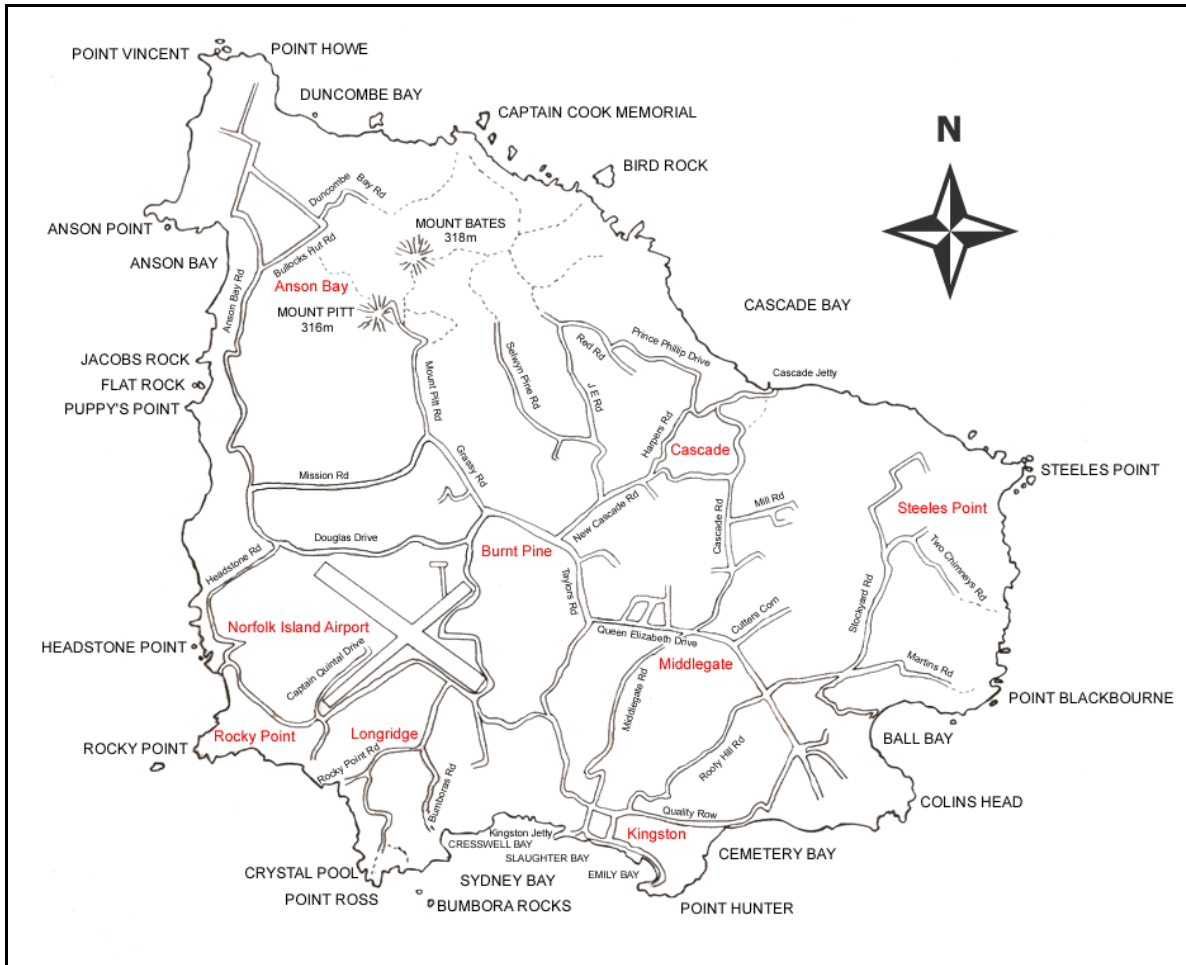
- 5 Norfolk Island is a small, isolated, fertile volcanic outcrop of about 34.5 square kilometres. The coastline of 32 kilometres consists largely of precipitous cliffs, except near Kingston in the south where there is a jetty and a coral reef. There is a more open jetty at Cascade Cliff in the north. There is no harbour, making landing difficult and, depending on the weather, dangerous.
- 6 In some respects, Norfolk Island appears similar to an established small Australian rural town. Its commercial area occupies a broad main street, from which rural type roads generally radiate to connect with locations on or near the coastline. Houses occupy land suggestive of ‘acreage’ developments on a town fringe. Some agricultural and pastoral activity is evident on these blocks and there are some larger holdings where rural activity predominates.
- 7 A variety of tourist accommodation is distributed across the Island. Some are large but their presence, and that of the tourists, is not so obvious as to detract from the country town feel. The commercial centre appears to support a surrounding area larger than the size of the Island, which could be related to the importance of the tourism industry.
- 8 However, Norfolk Island is an island. Its small, self-contained community, dependent on tourism, is separated by large distances from the rest of Australia, and from New Zealand, with which it also has economic and social connections. Norfolk Island differs from other Australian localities, including Australian country towns, because of this reality.

AN ISLAND — SMALL, REMOTE AND ISOLATED

- 9 Norfolk Island is located in the South Pacific Ocean, some 1500 kilometres from the eastern Australian coast. It is some two hours flying time from Brisbane and two and a half from Sydney, the nearest major cities.
- 10 We accept that this location has a direct impact on the fiscal capacity of the Island. Specifically, it raises the cost of inputs used to deliver services to the Island and makes providing transport services more important than it is for other communities.



Source: http://www.norfolk.gov.nf/the_facts.htm



Source: <http://www.discovernorfolkisland.com/maps/map.html>

Impact of isolation on the cost of delivering government services

11 The costs of providing government services are strongly influenced by isolation. It increases the cost of freight, fuel and electricity, communications, training and recruitment. Bringing visiting experts to the Island is expensive because of the distance and the need for them to stay for the period between air flights. This impacts directly on the cost of delivering government services, such as education and health, and indirectly on the need to provide subsidies to government business enterprises (GBEs), or to accommodate a reduced return on equity. The impact of isolation on government costs is estimated in Attachment B and taken into account in estimating what it would cost to deliver services on the Island.

Access

12 Norfolk Island has no deep water harbour and relies on a lighterage service to transport essential goods and equipment from non-container ships to the jetties on the Island. Apart from dealing with the vagaries of the weather, which can delay the unloading of ship cargo, the Island faces uncertainty in the longer term about the availability of non-container shipping services that no longer represent conventional modes of sea freight.

- 13 The Island relies almost exclusively on air services for movement of people to and from its shores. Based on aircraft and passenger movements, its airport is the equivalent of a regional airport elsewhere in Australia. However, its costs reflect a requirement to operate at the standard of an international airport in respect of immigration, customs, emergency and security services and the need to accommodate large aircraft. While current immigration and customs functions are administered under Norfolk Island legislation, the emergency and security arrangements reflect Australian Government requirements. These combined requirements are reflected in a high user charge for airport services and differentiate the Norfolk Island airport from those operating in regional centres in most other parts of Australia. Passenger air services to and from the Australian eastern seaboard are currently provided by a Norfolk Island Government air charter.
- 14 Issues of air and sea transport, including the impact of Australian Government border arrangements, are vital for the Norfolk Island community. We consider them to be part of the special circumstances affecting the Island. The expenses on transport facilities and services by the Island would be expected to be higher than many other small communities. This issue is addressed in Attachment D.

Other effects of remoteness and isolation

- 15 The remoteness of the Island also impacts on other aspects of service provision.
- 16 **High cost of electricity for consumers.** The cost of generating electricity is high on Norfolk Island. This is because a stand-alone diesel plant is used. There is no connection to the Australian grid, the cost of importing the fuel required to run the generators is high and there is a high level of in-built redundancy. This high cost to consumers is recognised as a special circumstance in the assessment of an electricity subsidy in Attachment D.
- 17 **Waste management.** Being a small island creates special problems for waste disposal. Waste management regimes need to meet the requirements of international treaties and protocols for the prevention of sea pollution. Consequently, options are fewer and more expensive for a small, remote Island community. We recognise this as a special circumstance affecting local government expenses in Attachment E.
- 18 **Access to tertiary medical services.** Medical services for Norfolk Island residents are delivered through the Hospital Enterprise, which operates the single hospital on the Island. For major surgery and other high level specialist care, residents have to travel to larger centres in Australia or New Zealand. The cost of that travel is recognised as a special circumstance in the health assessments in Attachment D.

POPULATION ISSUES

- 19 The characteristics of Norfolk Island's population that need to be addressed in any assessment of its financial capacity are:

- its population distribution, which increases the demand for some services and reduces it for others;
- the large increase in population caused by tourists, requiring additional services on Norfolk Island and potentially adding to the taxable capacity; and
- its low unemployment rates, which mean a reduced demand for some services.

20 The ordinarily resident population of Norfolk Island, which includes residents and people staying on General Entry or Temporary Entry Permits, is small and declining (see Table 2-1).

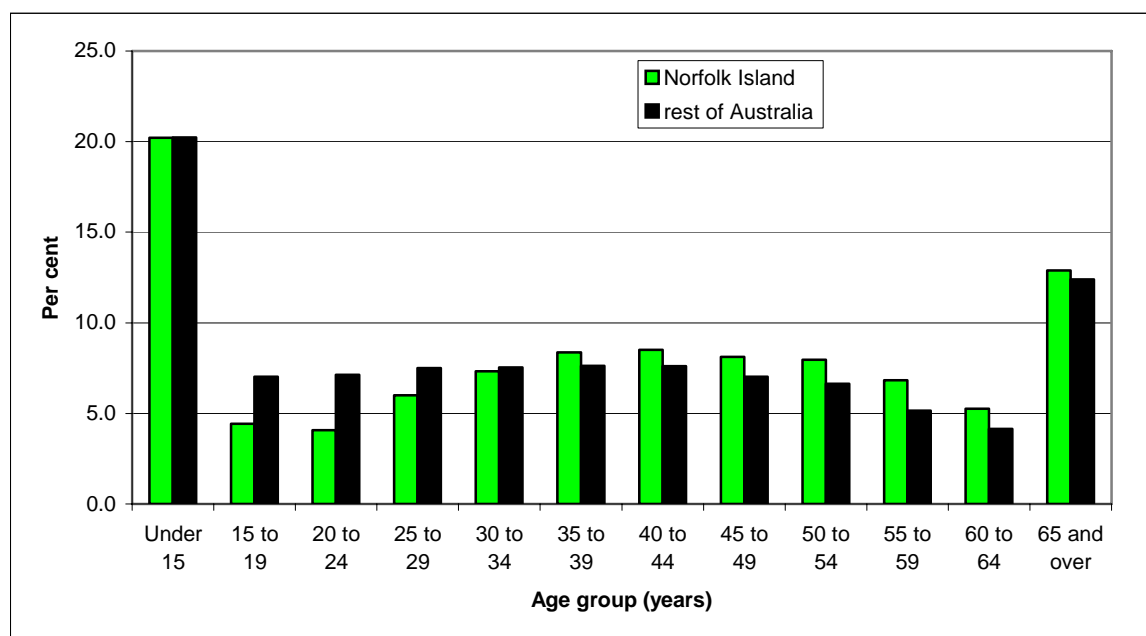
Table 2-1 Ordinarily resident population of Norfolk Island, 2002-03 to 2004-05

	2002-03	2003-04	2004-05
Residents and those on general and temporary entry permits	2072	2043	2013

Note: Financial year populations have been calculated as the average of end June populations for each year.
Source: Norfolk Island Annual Reports.

21 **Ageing population.** Norfolk Island’s population is older on average than the combined population of the Australian States. Figure 2-1 below shows that the proportion of those aged 15 years and under was comparable at the time of the 2001 Census. For the older age groups, age distributions were different.

Figure 2-1 Age distribution: Norfolk Island and Australian States and Territories



Source: Norfolk Island Census 2001, ABS Census 2001.

22 The 2001 Census shows that Norfolk Island has a disproportionate number of people aged over 35. Its larger population aged 65 and over imposes a higher requirement for some services, such as health. We have recognised this in our assessments.

- 23 **Tourists.** Table 2-2 shows that the average number of tourists on Norfolk Island in 2004-05 increased the ‘on-island’ population above the ordinarily resident population by 35.6 per cent. In the rest of Australia, international tourists represented 1.8 per cent of the population. Because tourists represent such a large proportion of the Norfolk Island population, they will have an impact on the cost of delivering services and revenue raising capacity that will need to be recognised in our assessments.
- 24 We have recognised that tourists will increase the cost of providing services such as health when they use services provided at the hospital, culture and recreation when they visit the museums and use the parks and recreational facilities, and water, sewerage and electricity when they are visiting the Island. Sufficient capacity must be provided to deliver government services to this group.
- 25 We have also recognised that they increase the Island’s revenue raising capacity in a number of areas, such as land revenue (increasing land values), gambling and motor taxes and revenue for the water, sewerage and electricity authorities. Attachment B explains how we have recognised the impact of tourists in our assessments.

Table 2-2 Ratio of visitors to resident population, Norfolk Island and Australia, 2004-05

	Norfolk Island	Australia
Average visitor population	717	354 027
Resident population	2013	20 210 819
Ratio of tourists to total population	0.356	0.018

Note: Average visitor population is calculated as the average of 12-monthly tourist populations. Calculated from the number of tourists on Norfolk Island and average length of stay, provided by the Norfolk Island Administration.

Source: Norfolk Island Administration, ABS, Australian Demographic Statistics, December 2005, Australian Tourism Research.

- 26 The Norfolk Island economy is relatively small and very dependent on tourism. This narrow economic base and its vulnerability increase the importance of government support for that industry and also to encourage greater diversification. Other jurisdictions provide such support and we have taken these special circumstances into account in our assessment of what Norfolk Island would need to spend in supporting tourism and other industries.
- 27 **Unemployment.** Norfolk Island does not have significant unemployment. A number of submissions suggested that this was because it was impossible for Norfolk Islanders to remain on the Island, or to return to it without work. This is because there is no income support as there is in Australia.
- 28 The ability to remain in employment is also a condition for granting a Temporary Entry Permit. Those temporary residents who are unable to retain work generally are required to leave the Island.
- 29 Table 2-3 shows a greater proportion of persons working full-time on Norfolk Island than in the rest of Australia, and no unemployment. We have recognised the impact of this in our welfare assessment.

Table 2-3 Labour force statistics, Norfolk Island and the rest of Australia, August 2001

Percentage of persons in the labour force:	Norfolk Island	Rest of Australia
	%	%
In full-time work	80.3	61.7
In part-time work	19.7	30.9
Unemployed	0.0	7.4

Source: Norfolk Island Census 2001, ABS Census 2001.

COMMUNITY AND CULTURE

- 30 Descendants of the Bounty Mutineers and others, who relocated from Pitcairn Island to Norfolk Island in 1856, made up 37 per cent of the ordinarily resident population at the 2001 Census. This group, and its history, influences the culture on the Island in various ways, including through certain behaviours and attitudes described as ‘the Norfolk Way’, use of a Pitcairn language and the holding of cultural ceremonies recalling the group’s history.
- 31 Pitcairn descendants express a strong sense of attachment to the land that was allocated to the original settlers at the bequest of Queen Victoria. Hereditary landholding and the protection of a rural environment are described as part of the culture of the Pitcairn descendants and claimed as a special circumstance in several submissions we received. The submissions made the case that land was not a tradeable commodity but was held in trust for future generations. We note, however, that in the years we have examined in this inquiry, most transactions are of a commercial nature, rather than transfers falling into the ‘love and affection’ category.
- 32 The Norfolk Island community is a close-knit one, stemming from its remote island location and its strong sense of cultural and historical identity of many of its residents. It takes pride in the resourcefulness of individuals and the willingness of the community to support itself. We received several submissions from persons who contrasted such characteristics with what they saw as a dependent culture that could emerge from increased service provision by government. This aspect of community culture is expressed for instance in regular fund-raising activities in support of families in need, the availability of community and tourist access to private land and in the community approach to conducting funerals on the Island. This, in itself, was said to reduce the call on government services. However, others argued that many needs were not presently being met.
- 33 We have been asked to estimate the financial implications of delivering similar services to those delivered to comparable communities, with comparable revenue measures and efficiency. We have not made any special adjustments for the impact of the Pitcairn culture on the cost of providing services or on revenue raising capacity. We have not reduced Norfolk Island’s required expenses because of higher levels of community effort because we view that as a policy choice of the community and its Government, rather than an innate characteristic of the Island’s population. Nor have we accepted that Norfolk Islanders’ relationship with the land reduces the Island’s capacity to raise land tax.

ECONOMY

- 34 An unusual feature of the economy is the low wage levels. Wages are said to be, in most sectors, between 20 to 60 per cent below Australian levels. This in part reflects the tax free status of most Island incomes (no Australian income tax is payable on incomes earned on the Island), and possibly also the desirability of living on the Island.
- 35 Lower wages mean that government services on Norfolk Island can be provided at a lower cost than in other Australian communities. We have made adjustments for this special circumstance in our assessments when we have used Australian average expenses as the benchmark of what Norfolk Island would need to spend to deliver comparable services. Attachment B provides the details.
- 36 If a different tax regime were introduced, especially one including income tax, such adjustments would need to be re-examined.

GOVERNANCE AND GOVERNMENT POLICIES

- 37 The Norfolk Island Government is responsible for all services provided to Islanders and raises revenues — spanning, at least conceptually, the range of services provided by the Australian Government, State governments and local governments and the range of revenues they raise. This puts the Norfolk Island Government in a unique position among Australian governments.
- 38 The Administration also operates largely without visible boundaries in providing Australian Government, State and local government-type activities. There are some activities that are administered directly by the Australian Government, such as national parks, but even these draw on Norfolk Island Government resources provided under contract. Some units of government deliver seamless services that include elements that would be delivered by three levels of government in the States. Because hierarchical administrative boundaries are not relevant to the existing Norfolk Island situation, it is difficult to identify the separate costs of some State or local government-type services. This affects the comparisons between Norfolk Island expenses and revenues and those of the States.
- 39 In undertaking our assessments, we have recognised, as has the Norfolk Island Government, that it would not be sensible for a small community to administer the delivery of services in the same way as larger jurisdictions, such as the States for example, with separate treasury, education and health departments. We have assumed that the diseconomies of scale would be dealt with in much the same way as they are at present.
- 40 The Norfolk Island Government has made different policy choices in relation to revenue raising. Its taxation regime includes some unique taxes (for example, a financial institutions levy, a bed tax on tourist accommodation places and a departure tax) and a greater degree of revenue drawn from dividends paid by GBEs. A number of other taxes and charges that are universal or common throughout the rest of Australia are not administered on Norfolk Island.

For instance, individuals do not pay income tax or municipal rates and businesses do not pay payroll tax.

- 41 The Norfolk Island Government has also made different policy choices in relation to service provision. Per capita expenses in the areas of health and welfare are lower, reflecting offsetting revenue from user pays policies for most services delivered and a lower than average range of welfare services than are provided in the States. Norfolk Island provides no welfare housing. Other areas where Norfolk Island's expenses are below State averages are education, law and order, transport, and services to industry other than tourism. Its expenses are higher in the area of general government services.
- 42 These governance arrangements and different policy choices have implications for the revenue Norfolk Island is actually raising and what it is spending on services compared with what is raised and spent in the States. Attachment A provides a comprehensive comparison. It shows that, overall, Norfolk Island raises about the same amount of own-source revenue as the Australian average (slightly more) and spends much less. This is because Norfolk Island does not receive financial assistance from the Australian Government, although it receives a range of funding for special purposes.
- 43 The governance arrangements and policy choices have no implications in most cases for our assessments of what Norfolk Island could raise in revenue and what it might spend if it operated as comparable communities do.

CHAPTER 3

NORFOLK ISLAND REVENUE RAISING CAPACITY AND REQUIRED EXPENSES

INTRODUCTION

- 1 This chapter summarises the Commission’s assessments of Norfolk Island’s State and local government-type revenue raising capacity and required expenses. It provides the Commission’s response to clauses (i) and (ii) of the terms of reference. The terms of reference ask the Commission to advise on:
 - (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island Government operates at the same level of efficiency as State and local governments; and
 - (ii) the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.
- 2 The chapter explains the approach the Commission has used in undertaking its assessments of Norfolk Island’s revenue raising capacity and what it might cost to deliver comparable services (required expenses). It describes how we have classified Norfolk Island’s revenues and expenses to the State and local sectors and draws on the detailed calculations set out in Attachments A, B, C, D and E to reach conclusions about revenue raising capacity and required expenses.
- 3 The results in no way imply that this is how Norfolk Island should be raising revenue or delivering services. That is a matter of policy choice.
- 4 In compiling our assessments we have used the data observed on the Island and elsewhere. We have made no adjustments for how economic conditions might change if governance arrangements changed. For example, we have made no assumptions about what might happen to wages if Australian income taxes were introduced. Nor have we attempted to estimate how tax bases or the use of services might respond if the tax and expenses policies of comparable communities were introduced.

COMPARISONS OF REVENUE RAISING AND SPENDING

Norfolk Island revenues and expenses

- 5 To provide a picture of what the Norfolk Island Government is doing compared with the States, we began by gathering data about the actual cost of State and local government-type services delivered on Norfolk Island and about revenue raised, covering the years 2002-03 to 2004-05. We collected data for three years to confirm whether the latest (2004-05) was typical. As the three year average in general reproduced the pattern of revenues and expenses for 2004-05 (the exceptions mainly related to the contributions from government business enterprises), we concluded that we could base our assessments on 2004-05 data.
- 6 Sources for the three years of data included annual reports of the Norfolk Island Government, detailed financial statements provided by the Island's Administration, spreadsheets containing additional analyses and the accounts of other enterprises.
- 7 The Norfolk Island Government revenues and expenses used in this report are drawn from the transactions in its Revenue Fund, the Water Assurance Fund and the accounts of the Norfolk Island Hospital Enterprise¹.
- 8 This means that, other than for the Water Assurance Fund and the Norfolk Island Hospital Enterprise, the analysis includes only the net impact of the GBEs or other enterprises on the Revenue Fund. For example, the full accounts of the Electricity GBE or the Tourist Bureau are not analysed, but revenues received from them or the subsidies to them from the Revenue Fund are included. The internal transactions of GBEs are out of scope for the Commission's analysis of what it might cost to provide State and local government-type services.
- 9 In consultation with the Norfolk Island Administration, financial information was classified to State or local government levels of responsibility on the basis of the usual pattern in the rest of Australia, and taking into account any special circumstances. Aggregates were apportioned where necessary to fit those classifications. In this process, the Commission also identified Australian Government-type revenues and expenses and those of GBEs, principally to exclude them from the analysis required to respond to the terms of reference. Attachment A provides the details.
- 10 The approach taken to separating financial information into State and local government components can affect subsequent comparisons between actual expenses and our assessments based on comparable communities. General public services, tourism and depreciation are categories where the allocation between sectors may make disaggregated comparisons less meaningful. Paragraphs 50 to 55 below provide some comparisons at the total Norfolk Island level.

¹ The Revenue Fund is the main operating account of the Norfolk Island Government. The Water Assurance Fund is a GBE and its account is in the Administration Services Fund. The Hospital Enterprise is a body corporate that operates the Norfolk Island Hospital.

State and local government revenues and expenses

- 11 As a starting point for its comparisons with average revenue capacity and service delivery by State and local governments in the States, the Commission compiled a set of financial information for those jurisdictions from its existing databases and the ABS's Government Finance Statistics. These were used at a broad level to identify where patterns of revenue and expense differed on Norfolk Island, preliminary to further analysis to focus comparisons on comparable communities. Attachment A provides the comparisons.
- 12 The pattern of revenues and expenses observed on the Island differs from what occurs in other communities. A greater proportion of revenue is collected from sources such as a financial institutions levy, a bed tax and departure fees focused on the tourism industry. These taxes either do not exist or are much less important in other communities. Consequently our assessments, based on comparable taxes, result in a significant change in the mix of revenue from what currently occurs to what is assessed. As we have noted elsewhere, our assessments indicate the capacity to raise revenue, but decisions on what the actual tax mix on the Island should be is a matter for government.
- 13 The Island has a greater reliance on user charges than is observed in comparable communities and many of the services currently provided in other communities are not provided by government on the Island. As with revenue, this leads to a difference in the pattern of actual and assessed expenses, but this has no implication for how services should be delivered on the Island. Again, that is a matter for government.

STATE REVENUE RAISING CAPACITY

- 14 The major State taxes are on payrolls, land, transfer of property, gambling, insurance, motor vehicles and resources.

Method

- 15 The Commission's assessments of what Norfolk Island could raise from comparable State taxes and charges are based on a tax by tax approach. Norfolk Island's capacity to raise revenue from the common range of taxes applied by State and local governments is estimated by applying the average tax policy to Norfolk Island's circumstances, reflected in its tax bases. For example, to derive an estimate of what might be raised on Norfolk Island, the average effective payroll tax rate applied by the Australian States is multiplied by an estimate of the wages bill of the Norfolk Island private and GBE sectors above the average tax threshold used by the States. The average tax policy, or effective tax rate, is used because all communities within a State face the same tax regimes.
- 16 Where estimates of Norfolk Island bases were not available, it was assumed that the Australian average per capita amount of revenue could be raised, adjusted where appropriate for special circumstances, such as the higher incidence of tourists on Norfolk Island.

- 17 The individual assessments are summed to estimate the overall revenue capacity.
- 18 The revenue raising capacity of Norfolk Island has been estimated for each State revenue source. Information on Norfolk Island revenue bases and States tax policies in 2004-05 was used as the basis for calculating these estimates. A major exception was the estimate of Norfolk Island's capacity to raise revenue from financial transaction taxes and stamp duty on shares and marketable securities. The Commission has assessed this to be zero because States are currently phasing these taxes out. It is inappropriate to attribute a revenue capacity to Norfolk Island for a tax that will no longer exist in the States. The details of each assessment can be found in Attachment C.

Results

- 19 Table 3-1 compares Norfolk Island's actual per capita revenue with that of the Australian States and its assessed per capita capacity. It shows that Norfolk Island raised 75 per cent of the Australian average per capita State-type revenues in 2004-05. It also shows that we have assessed it to have the capacity to raise revenue which is 11 per cent greater than the Australian average. This is due to Norfolk Island's assessed above-average capacity to raise revenue from land taxes and an ability to raise revenue from tourists who comprise a higher proportion of the resident population than on average in the rest of Australia.

Table 3-1 All-State average and Norfolk Island State-type revenue and revenue raising capacity, 2004-05

Revenue source	All-State average revenue \$pc	Norfolk Island actual revenue \$pc	Norfolk Island revenue raising capacity \$pc
Payroll tax	592.14	0.00	25.34
Land revenue	183.84	56.13	1 517.26
Stamp duty of conveyances	460.49	163.72	200.40
Financial transaction taxes and stamp duties on shares and marketable securities	61.66	568.20	0.00
Gambling taxation	213.90	198.73	254.07
Insurance taxation	102.46	0.00	107.03
Motor taxes	274.81	233.95	332.19
Other revenue	20.21	470.03	20.21
Mining revenue	144.07	0.00	0.00
Contributions by trading enterprises	260.18	103.08	148.00
Interest	114.76	50.97	114.76
Fees and fines	59.78	15.28	34.67
Total revenue	2 488.32	1 860.10	2 753.94

Source: Actual revenues are from the Norfolk Island Government's Financial Statements for 2004-05 and Attachment A. Revenue raising capacity is as calculated in Attachment C.

- 20 Table 3-2 shows an assessed revenue capacity for Norfolk Island of about \$5.5 million, compared with what it raised from State-type taxes in 2004-05 of \$3.7 million. This suggests that Norfolk Island could raise substantially more revenue than it did in 2004-05, if it applied State tax regimes.

Table 3-2 Norfolk Island's State type revenue raising capacity, 2004-05

Revenue source	Norfolk Island actual revenue \$'000	Adjustment \$'000	Norfolk Island revenue raising capacity \$'000
Payroll tax	0	51	51
Land revenue	113	2 941	3 054
Stamp duty of conveyances	330	74	403
Financial transaction taxes and stamp duties on shares and marketable securities	1 144	-1 144	0
Gambling taxation	400	111	511
Insurance taxation	0	215	215
Motor taxes	471	198	669
Other revenue	946	- 905	41
Mining revenue	0	0	0
Contributions by trading enterprises	207	90	298
Interest	103	128	231
Fees and fines	31	39	70
Total revenue	3 744	1 799	5 544

Source: Actual revenues are from the Norfolk Island Government's Financial Statements for 2004-05. Revenue raising capacity is as calculated in Attachment C.

- 21 The tables also show the following.

- Although Norfolk Island did not raise revenues from some taxes, such as payroll taxes and insurance taxes, we have assessed a revenue raising capacity. This is because States levy these taxes and we have assumed that Norfolk Island could do the same. Payroll taxes are levied on payrolls above \$550 000, for grouped companies, national companies which operate locally and GBEs. We estimated the value of these for Norfolk Island and calculated what it could raise from these if an effective tax rate of 5.31 per cent² were applied.

For insurance taxes, we estimated the amount Norfolk Island could raise from its estimated insurance premiums paid on the Island for compulsory third party insurance (CTP) and general and life insurance. The effective tax rates levied by the States are 4.37 per cent for CTP and 10.2 per cent for general insurance. We assumed that Norfolk Island could charge these rates.

² The effective rate of tax is calculated as the total tax raised in all States divided by the total all-State tax base.

- Norfolk Island's assessed capacity to raise revenue from land tax is much greater than the Australian average. This is because it has a comparatively large area of high value commercial/industrial land. The area data were supplied by the Norfolk Island Government and valuation data by the Australian Valuer-General, based on earlier land valuations and recent sales data. As States tax commercial/industrial land at an average tax rate of 1.42 per cent of value, Norfolk Island was assessed to have a strong capacity to raise revenue from this source. However, it should be noted that, if land tax were to be applied on Norfolk Island, a formal comprehensive land valuation process designed for the purpose would need to be undertaken.
 - Norfolk Island has been assessed as having no capacity to raise revenue from mining because the only potential source is the Cascade rock. As the proceeds from the sale of this rock are being used to repay the loan from the Australian Government used to stabilise Cascade Cliff, Norfolk Island has no capacity to raise revenue from this source.
 - Norfolk Island's assessed capacity to raise revenue from gambling tax is higher than the all-State average, largely because the tourist population of the Island provides a larger base. It is more than the Norfolk Island Government actually raises because it has a policy of not providing access to all types of gambling, such as poker machines.
 - The large amount of revenue Norfolk Island raises from its accommodation levy (included in 'other revenue'), has no equivalent in the States. Consequently we have not included any revenue capacity from this source in our assessments.
 - We have assessed Norfolk Island's capacity to raise 'other revenue' as the all-State average.
- 22 The tables show that as well as being different at the aggregate level, actual revenue and estimated revenue capacity are markedly different for individual revenue sources. The importance of the land revenue assessment is clear.

LOCAL GOVERNMENT REVENUE RAISING CAPACITY

- 23 Local government revenues have been defined to include those taxes normally raised by local governments in the rest of Australia. Revenues include municipal rates, user charges and other revenues.

Methods

- 24 The same tax-by-tax assessment approach was used to estimate Norfolk Island's capacity to raise revenue from local government taxes. In the case of local government, we have used King Island (Tasmania) as a base for many assessments, adjusted for the differences in their circumstances. For municipal rates, Norfolk Island's capacity to raise revenue was assessed using its population as the base and, as the comparable effort, the amount per capita that the

Tasmanian State Grants Commission considered King Island should be able to raise. This differs from what King Island actually raises. For user charges, the Norfolk Island population, adjusted for the average number of tourists on the Island each day, was used as the base. The amount per capita raised by King Island was applied to this population. From interest income, Norfolk Island was assessed to be able to raise the average per capita amount raised by local councils in the States. For other revenue, the average per capita amount raised by local councils in the States was applied to Norfolk Island's tourist adjusted population. Likely revenue from State grants was estimated as equal to the average amount received by Tasmanian local councils. Details of the approach used for each assessment are in Attachment E.

Results

- 25 Table 3-3 compares Norfolk Island's actual per capita revenue with that of the Australian local government average revenue and Norfolk's assessed per capita capacity. It shows that Norfolk Island raised more revenue per capita than the average local council, reflecting the importance on Norfolk Island of some revenue sources, such as a departure tax, which are less important elsewhere. It also shows that Norfolk's assessed capacity from a comparable range and level of taxes is greater than the average of local governments, though less than is currently collected. The high value of land on the Island would enable a greater than average collection of municipal rates.

Table 3-3 All-State average and Norfolk Island local-type revenue and revenue raising capacity, 2004-05

	Average local government revenue	Norfolk Island actual revenue	Norfolk Island revenue raising capacity
	\$pc	\$pc	\$pc
Municipal rates	403.05	0.00	596.13
User charges ^(a)	326.36	310.29	540.56
Interest income and other revenue ^(b)	220.67	1 393.10	251.30
Grants from the State	17.72	0.00	48.27
Total revenue	967.81	1 703.39	1 436.25

(a) For Norfolk Island, these mainly comprise of user charges from Water, Sanitation and Protection of the Environment.

(b) For Norfolk Island this includes revenue from departure tax and contributions by trading enterprises, including the Liquor Supply Service.

Source: Norfolk Island Administration financial statements and Commission estimates. Attachments A and E.

- 26 Table 3-4 summarises our estimates of Norfolk Island's local government revenue raising capacity. It shows that the Norfolk Island Government presently raises some \$3.4 million compared with an estimated capacity of \$2.9 million. The table shows that Norfolk Island would raise more from municipal rates and user charges and much less from interest income and other revenue, if it operated like comparable Australian local governments.

Table 3-4 Norfolk Island's local government revenue raising capacity, 2004-05

	Norfolk Island actual revenue	Adjustment	Norfolk Island revenue raising capacity
	\$'000	\$'000	\$'000
Municipal rates	0	1 200	1 200
User charges	625	464	1 088
Interest income and other revenue	2 804	-2 298	506
Grants from the State	0	97	97
Total revenue	3 429	- 538	2 891

Note: For Norfolk Island, user charges mainly comprise charges for Water, Sanitation and the Protection of the Environment
For Norfolk Island, interest income and other revenue includes revenue from departure tax and contributions by trading enterprises, including the Liquor Supply Service.

Source: Norfolk Island Administration financial statements and the Commonwealth Grants Commission's estimates.

REQUIRED STATE EXPENSES

27 State-type services are those normally provided by State governments. They include education, health, welfare, law and order services and general public services, such as representation, administration and financial management. They also include depreciation of assets required for the delivery of comparable services and debt charges on the borrowing required to provide them.

Methods

- 28 To estimate what it might cost to deliver services at Australian average levels, we have used the comparable communities concept in a pragmatic way. The choice of approach depended on the information available on each type of State or local government service on Norfolk Island, the way the service is delivered on the Island and availability of information for a comparable community. There are two main methods.
- The first method is used where the current level of service provision or the way services are delivered on Norfolk Island differ from a comparable community. In this case, an appropriate expense level is constructed from costs of services delivered in comparable communities drawn from the rest of Australia, at average levels of efficiency. Adjustments to the averages or expense levels derived are required to take account of where Norfolk Island circumstances differ from those of the chosen base. For example, population factors, salary levels, isolation costs and the incidence of tourists on Norfolk Island are regarded as special circumstances. Health care is an area where this model was used.
 - The second method is used where existing services on Norfolk Island are delivered at or close to 'comparable' levels and at average levels of efficiency. In these cases, present expense levels are accepted as the cost of delivering comparable services. Adjustments

- are applied as necessary to align service costs with a fully comparable level and validity checks made generally against an average level of expense incurred by State governments. School education is an example of a situation in which this model was used. Service provision is by a teaching service contracted from the New South Wales Department of Education and Training using the curriculum and the standards of that education system.
- 29 Attachment D explains the method used to estimate required expenses for each service, including any variation from the general model. Each section in the attachment begins with a description of the way services are delivered in the States and on Norfolk Island. This is followed by cost comparisons leading to an assessment of the expense that would be required to deliver services at the average range and level provided in the States.
- 30 **Assets.** Any assessment of the expenses required to deliver comparable services must include an assessment of the expenses required to cover the annual cost of assets used in service provision. Such expenses include depreciation and debt charges expenses. For our purposes, they cannot be based on the depreciation or debt charges relating to the existing assets of Norfolk Island but to those that would exist in a comparable community. The required expenses should allow Norfolk Island to provide State and local government services at the average range and levels provided in the States.
- 31 Ideally, the required depreciation expense would have been calculated using estimates of the replacement cost of assets that would exist in comparable communities. Unfortunately, such data are hard to come by. Instead, we have started with the Australian average per capita depreciation expense. This was adjusted for Norfolk Island's lower salary levels, the additional costs of isolation and the impact of Norfolk Island's greater proportion of tourists.
- 32 Because of its special borrowing circumstances whereby the Australian Government provides Norfolk Island with access to interest free loans, we have assumed that Norfolk Island requires no capacity to pay debt charges. If the present arrangements were to change, then this assessment would need to be revisited.

Results

- 33 Table 3-5 compares the all-State average expense per capita with what Norfolk Island actually spends and its assessed required expenses for State-type services. It shows that much less per capita is spent on State service provision on Norfolk Island than in comparable communities.

Table 3-5 All-State average and Norfolk Island State-type expenses and required expenses, 2004-05

Service	All-State average	Norfolk Island expenses	Required expenses
	\$pc	\$pc	\$pc
Education	1 295	1 157	1 313
Health expenses	1 329	1 216	1 742
Health user charges	- 124	- 810	- 239
Welfare and public housing	603	40	358
Law and order	480	364	404
Culture and recreation	132	153	194
Water, sanitation and protection of the environment	68	0	48
Electricity	20	0	774
Services to industry	152	248	256
Transport	571	0	306
General public services	284	787	511
Superannuation	553	0	178
Depreciation	196	216	168
Debt charges	101	0	0
Total	5 659	3 371	6 013

Note: Norfolk Island superannuation expenses are estimated to be \$166 000 and are assumed to be included in the expenses of other functions.

Source: Norfolk Island actual expenses are from the Norfolk Island Government's Financial Statements for 2004-05 (Attachment A). Required expenses are Commission estimates (Attachment D).

- 34 Table 3-6 summarises Norfolk Island's State-type expenses in 2004-05 and the adjustments that would have been required to enable comparable services to be delivered, having regard to the circumstances of the Island and assuming that the Island operates at the average level of efficiency. It suggests that Norfolk Island would have needed to increase its expenses by \$5.3 million, a 78 per cent increase, to provide comparable services.
- 35 It shows that the biggest increases would be required for health, welfare, electricity subsidies and transport.
- The large increase in health expenses is required to provide more acute services and a subsidy for offshore costs, including travel. Total expenses would further increase because there would be a significant reduction in user charging for health services if Norfolk Island were to follow practices adopted by the States.
 - For welfare, the increase would allow the provision of a wider range of services, some of which are not presently provided at all.
 - The electricity subsidy would give Norfolk Island the capacity to provide electricity to consumers and pensioners at a price comparable to that paid on the Bass Strait Islands.

This recognises the impact that Norfolk Island's remoteness and available technology has on the cost of generating electricity.

- The increase in transport expenses would allow for a transport subsidy for passengers or freight. This recognises the importance of access to a remote island.

Table 3-6 Norfolk Island required expenses for State-type services, 2004-05

Service	Norfolk Island expenses	Adjustment	Required expenses
	\$'000	\$'000	\$'000
Education	2 328	315	2 644
Health expenses	2 448	1 059	3 506
Health user charges	- 1 630	1 148	- 481
Welfare and public housing	80	640	720
Law and order	733	80	813
Culture and recreation	308	83	391
Water, sanitation and protection of the environment	0	97	97
Electricity	0	1 557	1 557
Services to industry	500	16	516
Transport	0	616	616
General public services	1 584	- 555	1 029
Superannuation ^(a)	0	359	359
Depreciation	434	- 95	339
Debt charges	0	0	0
Total	6 785	5 320	12 105

(a) Norfolk Island actual expenses are estimated to be \$166 000 and are assumed to be included in the expenses of other functions.

Source: Norfolk Island actual expenses are from the Norfolk Island Government's Financial Statements for 2004-05 (Attachment A). Required expenses are Commonwealth Grants Commission estimates (Attachment D).

- 36 More moderate increases are required to deliver education services, law and order services and culture and recreation at comparable standards. This may be because existing education and law and order services are delivered on a contractual basis by other government bodies very close to their existing standards. The Australian Government has an influence on culture and recreation spending through its involvement in the Kingston and Arthur's Vale Historic Area (KAVHA).
- 37 Some reduction would be required to expenses on general public services, if Norfolk Island were to operate at the same per capita level as the Northern Territory, adjusted for its special circumstances. Its expenses on services to industry, mainly on tourism, are also higher than assessed. We have allowed Norfolk Island nine times the average State expenses on tourism because of the dependence of its economy on this sector.

- 38 We found that Norfolk Island would need to spend less than it presently does on depreciation of State-type assets, if they were provided and depreciated at the Australian average level, adjusted for salary levels, isolation and tourists. However, this finding may be the result of our allocation of Norfolk Island's depreciation between the State and local sectors. Our assessment increased local government depreciation by \$389 000, increasing Norfolk Island's total required depreciation expenses by \$294 000 overall.

LOCAL GOVERNMENT REQUIRED EXPENSES

- 39 Local government services have been defined to include those services normally provided by local governments in the rest of Australia. Services include governance, roads, waste disposal and recreation and community facilities.

Methods

- 40 Similar assessment approaches as for State expenses were used to estimate Norfolk Island's required local government expenses. As for local government revenues, the King Island Council is used as a guide to what a comparable community might need, as are Australian average expenses of local councils. Adjustments were made to these for the special circumstances of Norfolk Island.

Results

- 41 Table 3-7 compares the average Australian local government expense per capita with what Norfolk Island actually spends and its assessed required expenses. This shows that Norfolk Island spends more than twice the average per capita amount spent by local governments in the provision of services. This is mainly because of high expenses on general public services, water, sanitation and protection of the environment, tourism and depreciation. Despite this, we have concluded that Norfolk Island would need to spend more than its actual expenses to deliver comparable services.
- 42 Table 3-8 summarises our estimates of local government expense requirements for Norfolk Island. It suggests that Norfolk Island would need to spend some \$4.2 million to deliver local government services comparable to those provided in the rest of Australia. It would need to spend much more on housing and community amenities, mainly on water, sanitation and protection of the environment, and on depreciation. We consider that less could be spent on general public services. A separate assessment of superannuation expenses was not required as these were included implicitly in the assessments for individual services.

Table 3-7 All-State average and Norfolk Island local government expenses and required expenses, 2004-05

Service	Average local government expenses	Norfolk Island actual expenses	Norfolk Island expense requirements
	\$pc	\$pc	\$pc
General public services	162.49	585.41	418.36
Public order, education, health and welfare	102.22	22.46	42.42
Housing and community amenities	222.50	381.47	597.62
Culture and recreation	142.45	79.03	122.70
Services to industry and tourism	53.44	248.50	244.51
Transport and communications	226.17	270.91	208.68
Depreciation	0.00	220.44	413.81
Debt charges	18.21	0.00	0.00
Other expenses	34.59	0.00	29.81
Total	962.06	1 808.21	2 077.91

Note: A separate allowance for superannuation expenses has not been required. This has been included in the individual service assessments.

Depreciation expenses for local governments in the States have been functionalised and not shown separately.

Source: Norfolk Island actual expenses are from the Norfolk Island Government's Financial Statements for 2004-05 (Attachment A). Required expenses are Commission estimates (Attachment E).

Table 3-8 Norfolk Island expense requirements for local government services, 2004-05

	Norfolk Island actual expenses	Adjustment	Norfolk Island expense requirement
	\$'000	\$'000	\$'000
General public services	1 178	- 336	842
Public order, education, health and welfare	45	40	85
Housing and community amenities	768	435	1 203
Culture and recreation	159	88	247
Services to industry and tourism	500	- 8	492
Transport and communications	545	- 125	420
Depreciation	444	389	833
Debt charges	0	0	0
Other expenses	0	60	60
Total	3 640	543	4 183

Note: A separate assessment for superannuation expenses was not made. This has been included in the assessments for individual services.

Housing and community amenities includes water, sanitation and protection of the environment.

Source: Norfolk Island actual expenses are from the Norfolk Island Government's Financial Statements for 2004-05 (Attachment A). Required expenses are Commission estimates (Attachment E).

COSTS OF SERVICING LOANS

- 43 The terms of reference ask the Commission to advise on the amount of financial assistance needed from the Australian Government, ‘including the actual cost of servicing [Norfolk Island] existing loan agreements’. We have examined these agreements.
- 44 The Norfolk Island Government’s capacity to borrow is limited by legislative arrangements and its capacity to repay loans. In brief, the *Norfolk Island Act 1979* authorises:
- the Australian Government Minister for Finance to loan money to the Administration or a Territory Authority;
 - Norfolk Island to borrow, other than from the Australian Government, with the specific, prior and written approval of the Treasurer; and
 - the Treasurer to act as guarantor for loans, other than from the Australian Government.
- 45 Norfolk Island has two current loans from the Australian Government.
- In 1998, the Australian Government provided Norfolk Island with an interest-free loan of up to \$3.25 million to carry out the Cascade Cliff Safety Project (which was designed to stabilise a dangerous cliff face overlooking one of the Island’s two piers, to ensure public safety). The outstanding loan amount had been reduced to \$1 9 million at 30 June 2005. The agreement provides for the loan to be repaid biannually from royalties received from the sale of crushed rock. Loan arrangements are administered by an independent board, whose principal responsibility is to monitor the royalty rate to ensure viability of the repayment arrangement. Over the two years 2003-04 and 2004-05, a total of \$350 000 was repaid, equal to the amount of royalties from sale of rock during those years.
 - In July 2003, the Australian Government agreed to provide an interest-free loan of \$5.8 million to the Norfolk Island Government to fund resurfacing of Norfolk Island’s airport runways. The loan amount was varied to \$12 million in June 2005. In addition to repayment of the loan, the Norfolk Island Government agreed to make contributions into a trust fund to be built up, with interest earnings, to \$17.5 million by June 2020, to provide funds for the next anticipated resurfacing. However, repayments and deposits to the trust fund were suspended for three years by agreement with the Australian Government in June 2005.
- 46 Repayments of the loan for the Cascade Cliff stabilisation project are from royalties from the sale of crushed rock from the site. Therefore no separate provision needs to be made by the Australian Government to allow the Norfolk Island Government to repay the principal of this loan.
- 47 The annual cost of repaying the principal on the airport resurfacing loan is \$1 200 000 per annum, based on a uniform rate of repayment over 10 years. As the loan is interest-free, the total cost of meeting the current loan commitment is \$1 200 000 per annum over a 10 year period. No adjustment has been made here to allow any accelerated repayment, should that be required as a result of the delayed commencement of repayments.

- 48 Under its current agreement with the Australian Government, the Norfolk Island Government is also required to make regular deposits into a trust fund to provide for the next resurfacing of the airport runways. We have not included the capacity to make these payments in the assessed expenses. Provisioning for runway resurfacing would normally be taken into account as a depreciation expense for the Norfolk Island Airport and factored into its user charges. GBEs usually have no impact on government finances, apart from subsidies that might be paid to the GBE (an allowance for which has been included in the assessment of State government transport expenses) or taxes and dividends that might be received from the GBE.
- 49 In summary, the total amount that the Australian Government would need to provide to allow Norfolk Island to meet its current loan agreements is \$1 200 000 per annum, for a period of 10 years.

TOTAL CAPACITY AND REQUIRED EXPENSES

- 50 Table 3-9 compares what Norfolk Island spent and raised in 2004-05 with what it would have needed to spend and could have raised if it operated like comparable communities. In 2004-05, there was a gap of \$3.3 million between the Norfolk Island Government's State and local government expenses and revenues. If it had provided comparable State and local government services at average levels of efficiency, and raised comparable State and local government revenues, it would have needed \$7.9 million to meet the gap.

Table 3-9 Comparison of Norfolk Island revenues and expenses with assessed revenues and expenses, 2004-05

	Norfolk Island actuals	Assessed
	\$m	\$m
Revenue		
State	3.7	5.5
Local	3.4	2.9
Total (A)	7.2	8.4
Expenses		
State	6.8	12.1
Local	3.6	4.2
Total (B)	10.4	16.3
Net (A-B)	-3.3	-7.9

Source: Norfolk Island Administration financial statements and Commission estimates.

- 51 The comparison between Norfolk Island actual expenses and revenues and its assessed revenue capacity and required expense for each government sector is influenced by the way we have allocated some functions between sectors. In particular, Norfolk Island Government expenses on general public services, tourism and depreciation have been allocated between

the State and local sectors on the basis of judgment. Similarly departure taxes have been classified as local government revenues when they could have been classified to the State sector.

- 52 Because there is no distinction made between State and local government services or revenues on Norfolk Island, the allocations are of necessity based on judgment.
- 53 A comparison of total expenses and required expense and total revenues and revenue raising capacity removes that judgment. For example, using the information in Table 3-3, it is possible to conclude that the Norfolk Island Government raises almost as much local government revenue as a comparable Australian community. However, this result has come about because all departure fees and contributions from the Liquor Supply Service GBE collected on Norfolk Island are classified as local revenues. A better comparison is at the total level which suggests that the Norfolk Island Government could raise much more revenues than it did in 2004-05, if it operated as a comparable community.
- 54 For some individual services, it is more meaningful in the Norfolk Island context to make comparisons at the total level. For example, total Norfolk Island Government expenses on general public services were \$2.8 million. We assessed that Norfolk Island would be required to spend \$1.9 million, if Norfolk Island operated like comparable communities, a reduction of \$0.9 million. Also, Norfolk Island Government total tourism expenses were \$1.0 million and assessed expenses are \$1 008 000, a marginal increase of \$8 000. On depreciation, the Norfolk Island Government had expenses of \$878 000. Assessed expenses were \$1.2 million, an increase of \$294 000.
- 55 While the comparison between actuals and our assessments are influenced by judgment used to allocate expenses and revenues between sectors, these judgments do not affect our assessments of total revenue raising capacity or required expenses. We have based our assessments on the experience of comparable communities which reflect actual allocations between sectors.

CHAPTER 4

FINANCIAL ASSISTANCE FROM THE AUSTRALIAN GOVERNMENT

INTRODUCTION

- 1 This chapter uses the results reported in Chapter 3 to respond to clauses (iii) and (iv) of the terms of reference that ask the Commission to advise on:
 - (iii) the amount of financial assistance needed from the Australian Government to allow the Island to meet the cost of providing the comparable State and local government services (including the actual cost of servicing its existing loan agreements) having regard to the Island's capacity to raise comparable State and local government revenue; and
 - (iv) how much local government funding the Australian Government might provide to Norfolk Island on a basis consistent with local government funding arrangements applying in the rest of Australia.
- 2 It provides answers to these distinct and separate questions and uses the information to place the answers into context.
- 3 In presenting the results, it is important to reiterate the qualifications indicated in Chapter 1.
 - The estimates relate to the financial assistance required in the 2004-05 financial year. They will need to be updated for changes in prices and wage levels, the Norfolk Island population and other changes in the economy. In particular, the impact of the new governance arrangements will need to be reflected.
 - The estimates of revenue raising capacity and required expenses may differ from what will actually happen on Norfolk Island in the future. This is because different decisions may be taken on the types of revenues to be raised and the rates to be imposed, or the services to be provided and the standard and level of efficiency at which they will be delivered.

FINANCIAL ASSISTANCE FOR STATE AND LOCAL SERVICES

- 4 In response to clause (iii), the Commission has estimated the amount of Australian Government financial assistance that would have been needed to provide comparable State and local government services on Norfolk Island in 2004-05.

Financial assistance for State services

- 5 Table 4-1 shows the amount of financial assistance that would be required to provide **State** services at a comparable community standard. It includes an amount to cover the annualised cost of providing assets used in service provision (depreciation) and takes into account its capacity to raise revenue from State-type revenue raising sources.

Table 4-1 Financial assistance required for comparable State services on Norfolk Island, 2004-05

	2004-05	
	\$pc	\$'000
Required State expenses	6 013	12 105
Minus State revenue raising capacity	2 754	5 544
State-type financial assistance - the State gap	3 259	6 561

Source: Chapter 3.

Financial assistance for local government services

- 6 Table 4-2 shows the amount of financial assistance that would be required to provide **local** government-type services, on the same basis.

Table 4-2 Financial assistance required for comparable local government services on Norfolk Island, 2004-05

	2004-05	
	\$pc	\$'000
Required local expenses	2 078	4 183
Minus local revenue raising capacity	1 436	2 891
Local government financial assistance - the local gap	642	1 292

Source: Chapter 3.

- 7 In addition, the Commission considers that an amount of \$1.2 million per annum is needed for a period of 10 years to meet the actual cost of servicing Norfolk Island's existing loan agreements.
- 8 Adding this to the assistance shown in Tables 4-1 and 4-2, Table 4-3 suggests that \$9.1 million would be required from the Australian Government to allow comparable State and local government services to be delivered, if comparable revenues were raised from State and local government taxes and Norfolk Island operated at an average level of efficiency.

Table 4-3 Financial assistance required for comparable State and local government services on Norfolk Island, 2004-05

	2004-05	
	\$pc	\$'000
State-type financial assistance (A)	3 259	6 561
Local government financial assistance (B)	642	1 292
Loan repayment over 10 years (Chapter 3) (C)	596	1 200
Total financial assistance required (A) + (B) + (C)	4 497	9 053

Source: Chapter 3.

Impact of specific purpose payments (SPPs)

- 9 In these tables, an allowance for transfers between State and local levels of government has been included in the State expense figures and in the local government revenue figures. This is because States provide specific purpose assistance to local governments in a range of functional areas, such as welfare, culture and recreation and roads. These grants are received as revenue by the local governments. The transfers have an impact on the financial assistance required for each level (increasing the State assistance and reducing the local assistance by the same amount), but have no impact on the total financial assistance required.
- 10 If any SPP funding from the Australian Government were received by Norfolk Island, the amounts would need to be offset against the total financial assistance shown to provide an estimate of general revenue assistance. If Australian Government legislation were extended to Norfolk Island, it would be entitled to funding under all Australian Government specific purpose programs on the same basis as comparable jurisdictions elsewhere in Australia.
- 11 The Commission has no way of estimating how much State SPP funding from the Australian Government to which Norfolk Island might be entitled. However, if it were to receive the average per capita amount provided to the States in 2004-05¹, that would be \$1 200 per capita or \$2.4 million.
- 12 For local government purposes, on the same basis, it would have received \$24 per capita in local roads grants and \$16 per capita in other local SPPs² (\$80 000).
- 13 If Norfolk Island had received these amounts in 2004-05, the general purpose financial assistance it would have required to deliver comparable State and local government services and to meet its loan repayments would have been about \$6.6 million instead of \$9.1 million.

Norfolk Island financial assistance in context

- 14 All States and local governments receive financial assistance from the Australian Government. That financial assistance influences the expenses and revenues we have

¹ Commonwealth of Australia, *Federal Financial Relations, 2005-06*, p73.

² Commonwealth of Australia, *Federal Financial Relations, 2005-06*, pp27, 84.

observed in comparable communities and used as the basis of estimating what Norfolk Island would need to spend to provide similar levels of services and raise to be making a similar revenue effort. Consequently similar levels of financial assistance have been estimated for Norfolk Island, adjusted for its special circumstances.

- In 2004-05, on average, States received in general revenue and SPPs an amount which equalled 52 per cent of their total expenses. For Norfolk Island, the State-type financial assistance we have calculated represents 54 per cent of its required State expenses. This is broadly comparable with the situation in New South Wales and Victoria.
- In 2004-05, local government financial assistance from the Australian Government represented 10 per cent of total local government expenses. This is distributed among individual councils to equalise their fiscal capacity. For King Island, it represents some 20 per cent of comparable expenses. For Norfolk Island, our estimated assistance for local government purposes represents 31 per cent of comparable expenses.

15 The overall level of financial assistance we have estimated comprises a number of distinct components.

- Some \$3.3 million is required to close the existing Norfolk Island government deficit for the State and local government sectors. This is the difference between their total State and local government expenses and revenues and is shown in Table 3-9.
- Some \$4.3 million is required for higher levels of expenses where current service provision is lower than in comparable communities. This includes: \$1.6 million to enable an operating subsidy to be paid to the electricity Government business enterprise (GBE) so that power could be sold to consumers at a tariff similar to that charged in comparable communities; an extra \$1.1 million to deliver more comparable health services; an additional \$0.6 million to deliver welfare services not presently being provided; and another \$0.6 for transport services which could be used to subsidise access to the Island for people and goods. An additional amount of \$0.3 million is included for increased depreciation expense and \$0.5 million to deliver more comparable water, sewerage and waste subsidies and services. These additions are offset by a reduction in required general public services expenses of \$0.9 million.
- Some \$1.5 million is required to offset lower user charges, mainly in the health area, when those are set in line with comparable communities. At present Norfolk Islanders pay for most of their health services, with only limited government subsidies. This is not the case in other Australian communities.
- Overall assistance is reduced by some \$1.2 million from comparable revenue efforts. Norfolk Island raised \$7.2 million in 2004-05. We have assessed its capacity as \$8.4 million, meaning it could raise an additional \$1.2 million. Most of the increased capacity is due to Norfolk Island's high land values, a revenue source that it taxes very lightly when compared with the practice of comparable communities.

- \$1.2 million will allow the existing loans to be repaid. There was no repayment included in 2004-05 estimates of Island expenses.

LOCAL GOVERNMENT FUNDING — TWO MODELS

16 In response to clause (iv), the Commission has estimated what local government funding the Australian Government might provide to Norfolk Island on the basis of two existing local government funding models. These are:

- the State, or ACT, model; and
- the IOT model.

Local government funding under the State/ACT model

17 Under the State/ACT model³ for local government funding, each State is provided with an equal per capita amount of general purpose financial assistance, plus funds for local roads. These funds are distributed to local governing bodies in each State and the Northern Territory by a local government grants commission on the basis of need. The ACT receives equivalent funding but does not need to distribute it because the ACT has a combined State and local government.

18 **Local government general purpose assistance.** The general purpose assistance the Australian Government might provide under the State/ACT model would equal the per capita amount paid to States multiplied by Norfolk Island's population. In 2004-05, the per capita amount paid to the States was about \$53 per capita⁴. Multiplied by the ordinarily resident population of Norfolk Island, the Norfolk Island Government would have been entitled to \$107 000.

19 As is the case for the States, this amount would not recognise any differences between Norfolk Island and other States in the cost of providing local government services or in revenue raising capacity.

20 **Local roads funding.** In 2004-05, the States received \$24 per capita in local road funding. For Norfolk Island, this would mean \$48 000.

21 **SPPs.** Under the State/ACT model, a Norfolk Island Government could also apply for funding from Australian Government specific purpose payments for local purposes. While it is difficult to estimate what a Norfolk Island Government might be entitled to, the per capita amount paid by the Australian Government in 2004-05 in the major programs for local government (Roads to Recovery, and Children's Services and Disability Services) was about \$16 per capita⁵.

³ *Local Government (Financial Assistance) Act 1995.*

⁴ Commonwealth of Australia, *Federal Financial Relations, 2005-06*, p27.

⁵ Commonwealth of Australia, *Federal Financial Relations, 2005-06*, pp27, 84.

- 22 Table 4-4 summarises the State-type local government funding Norfolk Island might have received under the State/ACT model in 2004-05. The amounts paid under this model are considerably less than the local government financial assistance shown in Table 4-2. However, this is how the Australian Government funds States, the ACT and the Northern Territory for local government purposes.

Table 4-4 State/ACT-type local government funding for Norfolk Island, 2004-05

	2004-05	
	\$pc	\$'000
General purpose funding	53	107
Local roads funding	24	48
Australian Government SPPs	16	32
Total	93	187

Source: DOTARS (2003-04), *Local Government National Report*, Commonwealth of Australia *Federal Financial Relations*, 2005-06, pp27 and 84, and Chapter 3 of this report.

- 23 If the Australian Government were to adopt an ACT governance model for Norfolk Island, the Australian Government would be responsible for all Australian Government services and revenue raising and the Norfolk Island Government would be responsible for all State and local government functions. Assuming the distribution of responsibilities between sectors used in this report, Norfolk Island might receive:
- State-type financial assistance equivalent to the State assistance shown in Table 4-1; plus
 - funding for local government under the State/ACT model from Table 4-4.
- 24 It would also need an annual payment for ten years of \$1.2 million to allow it to repay its existing loans.
- 25 Table 4-5 summarises these estimated amounts for 2004-05.

Table 4-5 Cost to the Australian Government of an ACT model, 2004-05

	2004-05
	\$'000
State-type financial assistance - State gap (Table 4-1) ^(a)	6 561
State-type local government funding (Table 4-4)	187
Loan repayment over 10 years	1 200
Total	7 948

(a) The Australian Government can provide this assistance to Norfolk Island in untied grants, or as SPPs, or as a combination. However, the total would remain \$7.9 million.

Source: Commission estimates.

Local government funding under the IOT model

- 26 Under the IOT model, the Australian Government provides financial assistance directly to the IOTs Shire councils. The assistance comprises:

- General purpose grants — these are paid by DOTARS on the advice of the Western Australian Local Government Grants Commission (WALGGC), using largely the same criteria as they apply to assess grants for Western Australian councils. In 2004-05, Christmas Island received \$1 153 per capita and Cocos Islands received \$1 193 per capita⁶.
 - Local roads grants — these are paid by DOTARS on advice from the WALGGC using the same criteria as it applies to decide untied roads grants for Western Australian councils⁷. In 2004-05, Christmas Island received \$158 per capita and Cocos Islands received \$119 per capita.
 - Australian Government specific purpose payments (SPPs) — these are paid by Australian Government agencies for various purposes considered on a case by case basis. The IOTs must apply for SPP funding direct from Australian Government agencies. As noted above, the per capita amount paid in 2004-05 in the major programs for local government was about \$16 per capita.
 - State-type transfers to local government — DOTARS funds these payments that are equivalent to State transfers to local government. For example, special purpose roads grants are paid by DOTARS on advice from Main Roads Western Australia. Other transfers can be provided on application for childcare, aged care, disability services, recreation and cultural facilities and local government development programs.
- 27 Under this model, Norfolk Island would not be eligible for any Australian Government SPPs for State purposes. As for the IOTs, DOTARS would be responsible for ‘on-passing’ any relevant funding.
- 28 The amount of financial assistance that the Australian Government might provide under this model can be calculated from Tables 4-2 and 4-4 in the following way.
- The general purpose component can be approximated by the local government financial assistance shown in Table 4-2. This amount would be reduced by any SPPs for local government purposes to which a Norfolk Island Council would be entitled — the more paid in SPPs to Norfolk Island, the less the Australian Government would need to pay in

⁶ The WALGGC assessment uses essentially the same equations for the IOT Shires as it uses in assessing the grants of Western Australian councils but includes a number of special factors to recognise the unique service context of the Territories. These include special allowances for additional civic responsibilities (meeting and greeting visitors, higher community profile) and the higher costs of recruitment and training.

The WALGGC assesses the IOT shires ‘equalisation grant’ as its expenditure needs less revenue capacity. This is then ‘factored back’ using the same ratio the WALGGC uses to rescale the assessed equalisation grants for each Western Australian council to the level of available Australian Government funds. This ratio has been about 90 per cent of the calculated grant in recent years. The funding does not come from the Western Australian local government pool, but is a separate Australian Government allocation.

⁷ The WALGGC uses an ‘asset preservation’ model whereby the funding requirement reflects the existing road infrastructure in each Shire with the application of minimum standard cost weights for different types of roads and facilities.

general purpose funding. In 2004-05, the average amount of SPPs paid by the Australian Government to councils was \$40 per capita or \$80 000, comprising the local roads and other SPPs from Table 4-4.

- The general purpose assistance could be scaled in the same way the WALGGC scales the amount paid to the IOTs councils (about 90 per cent in recent years). The Commission has not included the scaling adjustment as that will require a policy decision from the Australian Government.
- An amount of identified local road funding would be added (for example, the amount from Table 4-4 above (\$48 000) and an amount of Australian Government SPPs for local government purposes would be added (for example, the amount from Table 4-4 above (\$32 000) although the actual amount would depend on application).

29 Table 4-6 summarises these calculations.

Table 4-6 IOT-type funding for local services on Norfolk Island

	2004-05	
	\$pc	\$'000
Local government financial assistance from Table 4.2	642	1 292
Minus Australian Government local roads grants and SPPs for local governments	40	80
General purpose funds ^(a)	602	1 212
Plus Australian Government local roads grants and SPPs for local governments	40	80
Total	642	1 292

(a) A scaling adjustment could be, but has not been, applied to this figure. In recent years, a scaling adjustment of about 90 per cent has been applied in calculating the financial assistance for the IOTs.

Source: Commission estimates.

- 30 In addition to the \$1.292 million from the Australian Government, the Norfolk Island Government should expect to receive transfers from the 'State government equivalent'. We assessed those to be \$97 000, equivalent to the average per capita amount paid by the Tasmanian State Government to its councils.
- 31 Under an IOT model, the Australian Government would be responsible for all Australian Government and State services and revenue raising and the Norfolk Island Government would be responsible for local government functions. Our estimates of State expenses would need to be modified to capture this difference.
- 32 Our estimates of State expenses include a provision of \$1.029 million for general public services, which includes a State legislature and administration. In the IOT governance model, there would be no State legislature and State-type administrative functions would be carried out by DOTARS. In calculating the full cost to the Australian Government, the staffing and salary levels applying to DOTARS would need to be taken into account. The Commission cannot accurately estimate the net cost implications of this change. In the table below, we have assumed that there is no net effect.

- 33 Under the IOT model, the cost to the Australian Government would be calculated as:
- the net cost of delivering State services equivalent to the State assistance⁸ (shown in Table 4-1); plus
 - the IOT-type local government funding calculated in Table 4-6, plus
 - an annual payment for ten years of \$1.2 million to allow it to repay its existing loans.
- 34 Table 4-7 summarises these estimated amounts for 2004-05.

Table 4-7 Cost to Australian Government of an Indian Ocean Territories model, 2004-05

	2004-05
	\$'000
Net cost of State services provided by the Australian Government - State gap (Table 4-1)	6 561
IOT type funding (Table 4-3) ^(a)	1 292
Loan repayment over 10 years (Chapter 3)	1 200
Total	9 053

(a) A scaling adjustment could be applied in calculating this figure. In recent years, a scaling adjustment of about 90 per cent has been applied in calculating the financial assistance for the IOTs.

Source: Commission estimates.

⁸ This includes an amount equivalent to that which a State government would transfer to local governments — \$101 000 was assumed in the calculations.

ATTACHMENT A

REVENUES AND EXPENSES OF NORFOLK ISLAND — SOME COMPARISONS

INTRODUCTION

- 1 This attachment provides an overview of the responsibilities of the Norfolk Island Government in terms of the State and local government-type revenue it raises and services it provides. It also provides comparative information on Norfolk Island Government revenues and expenses and those of the States. Because of differences in circumstances, such as differences in wage levels, isolation and the incidence of tourists, the figures are not directly comparable. However, the analysis provides a context for Norfolk Island activities and a framework for item by item assessments that are made in later attachments.
- 2 In this attachment, comparisons are made using a three-year average (2002-03 to 2004-05) to avoid distortions from one-off revenues or expenses in any one of those years. 2004-05 revenues and expenses are used in the assessments in the rest of the report because the Commission concluded that the data for 2004-05 were sufficiently representative of Norfolk Island revenues and expense patterns and emerging trends. They also relate to the latest completed financial year for which audited financial statements are available.
- 3 The Norfolk Island Government provides Australian Government, State and local government-type services to the residents of the Island. It does so, without having three distinct levels of administrations for the three levels of government. It raises its own revenue to fund these services, again without distinguishing between levels of government usually responsible.
- 4 In this attachment Norfolk Island revenues and expenses are compared with those for Western Australia, Tasmania, the Northern Territory and the total of all States. These States were chosen because they are, respectively, remote, an island, and the least populous Australian State which is also remote. Information for all States, at whole of State level, is included at the end of the attachment to give a perspective on State level variation.

METHOD USED TO COMPILE NORFOLK ISLAND REVENUES AND EXPENSES

Scope

- 5 The Norfolk Island Government accounts comprise:
- the Revenue Fund — supports most government services and gathers revenue from general government sources;
 - the Administration Services Fund — provides a framework for each government business enterprise (GBE)¹ to account separately for its operations;
 - the Trust Fund — holds monies for management of longer term liabilities; and
 - the Loan Fund — manages government borrowings.
- 6 Norfolk Island Government revenues and expenses used in this report are drawn from the transactions in the Revenue Fund and the Water Assurance Fund². Also included are transactions of the Norfolk Island Hospital Enterprise, which is a body corporate that operates the Norfolk Island Hospital.
- 7 This means that, other than for the Water Assurance Fund and the Norfolk Island Hospital Enterprise, the analysis includes only the net impact of the GBEs or other enterprises on the Revenue Fund. For example, the full accounts of the Electricity GBE or the Tourist Bureau are not analysed, but revenues received from them or the subsidies paid to them from the Revenue Fund are included. The internal transactions of GBEs are out of scope for the Commission's analysis of the costs of providing State and local government-type services.

Levels of government

- 8 Norfolk Island Government revenues and expenses have been classified as Australian Government, State and local government-type, based on the usual pattern in the rest of Australia.
- 9 The following Australian government-type transactions are excluded from the analysis in this attachment because the terms of reference require the Commission to report on only State and local government revenues and expenses:
- revenues — customs duty, immigration fees, fuel levy, contributions from Norfolk Island Telecom and Postal Services; and
 - expenses — customs and immigration, quarantine and social service benefits.

¹ The GBEs are the Liquor Supply Service, the Postal Services, the Electricity Service, Norfolk Telecom, the Lighterage Service, the Norfolk Island Airport, the Water Assurance Fund, the Kingston and Arthur's Vale Historic Area (KAVHA) Fund, the Norfolk Island Bicentennial Integrated Museums, the Workers Compensation Scheme Fund, the Norfolk Island Healthcare Fund, the Gaming Enterprise, the Cascade Cliff Sale of Rock Enterprise and the Offshore Finance Centre.

² The Water Assurance Fund is a GBE and its account is in the Administration Services Fund.

- 10 Some services on the Island are usually provided by more than one level of government in the States. Analyses for this report have:
- split the Administration's expenses between Australian Government, State and local government based on the proportion of expenses on services administered by the Administration classified to these sectors;
 - split the expenses for the Norfolk Island Works Depot and Mechanical Garage equally between Australian Government, State and local government because there is no information available to make a more informed split;
 - split the expenses for the Norfolk Island Legislative Assembly equally between State and local government;
 - split the expenses on tourism and interest income equally between State and local government because there is no information available to make a more informed split; and
 - split the Revenue Fund depreciation expenses between Australian Government, State and local government based on the functions for which buildings and other assets are used, as reported in the Norfolk Island Government's Asset Management Plan.
- 11 All expenses on roads are classified as local government-type expenses because it is unlikely that any Norfolk Island roads would be considered State arterial roads.
- 12 Expenses on Kingston and Arthur's Vale Historic Area (KAVHA) are classified as State-type expenses, and expenses on the other culture and recreation services are classified to the local government sector.
- 13 GBEs are classified to the State and local government sectors as follows:
- State — Gaming Enterprise, Electricity Service, Lighterage Services and Norfolk Island Hospital Enterprise; and
 - Local — Liquor Supply Service and Norfolk Island Airport.

TOTAL STATE AND LOCAL GOVERNMENT REVENUES AND EXPENSES

- 14 Table A-1 summarises the Norfolk Island Government's State and local government revenues and expenses for 2002-03 to 2004-05. It also shows the change over the period and the sector to which revenues and expenses have been classified. Table A-2 shows the per capita figures.
- 15 The tables show the user charges for Health, Welfare, and Water and sanitation separately. This is because those user charges are large relative to the related expenses.
- 16 Table A-1 shows that, between 2002-03 and 2004-05, the three fastest growing revenue items were Gambling Taxation (162 per cent), Financial Transaction Taxes (47 per cent) and Interest Income (40 per cent). The impact of these increases was offset by lower Stamp Duty on Conveyances (21 per cent below 2002-03) and Other Revenue (9 per cent below 2002-03).

Table A-1 Norfolk Island Government State and local government-type revenues and expenses, 2002-03 to 2004-05

	2002-03	2003-04	2004-05	Change 2002-03 to 2004-05	Level of Govt
	\$000	\$000	\$000	%	
Revenue					
Land revenue (absentee landlord levy)	115.922	122.263	112.997	-2.5	State
Stamp duty on conveyances (land title fees)	414.576	603.625	329.578	-20.5	State
Financial transaction taxes (financial institution levies and stamp duty on cheques)	779.768	840.821	1 143.792	46.7	State
Gambling taxation	152.743	356.697	400.049	161.9	State
Motor taxes	426.915	452.697	470.939	10.3	State
Departure fees	984.680	1 218.918	1 080.930	9.8	Local
Accommodation levy	571.277	568.751	560.435	-1.9	State
Interest income	146.783	173.506	205.197	39.8	State & local
Contributions by trading enterprises	1 334.178	1 369.699	1 624.450	21.8	State & local
Other revenue	644.131	1 219.529	589.579	-8.5	State & local
Fees and fines	25.182	26.369	30.758	22.1	State
Water, sanitation and protection of the environment user charges	488.562	548.666	624.613	27.8	Local
Total revenue	6 084.717	7 501.540	7 173.316	17.9	State & local
Expenses					
Education	2 136.910	2 081.573	2 328.463	9.0	State
Health	726.614	914.612	863.373	18.8	State & local
<i>comprised of - expenses</i>	2 257.079	2 392.053	2 492.991	10.5	
<i>- user charges</i>	-1 530.465	-1 477.440	-1 629.619	6.5	
Welfare	218.220	262.411	79.526	-63.6	State
<i>comprised of - expenses</i>	465.369	527.771	449.105	-3.5	
<i>- user charges</i>	- 247.149	- 265.360	- 369.579	49.5	
Police	346.798	340.340	434.794	25.4	State
Administration of justice	241.275	260.027	230.690	-4.4	State
Corrective services	0.000	0.000	67.460	na	State
Culture and recreation	377.514	412.042	467.080	23.7	State & local
Water, sanitation and protection of the environment	470.950	766.508	767.903	63.1	Local
Roads	486.192	496.495	545.336	12.2	Local
Primary industry	0.000	2.448	0.000	na	State & local
Tourism	799.925	851.527	1 000.453	25.1	State & local
General public services	2 471.856	2 799.631	2 762.108	11.7	State & local
Depreciation ^(a)	719.073	840.655	877.707	22.1	State & local
Total expenses	8 995.326	10 028.270	10 424.892	15.9	State & local
Net expenses	2 910.609	2 526.731	3 251.576	11.7	State & local

(a) Includes depreciation expenses of the Revenue Fund, Water Assurance Fund and the Norfolk Island Hospital Enterprise.

Source: Norfolk Island accounts and financial statements.

Table A-2 Norfolk Island Government State and local government-type revenues and expenses, 2002-03 to 2004-05, per capita^(a)

	2002-03	2003-04	2004-05	Level of Govt
	\$pc	\$pc	\$pc	
Revenue				
Land revenue (absentee landlord levy)	55.95	59.84	56.13	State
Stamp duty on conveyances (land title fees)	200.08	295.46	163.72	State
Financial transaction taxes (financial institution levies and stamp duty on cheques)	376.34	411.56	568.20	State
Gambling taxation	73.72	174.59	198.73	State
Motor taxes	206.04	221.58	233.95	State
Departure fees	475.23	596.63	536.97	Local
Accommodation levy	275.71	278.39	278.41	State
Interest income	70.84	84.93	101.94	State & local
Contributions by trading enterprises	643.91	670.44	806.98	State & local
Other revenue	310.87	596.93	292.89	State & local
Fees and fines	12.15	12.91	15.28	State
Water, sanitation and protection of the environment user charges	235.79	268.56	310.29	Local
Total revenue	2 936.64	3 671.83	3 563.50	State & local
Expenses				
Education	1 031.33	1 018.88	1 156.71	State
Health	350.68	447.68	428.90	State & local
<i>comprised of - expenses</i>	<i>1 089.32</i>	<i>1 170.85</i>	<i>1 238.45</i>	
- user charges	- 738.64	- 723.17	- 809.55	
Welfare	105.32	128.44	39.51	State
<i>comprised of - expenses</i>	<i>224.60</i>	<i>258.33</i>	<i>223.10</i>	
- user charges	- 119.28	- 129.89	- 183.60	
Police	167.37	166.59	215.99	State
Administration of justice	116.45	127.28	114.60	State
Corrective services	0.00	0.00	33.51	State
Culture and recreation	182.20	201.68	232.03	State & local
Water, sanitation and protection of the environment	227.29	375.19	381.47	Local
Roads	234.65	243.02	270.91	Local
Primary industry	0.00	1.20	0.00	State & local
Tourism	386.06	416.80	497.00	State & local
General public services	1 192.98	1 370.35	1 372.14	State & local
Depreciation ^(b)	347.04	411.48	436.02	State & local
Total expenses	4 341.37	4 908.60	5 178.78	State & local
Net expenses	1 404.73	1 236.77	1 615.29	State & local

(a) Financial year population used is the average of ordinarily resident population at end of June for each year.

(b) Includes depreciation expenses of the Revenue Fund, Water Assurance Fund and the Norfolk Island Hospital Enterprise.

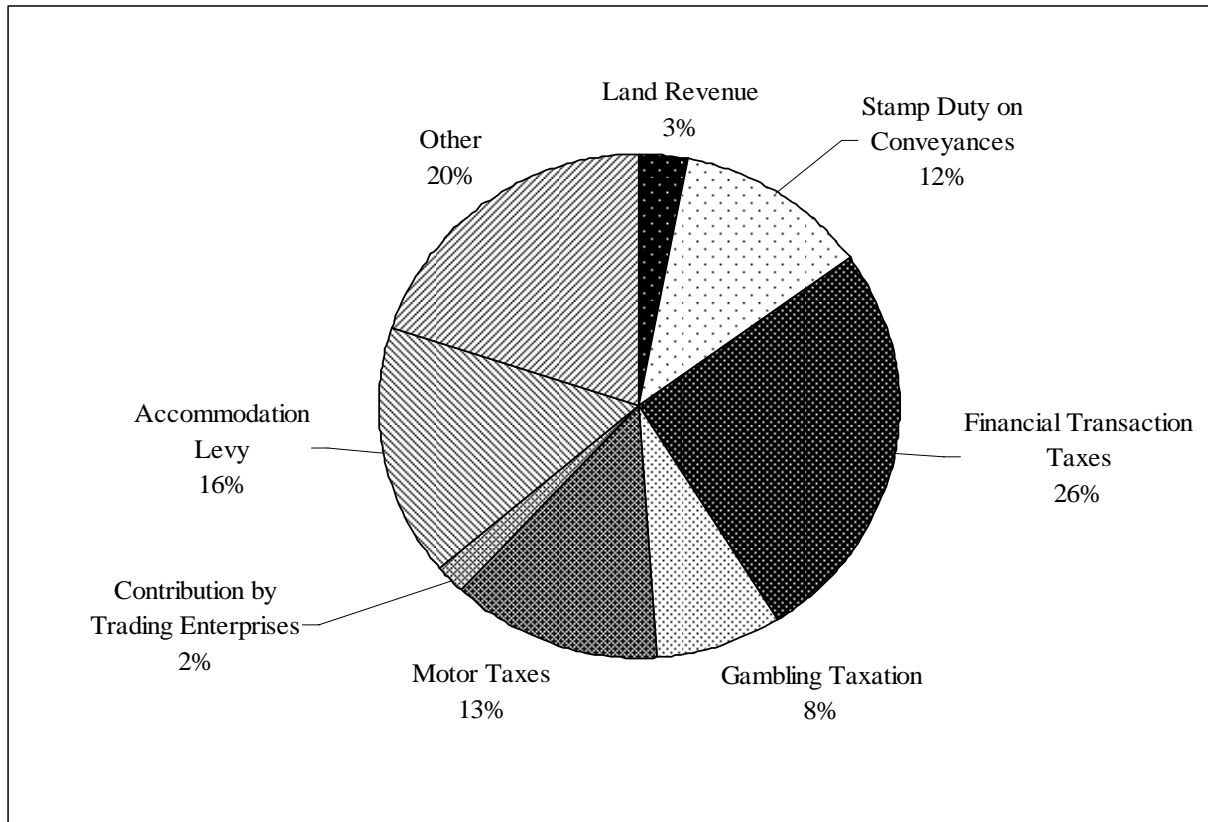
Source: Norfolk Island accounts and financial statements.

- 17 The Norfolk Island Government's Other Revenue fluctuated over the period. The major components of this item were liquor licence fees, company fees, Crown lease rental income and miscellaneous income. In 2003-04, it also included an amount of \$545 000 of revenue from a bequest. Stamp Duty on Conveyances was also high in 2003-04, reflecting the higher turnover of land and other properties in that year.
- 18 Table A-1 also shows that there were notable increases between 2002-03 and 2004-05 in expenses on Water, Sanitation and Protection of the Environment (63 per cent), Police (25 per cent), Tourism (25 per cent), Culture and Recreation (24 per cent) and Depreciation (22 per cent). Health expenses (net of user charges) also increased by 19 per cent and Welfare expenses (also net) decreased by 64 per cent. Water, Sanitation and Protection of the Environment user charges were higher than the expenses in 2002-03.
- 19 Overall, Table A-1 shows that the Norfolk Island Government ran a deficit of \$3.3 million on its State and local government-type responsibilities in 2004-05, the highest of the three years presented. This is equivalent to \$1615 per capita (Table A-2).

STATE-TYPE REVENUES

- 20 Figure A-1 illustrates the importance of different State-type revenues raised by the Norfolk Island Government for the period 2002-03 to 2004-05. It shows that Financial Transaction Taxes was the most important revenue, comprising 26 per cent of total Norfolk Island Government State-type revenues. The main component of the Norfolk Island Government's Financial Transaction Taxes was the financial institutions levy.
- 21 'Other' was the next most important revenue item, comprising 20 per cent of total Norfolk Island Government State-type revenue.
- 22 Contributions by trading enterprises were the least important revenue (2 per cent). They consisted of a \$200 000 contribution from the Electricity GBE in 2004-05 and contributions of around \$6 000 each year from the Lighterage Service. The other trading enterprises that made contributions to the Norfolk Island Government were classified as Australian government-type revenues, and hence out of scope, (Norfolk Island Telecom) or as local government enterprises.

Figure A-1 Norfolk Island revenue by type of State revenues — proportion of total State-type revenues, 2002-03 to 2004-05



Source: Norfolk Island accounts and financial statements.

Note: 'Other' includes fees and fines, liquor licence fees, company fees, Crown lease rental income and miscellaneous income.

- 23 Table A-3 shows the average per capita State-type revenues of the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2002-03 to 2004-05.
- 24 The table shows that no revenue was collected by the Norfolk Island Government from Payroll Tax, Stamp Duties on Shares and Marketable Securities, Insurance Taxation and Mining Revenue. It also shows that Norfolk Island imposes some taxes which are no longer raised by the States. These include the financial institutions levy and the accommodation levy.
- 25 For all heads of revenue, except for Financial Transaction Taxes and Other Revenue, the all States average per capita amount was greater than the equivalent for Norfolk Island.

Table A-3 Average per capita State-type revenues, 2002-03 to 2004-05^(a)

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
Payroll tax	0.00	561.94	360.36	501.47	548.96
Land revenue	57.31	166.73	68.58	0.00	158.06
Stamp duty on conveyances	219.76	551.92	253.85	302.34	474.18
Financial transaction taxes	452.03	77.55	27.09	38.36	64.54
Stamp duties on shares and marketable securities	0.00	4.01	0.06	3.83	5.31
Gambling taxation	149.01	65.34	161.15	210.32	203.68
Insurance taxation	0.00	138.33	66.96	100.10	99.22
Motor taxes	220.52	322.73	237.15	185.21	260.08
Mining revenue	0.00	588.47	19.89	210.19	118.83
Interest income	42.95	57.74	66.53	92.25	94.77
Contribution by trading enterprises	37.02	365.77	380.81	335.89	243.71
Other Revenue	585.67	5.81	0.00	2.10	27.29
<i>Comprised of - accommodation levy</i>	<i>277.50</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
- other revenue ^(b)	<i>308.16</i>	<i>5.81</i>	<i>0.00</i>	<i>2.10</i>	<i>27.29</i>
Fees and fines	13.45	59.00	53.70	21.15	62.44
Total revenues	1 777.72	2 965.34	1 696.12	2 003.23	2 361.08

(a) These revenues do not include grants from the Australian Government.

(b) For Norfolk Island, this includes the value of a one-off bequeath from a deceased estate.

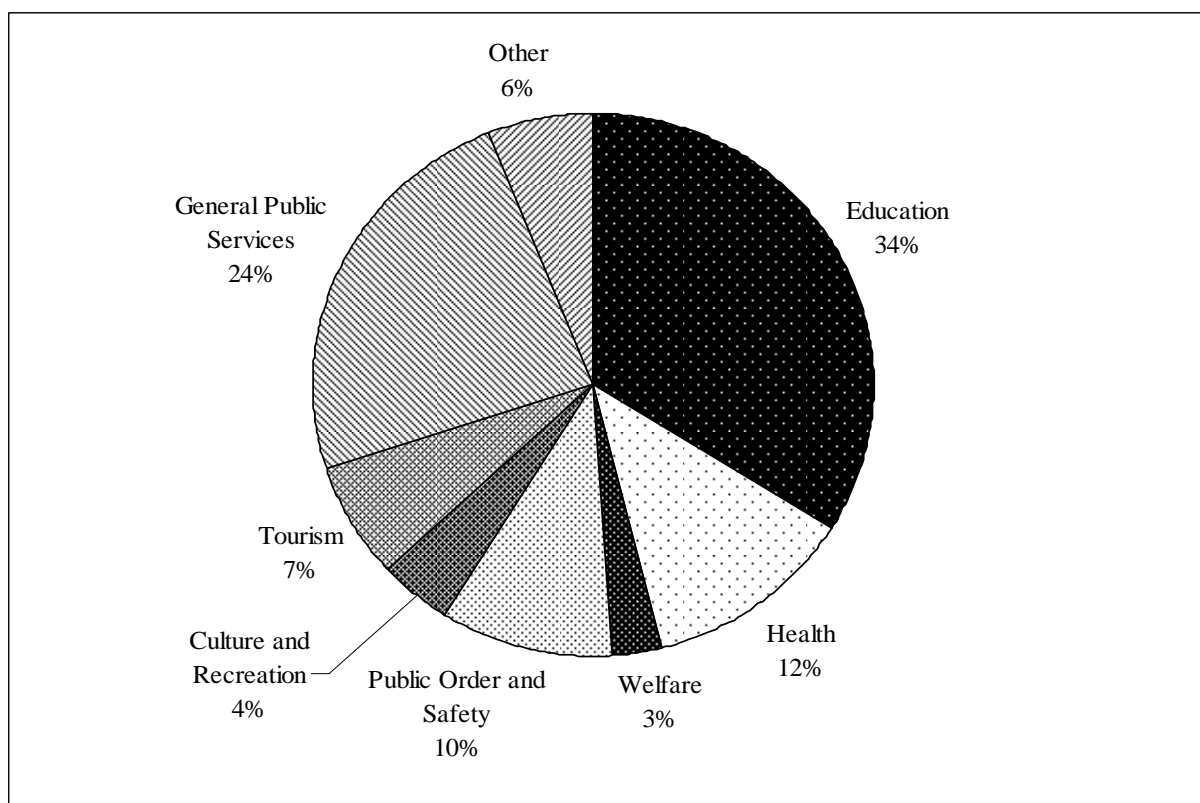
Source: Norfolk Island accounts and financial statements and CGC 2006 Update adjusted budget.

STATE-TYPE EXPENSES

- 26 Figure A-2 illustrates the importance of different State-type services provided by the Norfolk Island Government during 2002-03 to 2004-05. It shows that Education was the largest service, comprising 34 per cent of Norfolk Island Government State-type expenses. General Public Services was the next most important service, comprising 24 per cent of Norfolk Island Government State-type expenses. This group mainly comprised expenses of the Administration, the Works Depot and the Norfolk Island Legislative Assembly¹.
- 27 If Health and Welfare expenses had been shown on a gross basis, they would have accounted for 28 per cent and 6 per cent respectively of Norfolk Island Government State-type expenses. Both services had very high user charges (see Table A-4).
- 28 'Other' accounted for 6 per cent of Norfolk Island Government State-type expenses. It mainly included depreciation expenses for all years and minor expenses for Primary Industry and Water, Sanitation and Protection of the Environment in 2003-04.

¹ Expenses of Administration are split between Australian government, State and local government services based on the proportion of non-Administrative expenses allocated to each; expenses of Works Depot are split equally between Australian government, State and local government; and expenses of Norfolk Island Legislative Assembly are split equally between State and local government.

Figure A-2 Norfolk Island expenses by type of State services — annual average proportion of total State-type expenses, 2002-03 to 2004-05



Source: Norfolk Island accounts and financial statements

Note: 'Public Order and Safety' includes Police, Administration of Justice, Corrective Services and Public Safety and Emergency Services. 'Other' includes Depreciation and Water, Sanitation and Protection of the Environment.

- 29 Table A-4 shows the average per capita expenses on State-type services of the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2002-03 to 2004-05. It shows that some State-type services were not provided by the Norfolk Island Government. For example, no Housing expenses were incurred. No Roads expenses are shown in the table because all roads on the Island have been classified as local roads.
- 30 There were no expenses on Electricity and Gas because the Electricity GBE received no subsidy, unlike equivalent GBEs in the States. There was a minor expense for Water, Sanitation and Protection of the Environment. This mainly consisted of a subsidy of \$88 000 paid to the Water Assurance Fund for waste management in 2003-04.
- 31 There were no Debt Charges expenses because the Australian Government loans to the Norfolk Island Government were interest free.
- 32 Norfolk Island's Tourism, General Public Services and Depreciation expenses have been allocated between State and local government-type services. For this reason, the most meaningful comparisons for these categories are made at the total State and local government level.

- 33 The table also shows that, for the majority of the services, the average per capita expense of all States was higher than that of Norfolk Island. The exceptions were Administration of Justice, Culture and Recreation, Tourism, General Public Services, and Depreciation.

Table A-4 Average per capita expenses on State-type services, 2002-03 to 2004-05^(a)

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
Education	1 068.97	1 373.97	1 356.89	2 204.92	1 224.34
Health ^(b)	385.69	1 281.84	1 106.20	2 282.64	1 110.37
<i>comprised of - expenses</i>	<i>1 142.81</i>	<i>1 357.03</i>	<i>1 233.59</i>	<i>2 382.20</i>	<i>1 233.80</i>
- user charges	- 757.12	- 75.19	- 127.38	- 99.56	- 123.43
Welfare	91.09	340.95	379.92	858.46	421.52
<i>comprised of - expenses</i>	<i>235.34</i>	<i>346.53</i>	<i>388.19</i>	<i>875.81</i>	<i>431.96</i>
- user charges	- 144.25	- 5.58	- 8.27	- 17.35	- 10.45
Housing	0.00	169.63	221.87	553.57	155.87
Police	183.32	264.95	240.48	553.11	233.95
Administration of justice	119.44	124.61	97.13	216.66	109.45
Corrective services	11.17	144.89	73.86	303.43	92.40
Public safety and emergency services ^(c)	0.00	26.12	4.82	118.34	16.70
Culture and recreation	142.45	163.92	193.21	563.94	131.91
Electricity and gas	0.00	26.14	7.21	196.00	22.03
Water, sanitation and protection of the environment	14.36	184.78	17.41	30.99	69.37
Roads	0.00	194.91	261.13	258.73	281.32
Other transport	0.00	218.40	54.50	94.15	244.39
Tourism	216.64	38.73	83.30	217.37	21.38
Other services to industry	0.20	234.44	168.97	659.56	185.27
General public services	765.45	301.71	514.75	1 348.15	253.98
<i>comprised of - NI Administration</i>	<i>586.11</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
- NI Leg Assembly	<i>120.41</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
- other expenses	<i>58.93</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
Depreciation ^(d)	193.51	204.95	147.83	567.72	189.31
Debt charges	0.00	86.17	122.13	689.14	108.78
Superannuation ^(e)	0.00	637.88	852.32	1 443.31	579.23
Total expenses	3 192.29	6 019.00	5 903.95	13 160.18	5 451.56

- (a) For Norfolk Island, financial year population used is the average of ordinarily resident population at end of June for each year.
- (b) Expenses and user charges of the Dispensary Department of the Norfolk Island Hospital have been split between State (4 per cent) and private (96 per cent) based on information provided by the Norfolk Island Hospital. The amounts allocated to private are excluded from the analysis.
- (c) State figures exclude expenses on natural disaster relief and are also net of contributions from property owners and insurance companies to fire brigades.
- (d) Includes depreciation expenses in the Revenue Fund and Norfolk Island Hospital Enterprise.
- (e) Superannuation expenses for Norfolk Island are included in each function.

Note: 'na' — not applicable.

Source: Norfolk Island accounts and financial statements and CGC 2006 Update adjusted budget.

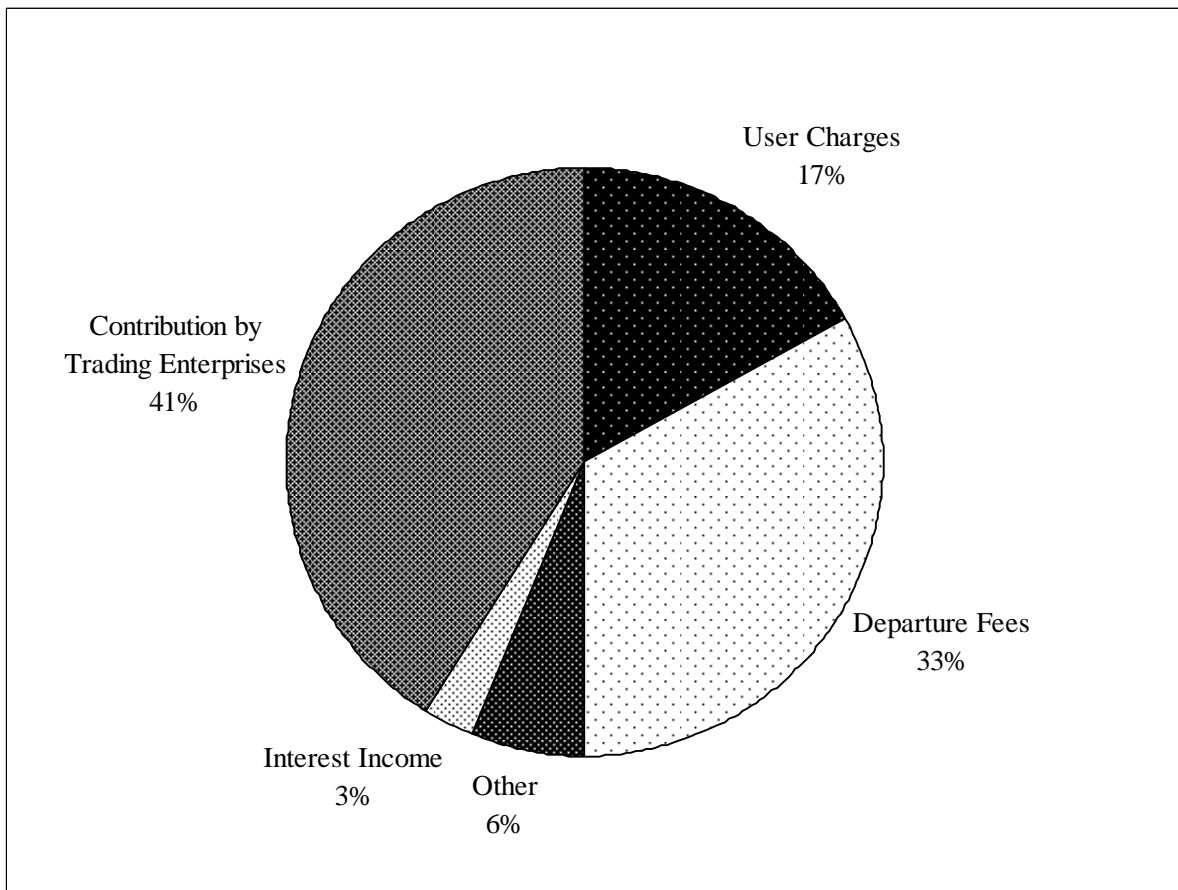
- 34 The Norfolk Island Government's per capita user charges for Health and Welfare were much higher than the States and the all States average. These were operating income raised by the Norfolk Island Hospital from the provision of health and welfare services in the Hospital. They reflect the Island's user pays policy for non-catastrophic costs of health care.

LOCAL GOVERNMENT-TYPE REVENUES

35 Figure A-3 illustrates the importance of each type of local government revenue raised by the Norfolk Island Government for the period 2002-03 to 2004-05. It shows that:

- Contributions by trading enterprises were the most important revenue, comprising 41 per cent of total Norfolk Island Government local government-type revenue. The Liquor Services contributed more than \$1 million each year and the Norfolk Island Airport contributed \$185 000 in 2004-05;
- Departure Fees were the second most important revenue, comprising 33 per cent of total Norfolk Island Government local government-type revenues. This revenue was collected by the Tourist Bureau and was hypothecated to tourism expenses; and
- User charges comprised 17 per cent of total Norfolk Island Government local government-type revenues. The major components of this revenue were effluent disposal charges and the waste management levy.

Figure A-3 Norfolk Island local government-type revenues — annual average proportion of total local government-type revenues, 2002-03 to 2004-05



Source: Norfolk Island Administration accounts and financial statements.

Note: 'User Charges' mainly includes user charges from Water, Sanitation and Protection of the Environment. 'Other' includes miscellaneous revenue.

- 36 Table A-5 shows the average per capita local government-type revenues of the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2002-03 to 2004-05.

Table A-5 Average per capita local government-type revenues, 2002-03 to 2004-05^(a)

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
Grants and subsidies ^(b)	0.00	116.33	162.55	367.88	114.21
Municipal rates	0.00	405.08	387.69	267.37	383.64
User charges ^(c)	271.55	198.64	466.87	269.22	316.01
Interest income	42.95	25.22	30.55	25.05	25.36
Other revenue	1 298.43	180.37	96.55	242.42	175.24
<i>comprised of - contributions by GBEs</i>	<i>670.08</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
<i>- departure fees</i>	<i>536.28</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
<i>- properties rental income</i>	<i>73.77</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
<i>- other revenue</i>	<i>18.30</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>
Total revenue	1 612.93	925.64	1 144.21	1 171.94	1 014.46

(a) For Norfolk Island, the financial year population used is the average of ordinarily resident population at the end of June in each year.

(b) These revenues are not separately identified in the Norfolk Island Government accounts and financial statements.

(c) For Norfolk Island, it mainly comprises user charges from Water, Sanitation and Protection of the Environment.

Note: 'na' — not applicable. Details for the States are not available in Government Finance Statistics (GFS).

Source: Norfolk Island accounts and financial statements and ABS publication *catalogue 5512.0 Government Finance Statistics*.

- 37 The table shows that Norfolk Island's per capita local government-type revenue was much higher than the all States average because of the high contributions from trading enterprises and departure fees.
- 38 The Norfolk Island Government's local government-type interest income was also higher than the all States average. However, this may be because the Norfolk Island Government's total interest income of \$86 per capita has been split equally between State and local government-type revenues. The Norfolk Island Government's total interest income was lower than the all States' average total State and local government interest income of \$120 per capita.
- 39 Municipal rates, which are the major revenue source for local governments in the States, were not imposed on the Island.

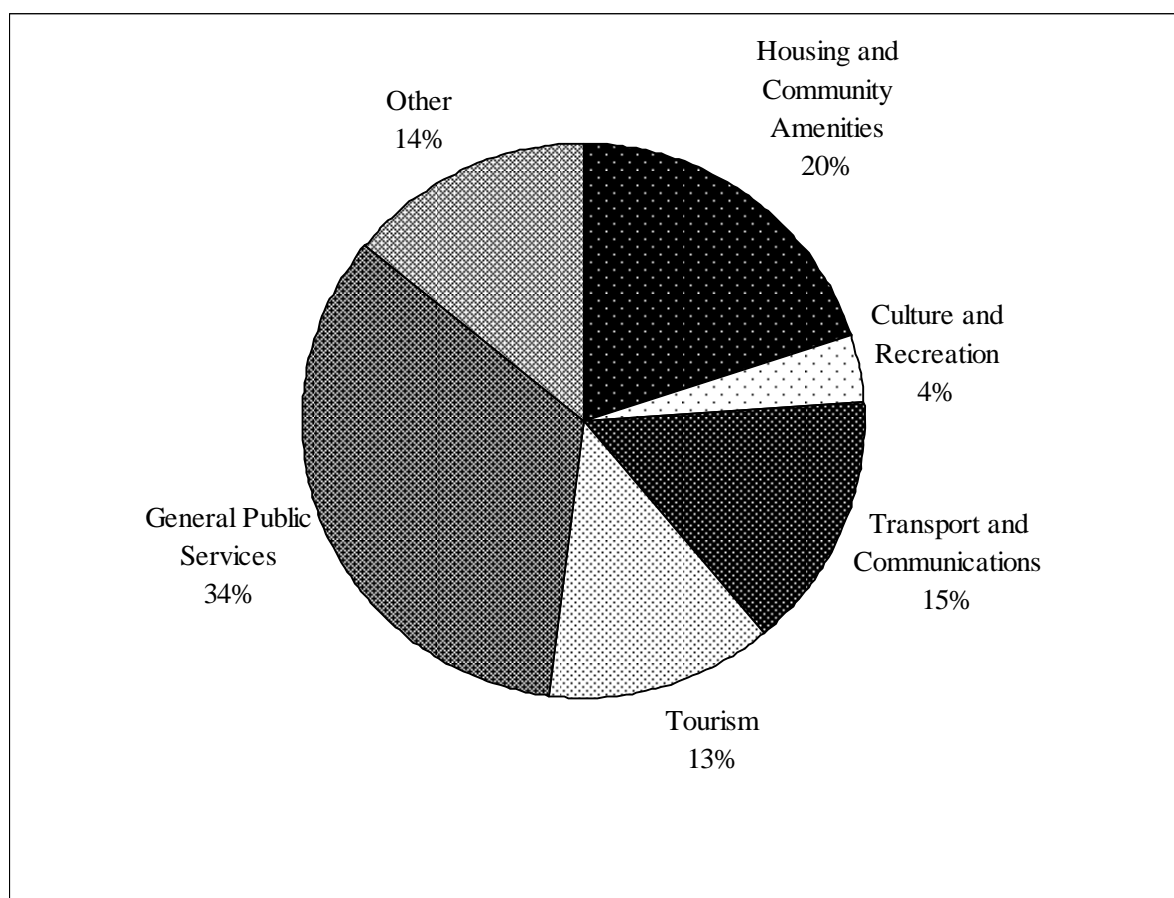
LOCAL GOVERNMENT-TYPE EXPENSES

- 40 Figure A-4 illustrates the importance of different local government-type services provided by the Norfolk Island Government for the period 2002-03 to 2004-05. It shows that:
- General Public Services was the most important service, comprising 34 per cent of total Norfolk Island Government local government-type expenses. This group mainly

comprised a share of the expenses of the Administration, the Works Depot and the Norfolk Island Legislative Assembly².

- Housing and Community Amenities was the second most important service, comprising 20 per cent of total Norfolk Island Government local government-type expenses. This group mainly comprised expenses on Water, Sanitation and Protection of the Environment.
- Culture and Recreation was the least important local government-type service.

Figure A-4 Norfolk Island local government-type expenses — annual average proportion of total local government-type expenses, 2002-03 to 2004-05



Source: Norfolk Island accounts and financial statements.

Note: 'Housing and Community Amenities' mainly includes Water, Sanitation and Protection of the Environment; 'Transport and Communications' mainly includes Roads; and 'Other' includes Depreciation, Health and Social Security and Welfare.

² Expenses of the Administration are split between Australian, State and local government based on the proportion of non-Administration expenses that are allocated to each; expenses of Works Depot are equally split between Australian Government, State and local government; and expenses of Norfolk Island Legislative Assembly are equally split between State and local government.

- 41 Table A-6 shows the average per capita expenses on local government-type services for the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2002-03 to 2004-05.

Table A-6 Average per capita expenses on local government-type services, 2002-03 to 2004-05^(a)

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
General public services	546.37	87.77	159.07	514.94	146.27
<i>comprised of - NI Administration</i>	282.14	na	na	na	na
- NI Legislative Assembly	120.41	na	na	na	na
- other expenses	143.82	na	na	na	na
Public order and safety	0.00	30.87	9.72	13.36	22.29
Education	0.00	4.43	0.00	4.99	3.80
Health	23.40	16.62	25.01	35.08	14.35
Social security and welfare	0.00	42.89	36.83	36.76	57.51
Housing and community amenities ^(b)	327.98	131.04	408.59	357.82	218.59
Culture and recreation	62.86	193.49	132.76	125.28	133.68
Services to industry	0.20	13.02	0.69	31.71	15.66
Transport and communications	249.53	278.99	257.82	175.60	231.31
Other economic affairs	216.64	22.40	22.91	211.88	34.49
<i>comprised of - tourism</i>	216.64	na	na	na	na
- other expenses	0.00	na	na	na	na
Public debt transactions	0.00	7.46	18.08	1.68	18.64
Depreciation ^(c)	204.67	0.00	0.00	0.00	0.00
Other expenses ^(d)	0.00	35.22	45.17	5.04	25.64
Total expenses	1 631.66	864.20	1 116.65	1 514.15	922.23

- (a) For the Norfolk Island, financial year population used is the average of ordinarily resident population at end of June for each year.
- (b) Includes Water, Sanitation and Protection of the Environment.
- (c) Includes depreciation expenses in the Revenue Fund and Water Assurance Fund. Depreciation expenses for the States are included in each function.
- (d) Other expenses for the States include miscellaneous expenses in GFS classification.
- Note: 'na' — not applicable. Details for the States are not available in GFS.
- Source: Norfolk Island accounts and financial statements and ABS publication *catalogue 5512.0 Government Finance Statistics*.

- 42 The table shows that the Norfolk Island Government's per capita total expense on local government-type services was higher than the all States average, even though some local government-type services were not provided. The Norfolk Island Government spent more than the all States average on each service it provided, except for Culture and Recreation and Services to Industry.
- 43 The Norfolk Island Government's per capita expense on Other Economic Affairs consisted only of tourism related expenses and was more than six times the all States average.
- 44 Tourism is generally both a State and local government function for the States. In the absence of reliable information, Norfolk Island's Tourism expenses have been split equally between State and local government-type services. The Norfolk Island Government's total tourism expenses (\$433 per capita) are more than eight times the Australian average per capita total of

expenses of the States and local government. This is consistent with tourism being the major industry and source of income on the Island.

SUMMARY OF NORFOLK ISLAND'S STATE AND LOCAL REVENUE AND EXPENSE ANALYSIS

- 45 This attachment shows the patterns of revenue and expenses³ for Norfolk Island are quite different from those of the States, both for State-type and local government-type responsibilities. Known differences, such as lower wage levels, the impact of isolation and the incidence of tourists, do not explain those differences. Most differences appear to reflect policy decisions of the Norfolk Island Government, such as decisions not to impose some State taxes, to impose some taxes that are no longer collected in the States or not to provide some services.
- 46 Comparisons of Norfolk Island's State-type per capita revenues and expenses with those of the States highlight the following significant differences:
- Norfolk Island has lower overall State-type per capita revenue. It has no payroll tax, stamp duties on shares and marketable securities, tax on insurance transactions and mining revenue. The Norfolk Island Government raises considerable revenue from a financial institutions levy, which is being abolished by the States, and an accommodation levy, which no longer applies. The per capita revenue from the remaining State-type taxes imposed on Norfolk Island is below the all State average.
 - State-type per capita expenses of the Norfolk Island Government are around 60 per cent of the average of the States. It has no expenses on welfare housing, transport services and roads⁴.
 - Areas where Norfolk Island's expenses are below State averages are education, law and order, water, sanitation and protection of the environment and services to industry other than tourism. Health and welfare expenses are also lower, reflecting the offsetting revenue from user charges imposed for most services delivered and a lower than average range of welfare services than are provided in the States.
 - Norfolk Island's expenses are higher in the area of culture and recreation (mainly KAVHA), tourism, general government services and depreciation.
- 47 Comparisons at the local government level suggest that:
- Local government-type per capita revenues raised by the Norfolk Island Government are higher than the average of the States because of the higher contributions from GBEs and

³ As in the rest of this attachment, comparisons in this section are based on three-year (2002-03 to 2004-05) average revenues and expenses.

⁴ All expenses on roads on the Island are classified as local government-type expenses.

the large revenue raised from airport departure fees. Unlike local governments in the rest of Australia, the Norfolk Island Government does not raise revenue from municipal rates.

- Local government-type per capita expenses are also above the average of the States, reflecting greater expenses for general public services, other economic affairs (including tourism) and water, sanitation and protection of the environment.

48 Comparisons at the total State and local government level show that:

- Norfolk Island does not impose the same range of taxes as the rest of Australia. Its per capita total revenues are around 10 per cent higher than the all State average. The main contributors to its higher revenue are departure taxes, financial transaction levy, accommodation levy, and contributions from the trading enterprises.
- Norfolk Island's per capita total expenses are lower than the all State average. It does not provide welfare housing and transport services, and does not pay interest on its loans. Expenses (net of user charges) on health and welfare services are low, but expenses on tourism and general public services are high.

49 Tables A-7 to A-12 provide a summary of State-type revenues and expenses for Norfolk Island, each State, and the total of all States for 2002-03 to 2004-05, in \$ thousand and \$ per capita. Tables A-13 to A-18 provide a summary of local government-type revenues and expenses for Norfolk Island, each State, and the total of all States for 2002-03 to 2004-05, in \$ thousand and \$ per capita.

Table A-7 State-type revenues and expenses, 2002-03

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Payroll Tax	0	4 123 093	2 619 725	1 333 715	1 003 668	654 095	155 482	162 788	99 226	10 151 792
Land Revenue	116	1 136 369	734 066	278 690	298 507	157 397	27 777	40 639	0	2 673 445
Stamp Duty on Conveyances	415	3 677 154	2 115 726	1 382 287	833 319	428 307	109 499	147 638	43 220	8 737 150
Financial Transaction Taxes	780	492 714	262 581	266 454	138 085	73 327	10 849	6 361	7 490	1 257 861
Stamp Duties on Shares and Marketable Securities	0	74 987	2 951	12 981	6 626	14 734	87	4 631	291	117 288
Gambling Taxation	153	1 262 227	1 325 690	639 203	118 783	339 677	71 759	49 701	37 731	3 844 771
Insurance Taxation	0	442 427	591 441	321 966	238 576	200 572	29 000	27 396	18 800	1 870 178
Motor Taxes	427	1 692 981	1 050 095	886 505	575 501	374 712	103 775	76 288	34 834	4 794 691
Other Revenue	1 037	472 577	54 097	85 386	14 700	4 057	0	7 192	522	638 531
Mining Revenue	0	234 909	20 665	690 656	1 117 712	81 565	3 422	0	41 248	2 190 177
Contributions by Trading Enterprises	8	1 409 095	780 396	1 095 759	628 999	284 815	178 434	47 700	55 879	4 481 077
Interest Income	73	440 000	366 000	83 000	107 084	137 524	24 000	77 204	17 710	1 252 522
User charges - Fees and Fines	25	453 516	439 537	135 259	106 909	113 708	27 820	20 615	4 146	1 301 510
Total revenue	3 033	15 912 049	10 362 970	7 211 861	5 188 469	2 864 489	741 904	668 153	361 097	43 310 992
Expenses										
Education	2 137	7 647 462	5 388 810	4 287 841	2 385 927	1 775 676	616 671	410 358	388 099	22 900 843
Health - expenses	2 211	7 552 898	5 633 146	3 676 281	2 509 155	1 928 274	516 498	397 170	434 750	22 648 172
Health - user charges	- 1 530	- 636 327	- 920 243	- 341 086	- 168 317	- 196 241	- 69 000	- 49 926	- 16 746	- 2 397 886
Welfare - expenses	465	2 944 221	2 173 291	1 162 194	611 050	621 930	213 395	140 808	149 632	8 016 521
Welfare - user charges	- 247	- 97 721	- 15 017	- 12 948	- 10 000	- 34 948	- 6 000	- 1 538	- 2 774	- 180 946
Housing	0	1 027 693	661 000	480 258	292 753	352 179	92 500	65 588	105 961	3 077 932
Police	347	1 534 574	1 038 000	761 112	478 608	343 076	104 000	78 902	96 942	4 435 214
Administration of Justice	241	588 912	363 000	346 475	233 331	282 443	43 839	44 259	40 861	1 943 119
Corrective Services	0	652 983	321 000	308 883	258 366	114 359	39 000	30 669	56 893	1 782 153
Public Safety and Emergency Services	0	80 078	97 828	54 051	71 928	22 808	2 782	30 983	19 762	380 219
Culture & Recreation (includes National Parks)	282	808 861	597 920	409 617	299 960	223 088	91 872	32 837	94 829	2 558 983
Electricity and Gas	0	23 246	85 360	224 514	37 203	1 251	5 209	3 979	39 062	419 825
Water, Sanitation and Protection of the Environment	0	470 177	321 000	58 304	334 000	254 744	10 000	- 3 135	6 326	1 451 415
Non-urban Transport	0	351 945	175 734	265 682	184 241	87 089	4 800	0	8 270	1 077 760
Roads	0	1 830 162	1 216 021	1 187 268	344 295	372 796	138 628	32 247	42 324	5 163 741
Urban Transit	0	1 522 278	917 979	444 048	281 645	168 168	20 955	47 605	9 000	3 411 678
Primary Industry	0	534 560	347 708	508 847	224 234	126 251	59 539	0	33 541	1 834 681
Mining, Fuel and Energy	0	66 198	14 886	47 905	126 178	2 968	4 832	0	17 629	280 596
Tourism	400	63 396	24 000	125 534	68 821	37 116	35 000	14 717	37 984	406 568
Manufacturing and Other Industry	0	43 270	0	25 107	16 000	41 129	663	0	57 931	184 100
Subsidies - Petroleum & Alcohol, GST Amin Costs Products	0	231 875	179 368	577 180	64 614	67 990	27 481	9 185	9 176	1 166 869
Superannuation	0	3 348 156	3 364 500	2 524 747	1 216 500	1 086 256	395 900	302 314	288 800	12 527 173
General Public Services	1 500	1 016 020	779 698	1 229 350	751 595	182 294	194 285	250 814	243 196	4 647 252
Debt Charges	0	806 888	543 752	209 396	193 843	294 015	77 068	53 861	142 616	2 321 440
Depreciation	326	1 189 421	762 000	781 326	398 000	258 506	71 000	58 752	108 994	3 627 999
Total expenses	6 132	33 601 224	24 070 739	19 341 887	11 203 930	8 413 218	2 690 917	1 950 449	2 413 058	103 685 421

Table A-8 State-type revenues and expenses (per capita), 2002-03

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Payroll Tax	0.00	619.13	536.26	354.92	518.30	429.61	327.51	504.68	500.50	513.83
Land Revenue	55.95	170.64	150.26	74.16	154.15	103.38	58.51	125.99	0.00	135.32
Stamp Duty on Conveyances	200.08	552.16	433.09	367.85	430.33	281.31	230.65	457.71	218.00	442.23
Financial Transaction Taxes	376.34	73.99	53.75	70.91	71.31	48.16	22.85	19.72	37.78	63.67
Stamp Duties on Shares and Marketable Securities	0.00	11.26	0.60	3.45	3.42	9.68	0.18	14.36	1.47	5.94
Gambling Taxation	73.72	189.54	271.37	170.10	61.34	223.10	151.16	154.08	190.32	194.60
Insurance Taxation	0.00	66.44	121.07	85.68	123.20	131.73	61.09	84.93	94.83	94.66
Motor Taxes	206.04	254.22	214.95	235.91	297.19	246.11	218.60	236.51	175.70	242.68
Other Revenue	500.40	70.96	11.07	22.72	7.59	2.66	0.00	22.30	2.63	32.32
Mining Revenue	0.00	35.27	4.23	183.79	577.19	53.57	7.21	0.00	208.06	110.86
Contributions by Trading Enterprises	3.77	211.59	159.75	291.60	324.82	187.07	375.86	147.88	281.86	226.81
Interest Income	35.42	66.07	74.92	22.09	55.30	90.33	50.55	239.35	89.33	63.40
User charges - Fees and Fines	12.15	68.10	89.97	35.99	55.21	74.68	58.60	63.91	20.91	65.88
Total revenue	1 463.87	2 389.37	2 121.30	1 919.19	2 679.35	1 881.38	1 562.77	2 071.43	1 821.39	2 192.18
Expenses										
Education	1 031.33	1 148.35	1 103.09	1 141.06	1 232.10	1 166.26	1 298.98	1 272.20	1 957.58	1 159.12
Health - expenses	1 067.11	1 134.15	1 153.11	978.32	1 295.74	1 266.48	1 087.97	1 231.32	2 192.89	1 146.33
Health - user charges	- 738.64	- 95.55	- 188.37	- 90.77	- 86.92	- 128.89	- 145.34	- 154.78	- 84.47	- 121.37
Welfare - expenses	224.60	442.11	444.87	309.28	315.55	408.48	449.50	436.54	754.75	405.76
Welfare - user charges	- 119.28	- 14.67	- 3.07	- 3.45	- 5.16	- 22.95	- 12.64	- 4.77	- 13.99	- 9.16
Housing	0.00	154.32	135.31	127.80	151.18	231.31	194.85	203.34	534.47	155.79
Police	167.37	230.43	212.48	202.54	247.16	225.33	219.07	244.61	488.98	224.49
Administration of Justice	116.45	88.43	74.31	92.20	120.49	185.51	92.34	137.21	206.10	98.35
Corrective Services	0.00	98.05	65.71	82.20	133.42	75.11	82.15	95.08	286.97	90.20
Public Safety and Emergency Services	0.00	12.02	20.03	14.38	37.14	14.98	5.86	96.05	99.68	19.24
Culture & Recreation (includes National Parks)	135.86	121.46	122.39	109.01	154.90	146.52	193.52	101.80	478.32	129.52
Electricity and Gas	0.00	3.49	17.47	59.75	19.21	0.82	10.97	12.34	197.03	21.25
Water, Sanitation and Protection of the Environment	0.00	70.60	65.71	15.52	172.48	167.31	21.06	- 9.72	31.91	73.46
Non-urban Transport	0.00	52.85	35.97	70.70	95.14	57.20	10.11	0.00	41.71	54.55
Roads	0.00	274.82	248.92	315.95	177.80	244.85	292.01	99.97	213.49	261.36
Urban Transit	0.00	228.59	187.91	118.17	145.44	110.45	44.14	147.59	45.40	172.68
Primary Industry	0.00	80.27	71.18	135.41	115.80	82.92	125.41	0.00	169.18	92.86
Mining, Fuel and Energy	0.00	9.94	3.05	12.75	65.16	1.95	10.18	0.00	88.92	14.20
Tourism	193.03	9.52	4.91	33.41	35.54	24.38	73.73	45.63	191.59	20.58
Manufacturing and Other Industry	0.00	6.50	0.00	6.68	8.26	27.01	1.40	0.00	292.21	9.32
Subsidies - Petroleum & Alcohol, GST Amin Costs Products	0.00	34.82	36.72	153.60	33.37	44.66	57.89	28.48	46.28	59.06
Superannuation	0.00	502.76	688.71	671.88	628.21	713.45	833.94	937.24	1 456.72	634.06
General Public Services	724.15	152.57	159.60	327.15	388.13	119.73	409.25	777.58	1 226.69	235.22
Debt Charges	0.00	121.16	111.31	55.72	100.10	193.11	162.34	166.98	719.36	117.50
Depreciation	157.54	178.60	155.98	207.92	205.53	169.79	149.56	182.14	549.77	183.63
Total expenses	2 959.52	5 045.59	4 927.29	5 147.19	5 785.76	5 525.77	5 668.24	6 046.84	12 171.55	5 248.03

Table A-9 State-type revenues and expenses, 2003-04

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Payroll Tax	0	4 350 208	2 714 297	1 479 120	1 119 928	713 865	169 752	172 209	90 503	10 809 882
Land Revenue	122	1 355 432	831 477	313 434	322 663	197 815	27 411	49 600	0	3 097 832
Stamp Duty on Conveyances	604	3 919 141	2 441 627	1 862 941	1 207 218	579 500	126 787	186 528	64 473	10 388 215
Financial Transaction Taxes	841	534 161	284 228	373 697	150 713	100 567	13 398	7 344	7 586	1 471 694
Stamp Duties on Shares and Marketable Securities	0	44 548	0	9 947	12 005	6 574	0	18 159	1 464	92 697
Gambling Taxation	357	1 313 548	1 324 234	725 837	132 331	378 964	79 172	53 395	40 306	4 047 787
Insurance Taxation	0	423 270	659 336	352 668	278 693	211 091	33 801	30 993	19 651	2 009 503
Motor Taxes	453	1 826 689	1 162 571	978 007	642 686	404 589	115 287	83 998	36 868	5 250 695
Other Revenue	1 607	418 161	67 278	77 730	10 507	10 484	0	1 814	510	586 484
Mining Revenue	0	232 862	21 483	636 707	1 017 531	75 177	6 830	0	39 379	2 029 969
Contributions by Trading Enterprises	9	1 771 195	607 750	1 121 675	758 488	336 594	186 751	28 631	68 078	4 879 162
Interest Income	87	861 000	374 000	474 711	116 480	171 699	28 119	76 159	19 040	2 121 208
User charges - Fees and Fines	26	460 807	382 140	159 508	120 222	78 381	25 686	991	4 217	1 231 953
Total revenue	4 105	17 511 022	10 870 421	8 565 982	5 889 465	3 265 300	812 994	709 821	392 075	48 017 080
Expenses										
Education	2 082	7 992 640	5 629 133	4 434 358	2 825 306	1 911 300	643 706	476 050	447 575	24 360 068
Health - expenses	2 340	8 281 563	5 959 787	3 994 235	2 664 137	2 149 673	538 956	438 039	470 257	24 496 646
Health - user charges	- 1 477	- 627 547	- 951 157	- 349 561	- 144 375	- 292 974	- 57 776	- 47 085	- 20 638	- 2 491 113
Welfare - expenses	528	3 170 552	2 413 583	1 189 421	649 294	630 908	217 581	145 330	174 963	8 591 632
Welfare - user charges	- 265	- 107 682	- 15 521	- 18 975	- 11 000	- 52 176	- 2 955	- 1 096	- 3 718	- 213 123
Housing	0	1 080 724	513 913	451 628	397 515	398 293	108 670	82 665	119 226	3 152 635
Police	340	1 629 139	969 000	825 614	525 202	365 677	113 000	85 076	112 752	4 625 460
Administration of Justice	260	607 137	607 244	370 556	252 008	253 043	44 550	48 982	41 003	2 224 523
Corrective Services	0	679 367	254 000	307 081	283 577	129 409	29 985	39 173	58 917	1 781 509
Public Safety and Emergency Services	0	70 104	13 121	32 088	52 476	52 618	2 852	23 604	24 748	271 611
Culture & Recreation (includes National Parks)	283	787 717	611 911	448 407	309 159	255 338	100 793	54 195	113 794	2 681 314
Electricity and Gas	0	41 146	85 540	257 277	54 750	6 220	4 200	- 18	38 056	487 171
Water, Sanitation and Protection of the Environment	88	398 512	239 000	57 388	365 000	261 410	11 000	- 1 199	9 562	1 340 673
Non-urban Transport	0	397 009	233 585	236 599	153 419	31 881	2 800	0	10 030	1 065 323
Roads	0	2 071 066	1 428 824	1 221 098	250 667	269 624	139 950	28 668	54 300	5 464 197
Urban Transit	0	1 690 385	1 212 274	458 787	234 513	133 140	21 670	44 486	11 000	3 806 255
Primary Industry	1	597 988	371 021	530 731	251 017	139 932	53 485	1 749	39 862	1 985 786
Mining, Fuel and Energy	0	141 721	16 911	55 727	137 432	4 068	5 830	0	17 350	379 039
Tourism	426	54 439	46 000	99 776	69 931	45 143	29 000	15 270	47 959	407 518
Manufacturing and Other Industry	0	74 602	0	34 191	18 000	49 155	663	0	69 981	246 592
Subsidies - Petroleum & Alcohol, GST Amin Costs Products	0	238 249	182 879	591 996	67 500	67 599	28 284	9 220	8 879	1 194 606
Superannuation	0	3 507 497	3 407 500	607 028	1 237 500	1 155 491	410 900	402 374	275 800	11 004 091
General Public Services	1 605	997 823	938 030	1 314 913	504 578	340 024	229 646	256 016	265 921	4 846 950
Debt Charges	0	790 409	531 876	163 490	161 886	249 928	64 102	50 682	142 632	2 155 006
Depreciation	424	1 220 846	790 000	822 597	402 000	285 624	72 000	61 946	116 000	3 771 013
Total expenses	6 633	35 785 406	25 488 454	18 136 453	11 711 492	8 840 348	2 812 893	2 214 127	2 646 211	107 635 383

Table A-10 State-type revenues and expenses (per capita), 2003-04

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Payroll Tax	0.00	649.02	549.59	384.61	570.07	466.64	353.52	532.29	454.97	540.92
Land Revenue	59.84	202.22	168.36	81.50	164.24	129.31	57.09	153.31	0.00	155.01
Stamp Duty on Conveyances	295.46	584.71	494.38	484.41	614.51	378.81	264.04	576.55	324.12	519.82
Financial Transaction Taxes	411.56	79.69	57.55	97.17	76.72	65.74	27.90	22.70	38.14	73.64
Stamp Duties on Shares and Marketable Securities	0.00	6.65	0.00	2.59	6.11	4.30	0.00	56.13	7.36	4.64
Gambling Taxation	174.59	195.97	268.13	188.73	67.36	247.72	164.88	165.04	202.63	202.55
Insurance Taxation	0.00	63.15	133.50	91.70	141.86	137.99	70.39	95.80	98.79	100.55
Motor Taxes	221.58	272.53	235.40	254.30	327.14	264.47	240.09	259.63	185.34	262.74
Other Revenue	786.56	62.39	13.62	20.21	5.35	6.85	0.00	5.61	2.56	29.35
Mining Revenue	0.00	34.74	4.35	165.56	517.95	49.14	14.22	0.00	197.97	101.58
Contributions by Trading Enterprises	4.22	264.25	123.06	291.66	386.09	220.02	388.92	88.50	342.24	244.15
Interest Income	42.46	128.46	75.73	123.44	59.29	112.24	58.56	235.40	95.72	106.14
User charges - Fees and Fines	12.91	68.75	77.38	41.48	61.20	51.24	53.49	3.06	21.20	61.65
Total revenue	2 009.20	2 612.53	2 201.06	2 227.35	2 997.89	2 134.46	1 693.12	2 194.01	1 971.03	2 402.75
Expenses										
Education	1 018.88	1 192.45	1 139.79	1 153.03	1 438.16	1 249.38	1 340.57	1 471.44	2 250.04	1 218.97
Health - expenses	1 145.32	1 235.56	1 206.74	1 038.59	1 356.12	1 405.20	1 122.42	1 353.95	2 364.06	1 225.80
Health - user charges	- 723.17	- 93.63	- 192.59	- 90.89	- 73.49	- 191.51	- 120.32	- 145.54	- 103.75	- 124.65
Welfare - expenses	258.33	473.03	488.71	309.28	330.51	412.41	453.13	449.21	879.57	429.92
Welfare - user charges	- 129.89	- 16.07	- 3.14	- 4.93	- 5.60	- 34.11	- 6.15	- 3.39	- 18.69	- 10.66
Housing	0.00	161.24	104.06	117.43	202.35	260.36	226.31	255.51	599.37	157.76
Police	166.59	243.06	196.20	214.68	267.34	239.04	235.33	262.96	566.82	231.46
Administration of Justice	127.28	90.58	122.96	96.35	128.28	165.41	92.78	151.40	206.13	111.31
Corrective Services	0.00	101.36	51.43	79.85	144.35	84.59	62.45	121.08	296.19	89.15
Public Safety and Emergency Services	0.00	10.46	2.66	8.34	26.71	34.40	5.94	72.96	124.41	13.59
Culture & Recreation (includes National Parks)	138.47	117.52	123.90	116.60	157.37	166.91	209.91	167.51	572.06	134.17
Electricity and Gas	0.00	6.14	17.32	66.90	27.87	4.07	8.75	- 0.06	191.31	24.38
Water, Sanitation and Protection of the Environment	43.07	59.46	48.39	14.92	185.79	170.88	22.91	- 3.71	48.07	67.09
Non-urban Transport	0.00	59.23	47.30	61.52	78.09	20.84	5.83	0.00	50.42	53.31
Roads	0.00	308.99	289.31	317.51	127.60	176.25	291.46	88.61	272.97	273.43
Urban Transit	0.00	252.19	245.46	119.30	119.37	87.03	45.13	137.50	55.30	190.46
Primary Industry	0.60	89.22	75.12	138.00	127.77	91.47	111.39	5.41	200.39	99.37
Mining, Fuel and Energy	0.00	21.14	3.42	14.49	69.96	2.66	12.14	0.00	87.22	18.97
Tourism	208.40	8.12	9.31	25.94	35.60	29.51	60.39	47.20	241.10	20.39
Manufacturing and Other Industry	0.00	11.13	0.00	8.89	9.16	32.13	1.38	0.00	351.81	12.34
Subsidies - Petroleum & Alcohol, GST Amin Costs Products	0.00	35.55	37.03	153.93	34.36	44.19	58.90	28.50	44.64	59.78
Superannuation	0.00	523.30	689.95	157.84	629.92	755.32	855.73	1 243.71	1 386.49	550.64
General Public Services	785.48	148.87	189.93	341.91	256.84	222.27	478.26	791.33	1 336.83	242.54
Debt Charges	0.00	117.92	107.69	42.51	82.40	163.37	133.50	156.65	717.04	107.84
Depreciation	207.40	182.14	159.96	213.89	204.63	186.71	149.95	191.47	583.15	188.70
Total expenses	3 246.77	5 338.95	5 160.93	4 715.89	5 961.46	5 778.76	5 858.07	6 843.72	13 302.96	5 386.02

Table A-11 State-type revenues and expenses, 2004-05

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Payroll Tax	0	4 821 736	3 044 955	1 673 909	1 191 541	746 686	193 579	184 815	110 378	11 967 599
Land Revenue	113	1 646 284	932 321	418 801	362 599	256 187	43 616	55 726	0	3 715 534
Stamp Duty on Conveyances	330	3 284 256	2 168 612	1 728 432	1 218 409	565 006	129 124	139 753	73 374	9 306 966
Financial Transaction Taxes	1 144	460 977	68 179	315 962	168 789	92 065	14 763	9 520	7 876	1 138 131
Stamp Duties on Shares and Marketable Securities	0	68 969	0	15 286	4 975	12 302	0	6 042	535	108 109
Gambling Taxation	400	1 432 725	1 368 987	805 978	134 264	400 783	81 006	51 459	47 860	4 323 062
Insurance Taxation	0	422 549	678 939	356 669	298 988	227 115	33 577	31 530	21 453	2 070 820
Motor Taxes	471	1 899 936	1 264 294	1 037 656	685 802	417 540	122 299	87 530	39 125	5 554 182
Other Revenue	946	245 444	74 844	73 767	8 974	3 397	0	1 908	224	408 558
Mining Revenue	0	396 348	20 683	993 291	1 336 793	101 002	18 501	0	45 149	2 911 767
Contributions by Trading Enterprises	207	1 738 345	1 001 531	1 088 752	770 649	303 322	182 728	96 005	77 126	5 258 458
Interest Income	103	1 047 000	339 700	515 424	116 933	160 560	43 781	77 638	18 441	2 319 477
User charges - Fees and Fines	31	468 215	343 926	175 459	120 845	70 543	23 716	1 277	4 289	1 208 270
Total revenue	3 744	17 932 784	11 306 971	9 199 386	6 419 561	3 356 508	886 690	743 203	445 830	50 290 932
Expenses										
Education	2 328	8 540 750	6 173 911	4 852 575	2 895 178	2 037 264	692 491	495 491	484 006	26 171 666
Health - expenses	2 448	8 977 008	6 540 646	4 323 548	2 830 516	2 439 879	721 155	512 114	520 705	26 865 571
Health - user charges	- 1 630	- 641 332	- 937 566	- 341 979	- 129 938	- 322 272	- 56 365	- 59 757	- 22 208	- 2 511 416
Welfare - expenses	449	3 181 137	2 692 126	1 370 218	784 854	759 954	126 748	186 498	199 686	9 301 221
Welfare - user charges	- 370	- 117 850	- 16 043	- 20 772	- 11 900	- 57 393	- 2 917	- 1 934	- 3 893	- 232 701
Housing	0	1 084 667	515 237	511 222	309 860	384 859	118 287	83 869	105 939	3 113 940
Police	435	1 676 773	1 160 165	870 151	559 149	364 656	129 220	88 705	121 353	4 970 172
Administration of Justice	231	701 135	727 041	390 546	249 438	187 256	51 422	44 011	47 807	2 398 655
Corrective Services	67	749 183	304 109	323 646	312 953	146 369	37 246	38 343	65 778	1 977 627
Public Safety and Emergency Services	0	116 855	53 460	37 208	28 954	49 989	1 292	35 116	26 326	349 201
Culture & Recreation (includes National Parks)	308	759 345	638 378	407 712	357 949	236 842	85 260	54 187	128 974	2 668 647
Electricity and Gas	0	21 501	27 945	251 715	62 510	8 872	931	0	40 146	413 619
Water, Sanitation and Protection of the Environment	0	363 013	257 980	70 127	391 063	281 352	4 000	- 4 993	2 610	1 365 153
Non-urban Transport	0	268 691	244 221	266 166	125 108	16 277	6 000	0	6 188	932 652
Roads	0	2 479 630	1 493 885	1 248 697	557 105	288 154	96 730	25 927	58 254	6 248 383
Urban Transit	0	1 879 078	1 267 474	641 122	307 955	195 815	22 207	40 231	11 833	4 365 716
Primary Industry	0	544 720	400 486	631 201	260 510	158 220	21 824	1 783	37 697	2 056 442
Mining, Fuel and Energy	0	82 291	5 525	57 748	111 718	33 286	10 682	0	17 913	319 162
Tourism	500	46 183	46 594	130 775	89 883	35 152	56 027	19 749	44 120	468 483
Manufacturing and Other Industry	0	43 318	0	33 816	36 537	33 512	663	0	75 479	223 326
Subsidies - Petroleum & Alcohol, GST Amin Costs Products	0	242 063	186 883	627 500	68 837	66 269	28 877	9 409	9 263	1 239 101
Superannuation	0	3 640 602	3 387 400	544 882	1 307 374	1 181 064	419 656	396 224	298 939	11 176 141
General Public Services	1 584	1 442 882	1 060 529	1 437 398	518 885	367 939	317 783	300 260	297 772	5 743 448
Debt Charges	0	820 866	421 256	212 556	151 595	220 554	34 135	53 316	126 879	2 041 157
Depreciation	434	1 271 874	822 845	893 930	408 224	300 204	69 675	71 874	114 656	3 953 283
Total expenses	6 785	38 174 382	27 474 489	19 771 708	12 584 317	9 414 075	2 993 030	2 390 424	2 816 223	115 618 648

Table A-12 State-type revenues and expenses (per capita), 2004-05

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Payroll Tax	0.00	714.44	609.63	426.38	597.44	485.72	400.06	569.46	548.95	592.14
Land Revenue	56.13	243.93	186.66	106.68	181.81	166.65	90.14	171.71	0.00	183.84
Stamp Duty on Conveyances	163.72	486.63	434.17	440.27	610.91	367.53	266.85	430.61	364.91	460.49
Financial Transaction Taxes	568.20	68.30	13.65	80.48	84.63	59.89	30.51	29.33	39.17	56.31
Stamp Duties on Shares and Marketable Securities	0.00	10.22	0.00	3.89	2.49	8.00	0.00	18.62	2.66	5.35
Gambling Taxation	198.73	212.29	274.08	205.30	67.32	260.71	167.41	158.56	238.02	213.90
Insurance Taxation	0.00	62.61	135.93	90.85	149.91	147.74	69.39	97.15	106.69	102.46
Motor Taxes	233.95	281.52	253.12	264.31	343.86	271.61	252.75	269.70	194.58	274.81
Other Revenue	470.03	36.37	14.98	18.79	4.50	2.21	0.00	5.88	1.11	20.21
Mining Revenue	0.00	58.73	4.14	253.01	670.27	65.70	38.24	0.00	224.54	144.07
Contributions by Trading Enterprises	103.08	257.57	200.52	277.33	386.40	197.31	377.63	295.81	383.57	260.18
Interest Income	50.97	155.13	68.01	131.29	58.63	104.44	90.48	239.22	91.71	114.76
User charges - Fees and Fines	15.28	69.38	68.86	44.69	60.59	45.89	49.01	3.93	21.33	59.78
Total revenue	1 860.10	2 657.12	2 263.75	2 343.27	3 218.77	2 183.40	1 832.48	2 289.98	2 217.26	2 488.32
Expenses										
Education	1 156.71	1 265.49	1 236.07	1 236.05	1 451.64	1 325.24	1 431.14	1 526.73	2 407.13	1 294.93
Health - expenses	1 215.99	1 330.13	1 309.49	1 101.30	1 419.22	1 587.14	1 490.38	1 577.95	2 589.64	1 329.27
Health - user charges	- 809.55	- 95.03	- 187.71	- 87.11	- 65.15	- 209.64	- 116.49	- 184.12	- 110.45	- 124.26
Welfare - expenses	223.10	471.35	538.99	349.02	393.53	494.35	261.94	574.64	993.11	460.21
Welfare - user charges	- 183.60	- 17.46	- 3.21	- 5.29	- 5.97	- 37.33	- 6.03	- 5.96	- 19.36	- 11.51
Housing	0.00	160.72	103.15	130.22	155.36	250.35	244.46	258.42	526.87	154.07
Police	215.99	248.45	232.28	221.65	280.36	237.21	267.05	273.32	603.53	245.92
Administration of Justice	114.60	103.89	145.56	99.48	125.07	121.81	106.27	135.61	237.76	118.68
Corrective Services	33.51	111.01	60.89	82.44	156.91	95.21	76.98	118.14	327.14	97.85
Public Safety and Emergency Services	0.00	17.31	10.70	9.48	14.52	32.52	2.67	108.20	130.93	17.28
Culture & Recreation (includes National Parks)	153.01	112.51	127.81	103.85	179.48	154.07	176.20	166.96	641.43	132.04
Electricity and Gas	0.00	3.19	5.59	64.12	31.34	5.77	1.92	0.00	199.66	20.47
Water, Sanitation and Protection of the Environment	0.00	53.79	51.65	17.86	196.08	183.02	8.27	- 15.38	12.98	67.55
Non-urban Transport	0.00	39.81	48.90	67.80	62.73	10.59	12.40	0.00	30.77	46.15
Roads	0.00	367.41	299.09	318.07	279.33	187.44	199.91	79.89	289.72	309.16
Urban Transit	0.00	278.42	253.76	163.31	154.41	127.38	45.89	123.96	58.85	216.01
Primary Industry	0.00	80.71	80.18	160.78	130.62	102.92	45.10	5.50	187.48	101.75
Mining, Fuel and Energy	0.00	12.19	1.11	14.71	56.02	21.65	22.08	0.00	89.09	15.79
Tourism	248.50	6.84	9.33	33.31	45.07	22.87	115.79	60.85	219.42	23.18
Manufacturing and Other Industry	0.00	6.42	0.00	8.61	18.32	21.80	1.37	0.00	375.39	11.05
Subsidies - Petroleum & Alcohol, GST Amin Costs Products	0.00	35.87	37.42	159.84	34.51	43.11	59.68	28.99	46.07	61.31
Superannuation	0.00	539.43	678.19	138.79	655.52	768.28	867.28	1 220.86	1 486.73	552.98
General Public Services	786.73	213.79	212.33	366.13	260.17	239.34	656.75	925.17	1 480.92	284.18
Debt Charges	0.00	121.63	84.34	54.14	76.01	143.47	70.55	164.28	631.02	100.99
Depreciation	215.58	188.45	164.74	227.70	204.68	195.28	143.99	221.46	570.22	195.60
Total expenses	3 370.57	5 656.33	5 500.63	5 036.26	6 309.78	6 123.83	6 185.54	7 365.46	14 006.04	5 720.63

Table A-13 Local government-type revenues and expenses, 2002-03

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Current grants and subsidies	0	765 000	516 000	465 000	187 000	152 000	72 000		46 000	2 203 000
Municipal rates	0	2 346 000	1 826 000	1 423 000	752 000	629 000	175 000		49 000	7 200 000
User charges										
Water Sanitation and Protection of the environment	489	823 000	194 000	1 487 000	148 000	45 000	161 000		12 000	2 870 000
Others	0	1 400 000	596 000	829 000	203 000	156 000	47 000		53 000	3 284 000
Total user charges	489	2 223 000	790 000	2 316 000	351 000	201 000	208 000		65 000	6 154 000
Interest income	73	210 000	47 000	91 000	38 000	14 000	12 000		4 000	416 000
Other Revenue										
Other revenue	1 163	na	na	na	na	na	na		na	na
Contribution by trading enterprises	1 326	na	na	na	na	na	na		na	na
Total other revenue	2 490	1 042 000	798 000	856 000	320 000	73 000	40 000		24 000	3 153 000
Total revenue	3 052	6 586 000	3 977 000	5 151 000	1 648 000	1 069 000	507 000		188 000	19 126 000
Expenses										
General public services	971	860 000	464 000	882 000	153 000	184 000	71 000		108 000	2 722 000
Public order and safety	0	222 000	75 000	45 000	59 000	16 000	4 000		2 000	423 000
Education	0	14 000	43 000	3 000	11 000	0	0		0	71 000
Health	46	63 000	111 000	43 000	32 000	22 000	11 000		6 000	288 000
Social security and welfare	0	297 000	624 000	44 000	79 000	41 000	17 000		7 000	1 109 000
Housing and community amenities										
Water, sanitation and protection of the environment	471	8 000	443 000	1 112 000	143 000	115 000	149 000		8 000	1 978 000
Other Housing and community amenities	0	1 440 000	286 000	243 000	89 000	84 000	37 000		70 000	2 249 000
Total Housing and community amenities	471	1 448 000	729 000	1 355 000	232 000	199 000	186 000		78 000	4 227 000
Recreation and culture	96	634 000	680 000	481 000	362 000	186 000	63 000		19 000	2 425 000
Fuel and energy	0	2 000	0	4 000	0	6 000	0		2 000	14 000
Agriculture, forestry and fishing	0	0	2 000	11 000	2 000	6 000	0		0	21 000
Mining, manufacturing and construction	0	85 000	40 000	63 000	14 000	16 000	0		0	218 000
Transport and communications										
Roads	486	1 537 000	842 000	1 094 000	528 000	243 000	117 000		34 000	4 395 000
Other Transport and communications	0	119 000	37 000	174 000	- 3 000	21 000	2 000		5 000	355 000
Total Transport and communications	486	1 656 000	879 000	1 268 000	525 000	264 000	119 000		39 000	4 750 000
Other economic affairs	0	272 000	177 000	88 000	47 000	47 000	9 000		19 000	659 000
Tourism	400									
Public debt transactions	0	92 000	39 000	202 000	14 000	26 000	9 000		1 000	383 000
Depreciation ^(b)	393	na	na	na	na	na	na		na	na
Other	0	18 000	107 000	3 000	66 000	61 000	23 000		3 000	281 000
Total expenses	2 863	5 663 000	3 970 000	4 492 000	1 596 000	1 074 000	512 000		284 000	17 591 000

(a) The ABS classifies all ACT revenues and expenses to the State sector.

(b) For the States, depreciation expenses are allocated across individual expense categories.

Table A-14 Local government-type revenues and expenses (per capita), 2002-03

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Current grants and subsidies	0.00	114.87	105.63	123.74	96.57	99.83	151.66		232.03	111.50
Municipal rates	0.00	352.28	373.78	378.68	388.34	413.12	368.63		247.16	364.43
User charges										
Water Sanitation and Protection of the environment	235.79	123.58	39.71	395.71	76.43	29.56	339.14		60.53	145.26
Others	0.00	210.23	122.00	220.61	104.83	102.46	99.00		267.33	166.22
Total user charges	235.79	333.81	161.71	616.32	181.26	132.02	438.14		327.86	311.48
Interest income	35.42	31.53	9.62	24.22	19.62	9.20	25.28		20.18	21.06
Other Revenue										
Other revenue	561.42	na	na	na	na	na	na		na	na
Contribution by trading enterprises	640.14	na	na	na	na	na	na		na	na
Total other revenue	1 201.56	156.47	163.35	227.80	165.25	47.95	84.26		121.06	159.59
Total revenue	1 472.77	988.96	814.09	1 370.76	851.03	702.11	1 067.96		948.28	968.06
Expenses										
General public services	468.83	129.14	94.98	234.71	79.01	120.85	149.56		544.76	137.77
Public order and safety	0.00	33.34	15.35	11.98	30.47	10.51	8.43		10.09	21.41
Education	0.00	2.10	8.80	0.80	5.68	0.00	0.00		0.00	3.59
Health	22.21	9.46	22.72	11.44	16.52	14.45	23.17		30.26	14.58
Social security and welfare	0.00	44.60	127.73	11.71	40.80	26.93	35.81		35.31	56.13
Housing and community amenities										
Water, sanitation and protection of the environment	227.29	1.20	90.68	295.92	73.85	75.53	313.86		40.35	100.12
Other Housing and community amenities	0.00	216.23	58.54	64.67	45.96	55.17	77.94		353.08	113.83
Total Housing and community amenities	227.29	217.43	149.23	360.59	119.81	130.70	391.80		393.43	213.95
Recreation and culture	46.34	95.20	139.20	128.00	186.94	122.16	132.71		95.84	122.74
Fuel and energy	0.00	0.30	0.00	1.06	0.00	3.94	0.00		10.09	0.71
Agriculture, forestry and fishing	0.00	0.00	0.41	2.93	1.03	3.94	0.00		0.00	1.06
Mining, manufacturing and construction	0.00	12.76	8.19	16.77	7.23	10.51	0.00		0.00	11.03
Transport and communications										
Roads	234.65	230.80	172.36	291.13	272.66	159.60	246.45		171.50	222.45
Other Transport and communications	0.00	17.87	7.57	46.30	- 1.55	13.79	4.21		25.22	17.97
Total Transport and communications	234.65	248.67	179.93	337.44	271.11	173.39	250.67		196.72	240.42
Other economic affairs	0.00	40.84	36.23	23.42	24.27	30.87	18.96		95.84	33.36
Tourism	193.03									
Public debt transactions	0.00	13.81	7.98	53.76	7.23	17.08	18.96		5.04	19.39
Depreciation ^(b)	189.50	na	na	na	na	na	na		na	na
Other	0.00	2.70	21.90	0.80	34.08	40.06	48.45		15.13	14.22
Total expenses	1 381.86	850.36	812.66	1 195.39	824.18	705.40	1 078.49		1 432.51	890.37

(a) The ABS classifies all ACT revenues and expenses to the State sector.

(b) For the States, depreciation expenses are allocated across individual expense categories.

Table A-15 Local government-type revenues and expenses, 2003-04

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Current grants and subsidies	0	672 000	639 000	469 000	293 000	164 000	74 000		116 000	2 427 000
Municipal rates	0	2 427 000	2 002 000	1 515 000	801 000	680 000	184 000		54 000	7 663 000
User charges										
Water Sanitation and Protection of the environment	549	860 000	240 000	1 572 000	168 000	50 000	168 000		12 000	3 070 000
Others	0	1 391 000	623 000	645 000	227 000	156 000	55 000		32 000	3 129 000
Total user charges	549	2 251 000	863 000	2 217 000	395 000	206 000	223 000		44 000	6 199 000
Interest income	87	251 000	60 000	112 000	51 000	20 000	15 000		5 000	514 000
Other Revenue										
Other revenue	1 400	na	na	na	na	na	na		na	na
Contribution by trading enterprises	1 361	na	na	na	na	na	na		na	na
Total other revenue	2 761	1 016 000	756 000	1 132 000	369 000	87 000	50 000		82 000	3 492 000
Total revenue	3 397	6 617 000	4 320 000	5 445 000	1 909 000	1 157 000	546 000		301 000	20 295 000
Expenses										
General public services	1 195	977 000	443 000	842 000	170 000	167 000	70 000		100 000	2 769 000
Public order and safety	0	187 000	81 000	75 000	63 000	16 000	5 000		3 000	430 000
Education	0	10 000	42 000	3 000	12 000	0	0		1 000	68 000
Health	52	69 000	118 000	47 000	32 000	22 000	13 000		7 000	308 000
Social security and welfare	0	298 000	600 000	53 000	82 000	54 000	17 000		7 000	1 111 000
Housing and community amenities										
Water, sanitation and protection of the environment	767	- 4 000	477 000	1 196 000	152 000	117 000	155 000		10 000	2 103 000
Other Housing and community amenities	0	1 389 000	261 000	297 000	117 000	114 000	44 000		58 000	2 280 000
Total Housing and community amenities	767	1 385 000	738 000	1 493 000	269 000	231 000	199 000		68 000	4 383 000
Recreation and culture	129	831 000	720 000	490 000	384 000	196 000	66 000		28 000	2 715 000
Fuel and energy	0	0	0	4 000	0	8 000	0		2 000	14 000
Agriculture, forestry and fishing	1	0	2 000	23 000	3 000	7 000	0		0	35 000
Mining, manufacturing and construction	0	107 000	42 000	78 000	26 000	18 000	0		7 000	278 000
Transport and communications										
Roads	496	1 415 000	881 000	1 114 000	514 000	255 000	119 000		31 000	4 329 000
Other Transport and communications	0	39 000	37 000	59 000	47 000	22 000	7 000		3 000	214 000
Total Transport and communications	496	1 454 000	918 000	1 173 000	561 000	277 000	126 000		34 000	4 543 000
Other economic affairs	0	260 000	182 000	90 000	40 000	56 000	11 000		50 000	689 000
Tourism	426									
Public debt transactions	0	89 000	47 000	180 000	14 000	27 000	9 000		0	366 000
Depreciation ^(b)	417	na	na	na	na	na	na		na	na
Other	0	182 000	198 000	50 000	50 000	66 000	16 000		0	562 000
Total expenses	3 483	5 849 000	4 131 000	4 601 000	1 706 000	1 145 000	532 000		307 000	18 271 000

(a) The ABS classifies all ACT revenues and expenses to the State sector.

(b) For the States, depreciation expenses are allocated across individual expense categories.

Table A-16 Local government-type revenues and expenses (per capita), 2003-04

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Current grants and subsidies	0.00	100.26	129.39	121.95	149.14	107.20	154.11		583.15	121.45
Municipal rates	0.00	362.09	405.37	393.93	407.73	444.50	383.19		271.47	383.45
User charges										
Water Sanitation and Protection of the environment	268.56	128.31	48.60	408.76	85.52	32.68	349.87		60.33	153.62
Others	0.00	207.53	126.15	167.71	115.55	101.97	114.54		160.87	156.57
Total user charges	268.56	335.83	174.74	576.47	201.07	134.66	464.41		221.20	310.19
Interest income	42.46	37.45	12.15	29.12	25.96	13.07	31.24		25.14	25.72
Other Revenue										
Other revenue	685.39	na	na	na	na	na	na		na	na
Contribution by trading enterprises	666.21	na	na	na	na	na	na		na	na
Total other revenue	1 351.60	151.58	153.08	294.35	187.83	56.87	104.13		412.23	174.74
Total revenue	1 662.63	987.21	874.72	1 415.82	971.73	756.31	1 137.09		1 513.18	1 015.55
Expenses										
General public services	584.87	145.76	89.70	218.94	86.53	109.16	145.78		502.72	138.56
Public order and safety	0.00	27.90	16.40	19.50	32.07	10.46	10.41		15.08	21.52
Education	0.00	1.49	8.50	0.78	6.11	0.00	0.00		5.03	3.40
Health	25.53	10.29	23.89	12.22	16.29	14.38	27.07		35.19	15.41
Social security and welfare	0.00	44.46	121.49	13.78	41.74	35.30	35.40		35.19	55.59
Housing and community amenities										
Water, sanitation and protection of the environment	375.19	- 0.60	96.58	310.99	77.37	76.48	322.80		50.27	105.23
Other Housing and community amenities	0.00	207.23	52.85	77.23	59.56	74.52	91.63		291.58	114.09
Total Housing and community amenities	375.19	206.63	149.43	388.21	136.93	151.00	414.43		341.85	219.32
Recreation and culture	63.21	123.98	145.79	127.41	195.47	128.12	137.45		140.76	135.86
Fuel and energy	0.00	0.00	0.00	1.04	0.00	5.23	0.00		10.05	0.70
Agriculture, forestry and fishing	0.60	0.00	0.40	5.98	1.53	4.58	0.00		0.00	1.75
Mining, manufacturing and construction	0.00	15.96	8.50	20.28	13.23	11.77	0.00		35.19	13.91
Transport and communications										
Roads	243.02	211.11	178.39	289.67	261.64	166.69	247.83		155.84	216.62
Other Transport and communications	0.00	5.82	7.49	15.34	23.92	14.38	14.58		15.08	10.71
Total Transport and communications	243.02	216.93	185.88	305.01	285.56	181.07	262.40		170.92	227.33
Other economic affairs	0.00	38.79	36.85	23.40	20.36	36.61	22.91		251.36	34.48
Tourism	208.40									
Public debt transactions	0.00	13.28	9.52	46.80	7.13	17.65	18.74		0.00	18.31
Depreciation ^(b)	204.08	na	na	na	na	na	na		na	na
Other	0.00	27.15	40.09	13.00	25.45	43.14	33.32		0.00	28.12
Total expenses	1 704.90	872.63	836.45	1 196.37	868.40	748.46	1 107.93		1 543.34	914.27

(a) The ABS classifies all ACT revenues and expenses to the State sector.

(b) For the States, depreciation expenses are allocated across individual expense categories.

Table A-17 Local government-type revenues and expenses, 2004-05

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue										
Current grants and subsidies	0	662 000	580 000	454 000	206 000	169 000	88 000		58 000	2 217 000
Municipal rates	0	2 539 000	2 170 000	1 615 000	836 000	730 000	199 000		57 000	8 146 000
User charges										
Water Sanitation and Protection of the environment	625	888 000	268 000	1 687 000	174 000	54 000	179 000		12 000	3 262 000
Others	0	1 430 000	634 000	752 000	252 000	164 000	62 000		40 000	3 334 000
Total user charges	625	2 318 000	902 000	2 439 000	426 000	218 000	241 000		52 000	6 596 000
Interest income	103	291 000	68 000	129 000	60 000	21 000	17 000		6 000	592 000
Other Revenue										
Other revenue	1 285	na	na	na	na	na	na		na	na
Contribution by trading enterprises	1 417	na	na	na	na	na	na		na	na
Total other revenue	2 702	1 039 000	1 035 000	1 257 000	375 000	74 000	49 000		39 000	3 868 000
Total revenue	3 429	6 849 000	4 755 000	5 894 000	1 903 000	1 212 000	594 000		212 000	21 419 000
Expenses										
General public services	1 178	1 063 000	506 000	1 160 000	195 000	172 000	88 000		100 000	3 284 000
Public order and safety	0	228 000	92 000	78 000	60 000	18 000	5 000		3 000	484 000
Education	0	35 000	46 000	3 000	3 000	0	0		2 000	89 000
Health	45	72 000	61 000	49 000	34 000	28 000	12 000		8 000	264 000
Social security and welfare	0	300 000	698 000	54 000	92 000	58 000	19 000		8 000	1 229 000
Housing and community amenities										
Water, sanitation and protection of the environment	768	- 4 000	526 000	1 328 000	172 000	123 000	170 000		14 000	2 329 000
Other Housing and community amenities	0	1 434 000	312 000	154 000	100 000	81 000	33 000		54 000	2 168 000
Total Housing and community amenities	768	1 430 000	838 000	1 482 000	272 000	204 000	203 000		68 000	4 497 000
Recreation and culture	159	922 000	762 000	503 000	395 000	207 000	62 000		28 000	2 879 000
Fuel and energy	0	7 000	0	49 000	0	9 000	0		2 000	67 000
Agriculture, forestry and fishing	0	0	2 000	24 000	3 000	7 000	0		0	36 000
Mining, manufacturing and construction	0	118 000	0	84 000	29 000	19 000	1 000		6 000	257 000
Transport and communications										
Roads	545	1 388 000	883 000	1 091 000	559 000	269 000	123 000		32 000	4 345 000
Other Transport and communications	0	0	37 000	167 000	0	19 000	3 000		0	226 000
Total Transport and communications	545	1 388 000	920 000	1 258 000	559 000	288 000	126 000		32 000	4 571 000
Other economic affairs	0	251 000	190 000	110 000	45 000	53 000	13 000		58 000	720 000
Tourism	500									
Public debt transactions	0	93 000	41 000	180 000	16 000	30 000	8 000		0	368 000
Depreciation ^(b)	444	na	na	na	na	na	na		na	na
Other	0	202 000	216 000	52 000	92 000	111 000	26 000		0	699 000
Total expenses	3 640	6 109 000	4 372 000	5 086 000	1 795 000	1 204 000	563 000		315 000	19 444 000

(a) The ABS classifies all ACT revenues and expenses to the State sector.

(b) For the States, depreciation expenses are allocated across individual expense categories.

Table A-18 Local government-type revenues and expenses (per capita), 2004-05

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Current grants and subsidies	0.00	98.09	116.12	115.64	103.29	109.93	181.87		288.45	109.69
Municipal rates	0.00	376.21	434.45	411.37	419.17	474.86	411.26		283.48	403.05
User charges										
Water Sanitation and Protection of the environment	310.29	131.58	53.66	429.71	87.24	35.13	369.93		59.68	161.40
Others	0.00	211.88	126.93	191.55	126.35	106.68	128.13		198.93	164.96
Total user charges	310.29	343.46	180.59	621.26	213.60	141.81	498.06		258.61	326.36
Interest income	50.97	43.12	13.61	32.86	30.08	13.66	35.13		29.84	29.29
Other Revenue										
Other revenue	638.23	na	na	na	na	na	na		na	na
Contribution by trading enterprises	703.90	na	na	na	na	na	na		na	na
Total other revenue	1 342.13	153.95	207.22	320.18	188.03	48.14	101.27		193.96	191.38
Total revenue	1 703.39	1 014.82	951.99	1 501.32	954.16	788.40	1 227.59		1 054.35	1 059.78
Expenses										
General public services	585.41	157.51	101.31	295.48	97.77	111.89	181.87		497.33	162.49
Public order and safety	0.00	33.78	18.42	19.87	30.08	11.71	10.33		14.92	23.95
Education	0.00	5.19	9.21	0.76	1.50	0.00	0.00		9.95	4.40
Health	22.46	10.67	12.21	12.48	17.05	18.21	24.80		39.79	13.06
Social security and welfare	0.00	44.45	139.75	13.75	46.13	37.73	39.27		39.79	60.81
Housing and community amenities										
Water, sanitation and protection of the environment	381.47	- 0.59	105.31	338.27	86.24	80.01	351.33		69.63	115.24
Other Housing and community amenities	0.00	212.48	62.47	39.23	50.14	52.69	68.20		268.56	107.27
Total Housing and community amenities	381.47	211.88	167.77	377.50	136.38	132.70	419.53		338.19	222.50
Recreation and culture	79.03	136.61	152.56	128.12	198.05	134.65	128.13		139.25	142.45
Fuel and energy	0.00	1.04	0.00	12.48	0.00	5.85	0.00		9.95	3.32
Agriculture, forestry and fishing	0.00	0.00	0.40	6.11	1.50	4.55	0.00		0.00	1.78
Mining, manufacturing and construction	0.00	17.48	0.00	21.40	14.54	12.36	2.07		29.84	12.72
Transport and communications										
Roads	270.91	205.66	176.78	277.90	280.28	174.98	254.20		159.15	214.98
Other Transport and communications	0.00	0.00	7.41	42.54	0.00	12.36	6.20		0.00	11.18
Total Transport and communications	270.91	205.66	184.19	320.44	280.28	187.34	260.40		159.15	226.17
Other economic affairs	0.00	37.19	38.04	28.02	22.56	34.48	26.87		288.45	35.62
Tourism	248.50									
Public debt transactions	0.00	13.78	8.21	45.85	8.02	19.51	16.53		0.00	18.21
Depreciation ^(b)	220.44	na	na	na	na	na	na		na	na
Other	0.00	29.93	43.25	13.25	46.13	72.21	53.73		0.00	34.59
Total expenses	1 808.21	905.18	875.31	1 295.51	900.01	783.20	1 163.52		1 566.60	962.06

(a) The ABS classifies all ACT revenues and expenses to the State sector.

(b) For the States, depreciation expenses are allocated across individual expense categories.

ATTACHMENT B

QUANTIFYING SPECIAL CIRCUMSTANCES

INTRODUCTION

- 1 As discussed in Chapter 2, the terms of reference ask the Commission to advise on the financial capacity of Norfolk Island, ‘having regard to the circumstances of the Island’ — those characteristics of the Island, its people or community which would:
 - increase or reduce the cost of delivering similar services, compared to the cost in a comparable community elsewhere in Australia; or
 - vary the revenue that could be collected from comparable revenue policies.
- 2 Chapter 2 identified three such circumstances which have an influence across a range of revenues or expenses. They are differences in wage levels, isolation and tourist numbers. This attachment provides estimates of the extent to which these influences will impact on revenue raising capacity and costs. These estimates or adjustment factors are used in Attachments C, D, and E in the calculation of Norfolk Island’s revenue raising capacity or required expenses when the all-State average is used as the base for the assessments. They are used in a modified way when the base differs from the all-State average; for example, when the Northern Territory or King Island is used as the base. In these cases, a greater degree of isolation, different tourist numbers and different wage levels are already recognised in the base numbers.

IMPACT OF LOWER WAGE COSTS ON NORFOLK ISLAND

- 3 Wage levels on the Island are considerably lower than in the States and this has implications for the average cost of delivering services. This disparity is confirmed by broad comparisons that can be made from available statistics published by the ABS.
- 4 Statistics relating to private sector wage levels have been used to obtain estimates of differences that are not influenced by government policy. This is the approach the Commission uses in its State finances work.

- 5 The ABS Norfolk Island Business Statistics 2004-05 survey report (ABS Catalogue No. 8139.0) indicates that 410 full-time and 490 part-time employees of private sector businesses were paid \$17 242 000 in wages and salaries during that reference year. Assuming that part time hours were between 30 per cent and 50 per cent of full-time hours, this puts average full-time equivalent wages and salaries in the Norfolk Island private sector within the range \$26 000 to \$31 000 per employee.
- 6 An estimate for State private sector wages and salaries in 2004-05, using the same method as applied for the Norfolk Island private sector wage and salary estimate, can be constructed from separate ABS estimates of wages and salaries paid in the private sector (from Business Indicators, Australia, ABS Catalogue No 5676.0) and of the number of full-time and part-time employees in the private sector (from Employee Earnings, Benefits and Trade Union Membership, Australia, ABS Catalogue No 6310.0). Calculations based on the assumption that part-time employees work between 30 per cent and 50 per cent of the time of a full-time employee, lead to an estimate of State average full-time equivalent private sector wages and salaries in 2004-05 within the range \$46 000 to \$49 000¹. This is consistent with the average earnings of full-time non-managerial employees in the private sector, estimated at \$46 000 in May 2004².
- 7 Wages for private sector employees on Norfolk Island appear to average about 60 per cent of those paid in the States. This suggests a 40 per cent lower wages bill for Norfolk Island private sector staff than for private sector staff in the States. One reason for the wage differential may be the income tax-free status of Norfolk Island wages. Another may be that Norfolk Island is a desirable location in which to live. Illustrative calculations undertaken by the Commission suggest that about half the differential could be accounted for by income tax rates in effect in 2004-05.
- 8 The Commission's usual approach is to use the ratio of private sector wages between States as a policy neutral guide to assessing differences in public sector wages. On this basis, and recognising that salaries and wages represent between 70 per cent and 80 per cent of State expenses, a 40 per cent lower wage bill translates to a 30 per cent reduction in total expenses. The Commission therefore has applied a factor of 0.7 to account for lower wage levels on Norfolk Island to assessments that are based on all-State average costs.
- 9 When the Northern Territory has been used as the comparable community, a factor of 0.7 has continued to be applied, although the Northern Territory is assessed to have policy neutral wage levels some 4 per cent above the national average. For this exercise, this difference was not considered material.

¹ Calculated from ABS data accessed from www.abs.gov.au 11 September 2006.

² *Survey of Employee Earnings and Hours, May 2004, ABS Catalogue No 6306.0.*

- 10 When King Island was used as the comparable community, no adjustment factor was considered necessary as its average wage levels are only slightly higher than those of Norfolk Island³.

IMPACT OF ISOLATION ON THE COST OF DELIVERING GOVERNMENT SERVICES

- 11 The cost of providing government services is influenced by how far from the major sources of goods and services that the service is delivered. Freight costs for equipment and supplies and the flow-on effect into prices for fuel and electricity contribute to higher input costs for services. Isolation also has a direct impact on costs for such expense items as telecommunications, business travel, staff training and recruitment and visiting consultants. Costs that involve travel are affected not only by distance but also by the opportunity costs of time lost between the less regular flights from and to Norfolk Island, compared with comparable communities. Isolation also impacts on the capacity of GBEs to deliver a return on equity, and in some cases creates a need for government subsidies to sustain operations.
- 12 The Commission has used two methods for assessing the impact of isolation on Norfolk Island expenses. In the case of electricity, delivered through the GBE Norfolk Island Electricity, the Commission has computed the value of a subsidy that would enable the enterprise to deliver electricity at a price comparable with the price charged in a comparable community. This is consistent with the arrangement that assists the electricity supplier on Bass Strait islands to deliver electricity at prices comparable with mainland Tasmania. The subsidy is explained in the relevant section of Attachment D.
- 13 In the health services assessment, the Commission has included the costs of offshore treatment, inter-hospital transfers (Medivacs) and other transport costs related to services not available on Norfolk Island.
- 14 In the case of all other isolation-related costs, the Commission has estimated the direct impact of isolation on the costs of services delivered on the Island. The Commission made a detailed examination of 2004-05 Revenue Fund expenses to identify those expenses that could have been affected by the costs of isolation. In total, these account for about 14 per cent of total Revenue Fund expenses. It has used available information and some judgment to estimate the proportion of those individual expenses that represent the impact of isolation. The results are shown in Table B-1. On average, isolation is estimated to have increased these affected expenses by some 65 per cent, but its impact on overall costs is to increase them by 6 per cent.
- 15 Information relevant to the estimation of the factors shown in column 3 of Table B-1 is set out in the following paragraphs. In the case of expense elements not specifically mentioned below, the Commission applied judgment informed by site visits.

³ *ABS Census of Population and Housing, 2001.*

Table B-1 Norfolk Island Government Revenue Fund 2004-05, isolation-related expenses

Expense	Revenue fund expense (1)	Proportion due to isolation (2)	Isolation expense (1 x 2)
	\$000		\$000
Telecommunications	143	0.50	71.5
Office and other requisites	311	0.20	62.2
Office equipment	38	0.40	15.2
Business travel	35	0.50	17.5
Staff travel entitlements	26	1.00	26.0
Removal and recruitment	84	0.40	33.6
Training and professional development	55	0.40	22.0
Projects and consultancies	410	0.25	102.5
Transportation	38	1.00	38.0
Plant and equipment/improvements	197	0.50	98.5
Road construction and works maintenance	403	0.50	201.5
Total isolation-related expenses	1 740		688.5
Total Revenue Fund expense	12 819		

Source: Norfolk Island Revenue Fund, 2004-05 and Commission estimates.

- 16 **Freight.** Submissions to the Commission indicated that freight costs and charges on bulk goods, all of which are delivered by sea, add a minimum of 20 per cent to the cost at source of the more easily transported crated goods on pallets, and 100 per cent or more for such items as building materials and government vehicles. Other charges and fees include lighterage, waste management fees and cartage costs. Other goods, including perishables and pharmaceuticals, are landed by air, where charges are based on package weight plus documentation charges. For pharmaceutical supplies, for example, a factor of 1.08 is used by the Hospital Enterprise to convert invoice cost to the cost landed on Norfolk Island. This information has been used in judgments about the proportion of isolated-related expense for office and other requisites, office equipment, plant and equipment and materials used for improvements, and materials and equipment for road reconstruction and works maintenance.
- 17 **Telecommunication costs.** The Norfolk Island Government pays \$1.50 per minute for calls to mainland Australia, or \$90 per hour. This level of charge is considered necessary so that the Norfolk Island Government can receive a dividend from Norfolk Island Telecom as a return on its investment. This level of charging compares with the cost of a call from mainland Australia to Norfolk Island of 27 cents per call, plus 73 cents per minute in 30-second increments, or about \$45 for a call lasting an hour. Local calls on Norfolk Island are free.
- 18 **Training, recruitment.** Advice from the Norfolk Island Government included cases studies of offshore recruitment and training expenses. Marginal costs due to isolation included

airfares, accommodation and incidental travel expenses in both cases and removal expenses in the case of recruitment.

- 19 When the Northern Territory or King Island experience was used as the comparable community, half the adjustment factor was applied, namely 1.03. This is because their costs are already higher because of their isolation.

IMPACT OF TOURISM ON NORFOLK ISLAND COSTS AND REVENUES

- 20 Norfolk Island has a considerably greater proportion of tourists than the States. This increases the costs of delivering a range of services that are used by tourists as well as by the ordinarily resident population. These include health, electricity, water and sewerage, public safety and emergency services.
- 21 Tourist numbers also impact on the ability of governments to raise revenue. For example, land values are usually higher in major tourist destinations, more gambling revenues can be raised as tourists avail themselves of opportunities to gamble and user charges can be raised for their use of water and sewerage and electricity use.
- 22 In some cases, such as in land values, the impact of tourists is already captured. For some services, providers could estimate the impact. For example, information from the Hospital indicated that tourists represented between 2 and 5 per cent of its patients. For most services and revenues, information on the impact of tourists was not available. It is recognised, however, that tourists are unlikely to use services as intensively or affect revenue bases in the same way as the usually resident population.
- 23 Where the Commission considered that tourists would have an impact on the revenue raised or the cost of providing services, it decided to apply a general adjustment factor. This was calculated as the ratio of the incidence of tourists⁴ on Norfolk Island to that of Australia. Assuming that tourists affected revenue capacity or used services at half the rate of the usually resident population, the adjustment factor applied was 1.16.
- 24 When King Island was used as the base, the same adjustment factor was applied. The incidence of tourists on King Island is 1.03⁵. As this is only slightly higher than the Australian average, the difference was not considered sufficiently material for the adoption of a different factor.

⁴ Incidence is the ratio of total population (including tourists) to resident population. In the case of Norfolk Island, the total to resident population ratio in 2004-05 was 1.356, derived from monthly on-island statistics provided by the Norfolk Island administration. For the total of the States, an equivalent ratio 1.018 was derived from the 2001 Census (see Table 2-2 in Chapter 2). The impact of tourists on the size of the on-island population for Norfolk Island is 33 per cent greater than that for the States of Australia.

⁵ Personal communication, King Island Council. It is estimated that King Island has between 6000 and 7000 tourists a year, who stay on average 3 nights on the Island. This gives an average of 53 tourists per day.

- 25 A tourist adjustment factor was not required for the assessments in which the Northern Territory was used as the base.

SUMMARY

- 26 Table B-2 summarises the adjustment factors the Commission has used in its assessments.

Table B-2 Summary of adjustment factors

Influence	All-State average	Northern Territory	King Island
Wages differential	0.7	0.7	nr
Isolation	1.06	1.03	1.03
Tourist numbers	1.16	nr	1.16

Note: nr — adjustment not required.

Source: Commission estimates.

ATTACHMENT C

STATE-TYPE REVENUE RAISING CAPACITY OF NORFOLK ISLAND

INTRODUCTION

- 1 Clause (ii) of the terms of reference ask the Commission to provide advice on:
 - (ii) the capacity of Norfolk Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.
- 2 This attachment provides estimates of what Norfolk Island might raise if it applied comparable State tax rates to its potential State revenue bases. Attachment E examines Norfolk Island's revenue raising capacity from local government-type revenue sources.

METHOD

- 3 The Commission has developed estimates of the overall capacity of Norfolk Island to pay State and local government-type taxes using a tax by tax approach.
 - Estimates were made of Norfolk Island's capacity to raise revenue from each State-type tax based on the application of the average tax policy of the States, including policies on thresholds, exemptions, concessions and rebates, to Norfolk Island tax bases.
 - Where appropriate the Norfolk Island tax bases were adjusted to take account of the special circumstances of the Island or to better align estimates with what could be raised in comparable communities in the States and Territories.
 - The estimated revenue for each tax was then summed to estimate an overall revenue capacity.
- 4 This approach gives an estimate of what a comparable community would raise, if average tax policies of the States were applied to the community's own potential revenue bases. This recognises that all communities within a State face the same tax regimes. It also recognises that the same per capita amounts would not be raised from all communities, even if the same

tax regime were applied. The amount raised would be determined by their characteristics, as reflected in their tax bases.

- 5 Estimates of Norfolk Island’s capacity to raise tax from each tax-type have, wherever possible, been based on data and information for 2004-05.

ASSESSMENTS

- 6 The Commission has made the following assessments of Norfolk Island’s capacity to raise revenues from State revenue raising options based on existing circumstances on the Island. Any change in the current circumstances resulting from the current Australian Government processes in relation to Norfolk Island will impact on these estimates.
- 7 The Commission has made no adjustment for possible elasticity effects caused by the introduction of any of the traditional State-type taxes. The obvious example of this is that the Commission has used current land values to estimate Norfolk’s Island capacity to raise revenue from land tax. If the Norfolk Island Government were to levy a land tax this may impact on the value of the land and consequently on the amount of revenue it could raise.

PAYROLL TAX

- 8 Norfolk Island does not raise revenue through payroll tax.
- 9 All States levy payroll tax on the wages, salaries, allowances and benefits paid or payable to employees in the market sector. This includes payroll tax paid by public corporations. Under national competition policy, public corporations (at whatever level of government) are taxed the same way as private corporations.
- 10 Table C-1 shows the payroll tax revenue for the States.

Table C-1 Comparison of Norfolk Island and State payroll tax revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	714.44	609.63	426.38	597.44	485.72	400.06	569.46	548.95	592.14

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 11 All States exempt employers with payrolls below a certain threshold and generally allow larger employers to deduct the threshold amount from their taxable payrolls. Grouping provisions prevent employers from breaking their operations into smaller businesses to avoid or reduce their liability. Table C-2 shows the payroll tax rates and thresholds as at 1 January 2005.

Table C-2 Payroll tax rates and thresholds, 1 January 2005

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Tax rate	6.00	5.25	4.75	5.50	5.50	6.10	6.85	6.20
	\$	\$	\$	\$	\$	\$	\$	\$
Tax-free threshold	600 000	550 000	850 000	750 000	504 000	1 010 000	1 250 000	800 000

Source: Commonwealth Grants Commission 2006 Update Working Papers, Volume 2, Page 26.

- 12 The States also exempt some types of employers from payroll tax (for example, charitable institutions). The scope of these exemptions varies between States and they are unlikely to impact on Norfolk Island's capacity to raise revenue from payroll tax. They have not been considered here.
- 13 Employers who operate across more than one State face a threshold based on the thresholds of the States in which they operate and relative payrolls in those States. Hence, companies based on the mainland that operate branches or agencies on the Island, such as the banks, would be subject to the tax, for their on-Island employees, if their total taxable payroll of all employees exceeded this 'average' threshold.
- 14 In 2004-05, the threshold used by the Commission for assessing States' revenue raising capacity from payroll tax was \$550 000. The average tax rate was 5.31 per cent¹ on a tax base that is the sum total of payrolls above the threshold for the private sector and public trading enterprises. This information, together with information provided by the ABS², was used to estimate Norfolk Island's revenue raising capacity.
- 15 The ABS survey was unable to report whether there were any single businesses with a payroll above \$550 000 and did not report on grouped businesses. Thus, to treat businesses on the Island in the same way as in comparable communities (allowing grouped business to claim a threshold exemption only once), the Commission estimated there would be two groups of businesses with integrated payrolls approaching \$700 000. This estimate was made on the basis of information received during consultations on the Island. On that basis, payroll tax of about \$16 000 could be collected.
- 16 As the ABS could not, for reasons of confidentiality, provide the data to the Commission for companies based on the mainland with branches operating on Norfolk Island, the Commission estimated total payrolls for such companies assuming 13 employees at an average wage of

¹ Commonwealth Grants Commission 2006 Update Working Papers, Volume 2, Page 26.

² The ABS conducted a business survey on Norfolk Island in May 2006, *Norfolk Island Business Statistics, 2004-05, Catalogue No 8139.0*. This is the source of private sector data for the financial year 2004-05. The survey received a good response rate, although the ABS noted that it possibly underestimated private sector income and employment. This is because there was no comprehensive list of businesses to survey, although the intended scope was all private sector businesses operating on the Island. In addition, the overall accuracy of the data might have suffered because systematic business record keeping is not essential on Norfolk Island. For example, it is not required for tax purposes.

\$45 000, including on-costs (\$585 000). As the exemption for these businesses is claimed elsewhere, this would yield payroll tax of about \$31 000.

- 17 The Norfolk Island Airport was the only public corporation with a payroll above \$550 000. Its payroll in 2004-05 was \$622 081. The Commission has estimated that \$4000 could be raised in payroll tax on this.
- 18 The total potential payroll tax capacity was thus estimated at \$51 000.

LAND TAX

- 19 Norfolk Island collects an absentee landlord levy.
- 20 In the States, there is considerable variation in the arrangements for land tax. The Northern Territory does not levy it at all. In other States, principal residential property and productive rural land are generally exempt, but hobby farms are not. Leasehold land is variously treated. Tax scales and tax free thresholds vary between States. Table G-8 of the Commission's *Relative Fiscal Capacity of the States, 2006* provides a detailed summary.
- 21 Table C-3 shows the land tax revenue for the States compared with the revenue from absentee landlord levy for Norfolk Island.

Table C-3 Comparison of Norfolk Island and State land tax revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
56.13	243.93	186.66	106.68	181.81	166.65	90.14	171.71	0.00	183.84

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 22 The Commission's assessment of the States' revenue capacity reflects average State practice. For example, it excludes the value of rural land and the value of residential land used for principal residence from the land revenue base.
- 23 Specifically, the Commission estimates the capacity of States to raise revenue from land taxes on:
- the value of total commercial and industrial land, with a value distribution adjustment which reflects the progressivity of the tax structure; and
 - the value of non-principal residential (NPR) land, estimated as the total value of residential land adjusted by the proportion of residential properties rented privately.
- 24 The Commission assumes that, based on average State practice, States have no capacity to raise land tax from rural land or owner-occupied residential properties.
- 25 The Commission followed this approach as far as possible to estimate the revenue raising capacity of Norfolk Island from its land bases.

- 26 Land values provided by the Australian Valuation Office (AVO) were applied to land areas as zoned by the Norfolk Island Government. Table C-4 shows the estimated total value of land. No value distribution adjustment was available. The total value of land³ for 2004-05 was estimated at \$463.1 million.

Table C-4 Estimated total value of land, Norfolk Island, 2004-05

Property type	Total area	Value per hectare	Total value
	hectares	\$m	\$m
Mixed use/business/industrial	100.0	2.000	200.0
Residential	49.4	1.167	57.7
Rural residential	486.2	0.110	53.5
Rural	1 725.9	0.088	151.9
Total	2 361.5		463.0

Source: Value per hectare estimated by the AVO. Area details provided by the Norfolk Island Administration.

- 27 The total value of mixed use/business/industrial land was estimated at \$200 million. At an average effective tax rate of 1.42 per cent for the States⁴, the Commission estimates revenue capacity at \$2.8 million.
- 28 The Commission notes that the Norfolk Island Government and community expressed some concerns over the valuation of the mixed use/business/industrial land. They considered that the valuation per hectare may be too high or that the valuation did not take account of the fact that not all of the area ascribed to mixed use/business/industrial would attract the same value. The Commission recognises these concerns but at this stage has no evidence on which to base an adjustment of either of these figures. Hence, no change to the assessment has been made.
- 29 However, it should be noted that, if a land tax were to be applied on Norfolk Island, it would be necessary for a comprehensive land valuation process to be undertaken, specifically for the purpose of assessing and levying land tax. In particular, if changes were made to the tax regime applying on Norfolk Island, it is likely that land values would also change.
- 30 Residential and rural residential land together was valued at \$111 million. With its small land area and limited central business district, rural residential land seems to be distinguished from residential land primarily by the size of the residential block.
- 31 Little information was available on the NPR land. The Commission estimated its value using data from the 2001 Census as follows.
- There were 923 occupied and 140 unoccupied dwellings on the Island (a total of 1063), excluding registered tourist accommodation. Some were on multiple dwelling blocks.
 - There were 551 dwellings owned or being purchased by the occupants.

³ This excludes, for instance, the national park, which represents 14 per cent of Norfolk Island's area.

⁴ Commonwealth Grants Commission (2006), *op cit.*, Assessment Results, 2006 Update, Land Tax, p217.

- There were 306 rented dwellings.
 - Fifty-six dwellings were occupied rent free and ten did not have the nature of their occupancy stated. The 56 dwellings were identified as being provided by an employer or owned by a family member. Rent free dwellings that are owned by an employer should be considered NPR. Dwellings owned by a family member may or may not be principal residences depending on the circumstances of the occupancy. Dwellings without a nature of occupancy stated could be either principal or non-principal residences. For the purpose of these estimates the Commission has assumed that half of these 66 dwellings are principal residences and half are NPR.
- 32 The number of private dwellings on the Island was therefore 1063, of which 167 were on larger holdings used for agricultural and pastoral purposes and therefore exempt from land tax. This left 896 dwellings on residential or rural residential blocks.⁵
- 33 The Commission assumed that all rented (306) and unoccupied (140) dwellings and half of the rent free and occupancy not stated dwellings (33) were among the 896 residential and rural residential blocks. That is, 479 residential or rural residential dwellings are classified as NPR. This represents 53.5 per cent of the residential and rural residential. The rest, or 47 per cent of residential and rural/residential blocks were, by this estimate, for principal residence purposes. This led to a value of \$59.4 million (53.5 per cent of \$111 million) for NPR land.
- 34 Assuming the same patterns of use in 2004-05, the Commission assessed land revenue capacity for NPR land at \$214 000 by applying the State average effective tax rate of 0.36 per cent⁶ to the value of NPR land on Norfolk Island. This compares with \$110 000, which the Norfolk Island Government's absentee landlord levy raised in 2004-05. The Norfolk Island levy is based on a rate of 1 per cent on unimproved value of property for non-residents, and 0.25 per cent for residents, for whom there is also a cap of \$500.
- 35 The number of properties in the revenue base for land tax depends on the definition of 'principal residence'. The New South Wales definition, for instance, requires continuous use and occupation since July 1 of the year prior to the land tax year, and other States are similarly prescriptive. The Commission has not been able to apply such definitions with rigour for Norfolk Island.
- 36 On the calculations above, land revenue raising capacity was estimated at \$3.05 million, comprising \$2.84 million from mixed use/business/industrial land and \$0.21 million from NPR land.

⁵ This is at best an approximation, given that there is not a close match between Census data and land zonings.

⁶ Commonwealth Grants Commission (2006), *op cit.*, Assessment Results — Revenue, Land Tax, p217.

STAMP DUTY ON CONVEYANCES

- 37 Norfolk Island raises revenue from land title fees which the Commission has classified as stamp duty on conveyances. This includes the levying of a fee of \$650 on transfers where the consideration is 'natural love and affection' or the like (including gift). These transfers are usually between family members.
- 38 All States levy stamp duty on conveyances on the transfer of a range of real property including land, houses and business property.⁷
- 39 Table C-5 shows revenues raised by the States from stamp duty on conveyances and by Norfolk Island from land title fees.

Table C-5 Comparison of Norfolk Island and State stamp duty on conveyances revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
163.72	486.63	434.17	440.27	610.91	367.53	266.85	430.61	364.91	460.49

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 40 The duty is levied effectively on the market value of property transferred. States have tiered rate structures, with the marginal rate of duty generally increasing with the value of property. States also grant exemptions or concessions to some types of transfers, notably those involving first home buyers. The purchaser of the property pays the duty.
- 41 Table C-6 summarises the duty structure in each State.

Table C-6 Conveyances duty rates, residential properties, 2004-05

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Minimum rate	1.25	1.40	1.50	2.00	1.00	1.50	2.00	2.1
Maximum rate	7.00	5.50	3.75	5.40	5.50	4.40	6.75	5.40
Minimum threshold \$	0	0	0	0	0	1300	0	0
Maximum threshold \$	3 000 000	870 000	500 000	500 000	500 000	225 000	1 000 000	500 000

Source: *Overview of State Taxes Western Australia 2004-05*, Department of Treasury and Finance, Western Australia, page 35; *Interstate Comparison of Taxes, 2004-05*, Office of Financial management, Department of Treasury, New South Wales, pages 16-18.

- 42 Table C-7 summarises the average effective tax rates by value range for the States. Applying the average effective tax rates for each value range to total value of reported transactions on the Island in each range gave an estimated revenue raising capacity for Norfolk Island of \$281 000.

⁷ Many also levy duty on the transfer of non-real property such as copyright, goodwill, patents, partnership interest, options to purchase and units in a trust. While many of these non-real properties are also sold on Norfolk Island, lack of data at the present time precludes their assessment.

Table C-7 Stamp duty on conveyances, average effective State tax rates by value ranges, 2004-05

Value ranges	Average effective tax rates
	%
\$1 - \$100 000	1.98
\$100 001 - \$150 000	2.27
\$150 001 - \$200 000	2.44
\$200 001 - \$300 000	2.75
\$300 001 - \$500 000	3.26
\$500 001 - \$1 000 000	4.05
\$1 000 001 - \$2 000 000	4.55
\$2 000 000 +	4.67

Source: Commonwealth Grants Commission 2006 Update Working Papers, Volume 2, pp 79-106.

- 43 In addition, for the ‘natural love and affection’ transfers which represented around a third of the properties transferred on the Island during 2004-05, no value was recorded. Most of such transfers would be liable for the duty in the States.
- 44 To overcome this, the reported value of transactions on Norfolk Island for each value range was inflated by the number of transactions reported under ‘natural love and affection’ or the like (including gift). This assumes that such transactions have the same average value and distribution over value ranges as those reported. This would not be the case if such transfers were concentrated at either end of the value range. The assessed tax on transactions without market prices attached was \$122 000.
- 45 On this basis, Norfolk Island’s revenue raising capacity was \$403 000.

FINANCIAL TRANSACTION TAXES AND STAMP DUTIES ON MARKETABLE SECURITIES

- 46 Norfolk Island raises revenue from a financial institutions levy which the Commission has classified as financial transaction taxes.
- 47 The Commission has assessed Norfolk Island’s capacity to raise revenue from financial transaction taxes as nil. The States are phasing out this type of tax under agreements between the State and Australian Governments relating to the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.
- 48 Table C-8 shows the revenue raised by States in 2004-05 from financial transaction taxes and by Norfolk Island from its financial institutions levy. Revenue raised from these taxes in the States is reducing and will become zero in the next few years.

Table C-8 Comparison of Norfolk Island and State financial transaction taxes revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
568.20	68.30	13.65	80.48	84.63	59.89	30.51	29.33	39.17	56.31

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

49 States raised revenue from stamp duties on marketable securities in 2004-05, although this tax is also being phased out. Table C-9 shows the revenue raised by the States from this tax.

Table C-9 Comparison of Norfolk Island and State stamp duties on marketable securities revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	10.22	0.00	3.89	2.49	8.00	0.00	18.62	2.66	5.35

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

50 The Commission has assessed Norfolk Island's capacity to raise revenue from stamp duties on marketable securities as nil as States are phasing out this type of tax under agreements between the State and Australian Governments relating to the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

GAMBLING TAX

51 The Norfolk Island Government raises revenues from commissions received from Tattersall's and from licence fees for internet gaming sites.

52 All States levy taxes from the licensing and taxing of the activities of gambling operators as well as contributions to racecourse development funds. The operators pay the tax.

53 Table C-10 shows the revenue raised by the States and Norfolk Island from gambling taxes.

Table C-10 Comparison of Norfolk Island and State gambling taxes revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
198.73	212.29	274.08	205.30	67.32	260.71	167.41	158.56	238.02	213.90

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 54 The tax rates⁸ in individual States ranged from 15.1 per cent in the Northern Territory to 35.7 per cent in South Australia. Average revenue per capita for all States was \$214 in 2004-05. However, revenue per capita differed greatly between States, ranging from \$67 in Western Australia to \$274 in Victoria.
- 55 The Commission uses gross household disposable income (GHDI) as the revenue base, with GHDI adjusted by discounting interstate differences in GHDI per capita by 50 per cent to improve policy neutrality⁹. The discount recognises that factors other than gamblers' incomes influence gambling expenses.
- 56 The Commission does not have GHDI data for the Island and so has estimated it at 75 per cent of the per capita income for the Island of \$28 609¹⁰. Applying the 50 per cent discount to account for interstate differences in GDHI gives an assessable income of \$28 080.
- 57 The effective tax rate for the States of 0.78 per cent was applied to arrive at a revenue capacity of \$441 000. Given that tourists represent a high proportion of people on-Island at any time, this capacity was adjusted upwards by 1.16, to give an overall figure of \$511 000.
- 58 During the conference on the Island, the issue of the community's aversion to poker machines was raised as a limit to the Island's capacity to raise revenue from gambling. However, a decision by a government not to have poker machines is a policy decision that reduces the amount of revenue that can be raised, but not the capacity. For example, the Western Australian Government has similarly limited poker machines to its casino. The Commission does not accept that this limited availability reduces Western Australia's capacity to raise revenue from them. Hence, the Commission has decided not to discount Norfolk Island's revenue raising capacity for this reason.
- 59 Norfolk Island's revenue raising capacity from gambling was assessed as \$511 000.

INSURANCE TAX

- 60 There is no compulsory third party (CTP) insurance on Norfolk Island. But individuals, households and businesses do insure their vehicles, homes, businesses and lives. No taxes are levied on the value of these policies.
- 61 Table C-11 shows the revenue raised by the States from insurance taxes.

⁸ Calculated by dividing total gambling revenue data provided by the States by data on gambling expenditure (or player loss to the gambling operator). Calculations are for 2003-04, the last year for which expense data are available. Sources: State data returns and Office of Economic and Statistical Research, Australian Gambling Statistics 1978-79 to 2003-04, June 2005.

⁹ Commonwealth Grants Commission (2006), *op cit.*, Assessment Results, Gambling Tax, p221.

¹⁰ Derived from Commission estimates of gross territory product plus net income from overseas.

Table C-11 Comparison of Norfolk Island and State insurances taxes revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	62.61	135.93	90.85	149.91	147.74	69.39	97.15	106.69	102.46

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 62 As the Commission does for the States, the revenue base was estimated in two components.
- The CTP component is assessed using notional CTP premium revenue as the revenue base.
 - The general and life insurance component is assessed, using as revenue base, estimated premiums from general and life insurance, excluding CTP.
- 63 Under the current framework of the Australian Prudential Regulation Authority reported premium revenues relate to the State where the risk is located. The Commission assumed that the premiums paid by the Norfolk Island community pertained only to risks on the Island.
- 64 As it is State policy to raise revenue from CTP insurance, the Commission assessed the capacity of Norfolk Island to raise revenue from this source by estimating a premiums tax base. At a rate of \$500 for heavy vehicles (a total of 80 vehicles) and \$300 for other vehicles (a total of 2997 vehicles, excluding vehicles subject to transfer restrictions and dealer plates and trailers, a total of 154), the CTP premium was estimated at \$939 000.
- 65 At an average tax rate of 4.37 per cent, the Commission estimated the revenue capacity to be \$41 000.
- 66 The ABS Business Survey showed business insurance premiums in 2004-05 totalled \$1.15 million. The Commission assumed the premiums paid by households to be half of that (\$0.56 million) giving a total of \$1.71 million. At an average tax rate of 10.2 per cent, the revenue capacity was \$174,000.
- 67 During the conference on the Island, it was suggested that, given the small rural nature of the community, many Islanders did not feel the need to insure their properties – that Norfolk Island’s propensity to insure was less than average. The estimated revenue capacity of \$174 000 for business and household tax was based on an estimate of business insurance premiums from the ABS Business Survey. The Commission considers that any lower propensity to ensure business and households has therefore already been taken into account. CTP insurance is the average policy among the States and the lack of it on Norfolk Island is a policy choice and so the estimate of \$41 000 is appropriate.
- 68 Therefore the Commission assesses Norfolk Island’s capacity to raise revenue from this source as \$215 000.

MOTOR VEHICLES

69 The Norfolk Island Government collects motor vehicle registration fees according to a scale of charges which reflects the types of vehicles used on the Island. Table C-12 shows the revenue raised by the States and Norfolk Island from motor vehicle taxes.

Table C-12 Comparison of Norfolk Island and State motor vehicle taxes revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
233.95	281.52	253.12	264.31	343.86	271.61	252.75	269.70	194.58	274.81

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

70 In its State finances assessments, the Commission considers three revenue bases for motor vehicles fees and taxes:

- light vehicle registration fees and taxes;
- heavy vehicle registration fees and taxes; and
- stamp duty on motor vehicle registrations and transfers.

71 **Registration fees and taxes.** To estimate revenue capacity from these sources, the average fee structures of the States for heavy vehicles and the light vehicles were applied to the number of registered vehicles by type on Norfolk Island.

72 The States each have their own scale of charges. In New South Wales, Victoria and the ACT vehicle registration fees are based on weight of vehicles. In Queensland, South Australia and the Northern Territory fees are based on the number of cylinders and engine capacity.

73 The Commission estimated the revenue capacity from the Island's 34 omnibuses by applying the national rate of \$331. This equalled about \$11 000.

74 The Commission applied differential weights to 3174 vehicles by type, excluding vehicles subject to transfer restrictions and dealer plates (a total of 23). The weighted number of vehicles was 6946. At an effective rate of \$88 per weighted vehicle for the States, the revenue capacity was about \$611 000.

75 Thus the total revenue capacity from registration fees and taxes was \$623 000.

76 **Stamp Duty on Motor Vehicle Registrations and Transfers.** In 2004-05, 224 vehicles with a total dutiable value of \$640 000 were imported to the Island.

77 In addition, there were transfers of existing stock. In 2004-05, transfers of 319 motor vehicles (excluding motor cycles) occurred. On the basis of on-island consultations and observations, the Commission assumed a value of \$2500 for each, with a total value of about \$798 000. The estimated value of the 12 motor cycles transferred was \$10 000.

78 For the States as a whole, the effective rate of stamp duty in 2004-05 was 3.19 per cent ¹¹. Applying it to the dutiable value above, the Commission estimated revenue capacity for stamp duty at \$46 000.

79 **Summary.** Total revenue capacity relating to motor vehicles was therefore estimated at \$669 000.

OTHER TAX REVENUE

80 For the States, other tax revenues comprise taxes, duties, fees and levies not elsewhere classified including miscellaneous stamp duties and taxes such as bed taxes.

81 For Norfolk Island in 2004-05, this included revenue from the accommodation levy and a one-off bequest from a deceased estate.

82 Table C-13 shows the revenue raised by Norfolk Island and the States from other taxes.

Table C-13 Comparison of Norfolk Island and State other taxes revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
470.03	36.37	14.98	18.79	4.50	2.21	0.00	5.88	1.11	20.21

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

83 In the 2004 Review, the Commission assessed capacity for this category by the equal per capita method, because State policies had a large influence on capacity to raise revenue from these sources. For 2004-05, assessed revenue per capita for all States was \$20.

84 On that basis, it was estimated that the revenue capacity for Norfolk Island was \$41 000.

MINING ROYALTIES

85 All States (apart from the ACT, which does not have any mineral production) levy royalties on minerals producers. Mining revenues are an important component of State own-source revenues. Actual revenue per capita for the combined States in 2004-05 was \$144. Table C-14 shows the mining revenue capacity for the States.

86 Norfolk Island does not have any mineral and energy resources identified. Its rock quarry at Cascade could be seen as offering some scope for royalty payments.

¹¹ This is calculated by dividing actual revenue by revenue base. New South Wales, the ACT and the Northern Territory imposed around 3 per cent, Queensland charge 2 per cent. Victoria's top rate of duty was 6.5 per cent, Western Australia 5 per cent, and South Australia 4 per cent.

Table C-14 Comparison of Norfolk Island and State Mining Royalties revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	58.73	4.14	253.01	670.27	65.70	38.24	0.00	224.54	144.07

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 87 However, the Cascade Cliff Sale of Rock Enterprise processes and sells rock products from the Cascade Cliff Stabilisation project and pays \$28 per tonne to the Cascade Cliff Loan Fund. This royalty is paid every six months to the Australian Government as an agreed loan repayment. Therefore there is no capacity to raise revenue from this source.
- 88 The Commission assessed Norfolk Island's capacity to raise revenue from mining to be nil.

CONTRIBUTIONS BY TRADING ENTERPRISES

- 89 Contributions by trading enterprises comprise dividends, tax equivalent payments and other tax-like payments from government-owned trading enterprises. The major contributions come from electricity and gas enterprises. Contributions can also come from water supply and sewerage authorities, freight, non-urban passenger transport enterprises, forestry operations, ports and harbours, and marketing authorities. Any profits arising from the general government sector activities are also included.
- 90 Trading enterprises on Norfolk Island that have been classified as State government responsibilities are the Gaming Enterprises, the Electricity Service and the Lighterage Service.
- 91 Table C-15 shows the States and Norfolk Island's revenue raised from contributions by trading enterprises.

Table C-15 Comparison of Norfolk Island and State Contributions by Trading Enterprises revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
103.08	257.57	200.52	277.33	386.40	197.31	377.63	295.81	383.57	260.18

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 92 In 2004-05, average revenue for all States was \$260 per capita. The ability to raise such revenue is affected by State policies on:
- the privatisation of trading enterprises;
 - the level of investment by the State in trading enterprises and their capital structure;
 - the enterprises' policies on charging for their services;

- the level of government subsidy or community service obligations; and
- the level of tax equivalent payment and dividends required by States from their trading enterprises.

93 In assessing Norfolk Island's capacity to raise revenue from trading enterprises, it is important to consider whether Norfolk Island can raise revenues from the same range of trading enterprises as States; for example, whether all State-type trading enterprises can operate on Norfolk Island. In addition, the Commission considered whether the special circumstances of Norfolk Island — its size or remoteness — limit its capacity to raise the same revenue as the State average from a particular trading enterprise. This assessment does not prescribe the types of trading enterprises from which the Norfolk Island Government should raise revenue, but merely assesses their capacity based on what States do.

- **Electricity and gas.** The assessed expense for electricity subsidies, estimated in Attachment D, provides the capacity for the Norfolk Island Government to receive a dividend from the Norfolk electricity service. For those States that provide information as to the type of trading enterprise from which they are raising a dividend, the average dividend raised from electricity and gas type trading enterprises was \$148 per capita. The Commission considered that Norfolk Island's revenue raising capacity from this source was increased by the tourist population. Hence, the Commission assessed Norfolk Island's revenue raising capacity from electricity and gas type trading enterprises as equal to the Australian average per capita amount raised by States, adjusted by 1.16 to recognise the impact of tourists, or \$346 000 in total.
- **Water supply and sewerage.** While State governments do, in some circumstances, receive dividends from water provision enterprises, the capacity to do so is limited in very remote regions of the States. Most revenue is raised in metropolitan and regional areas where water quality and supply is not a problem. As the Commission has classified the provision of water and sewerage as a local government function on Norfolk Island, its capacity to raise revenue from this source is assessed as nil.
- **Freight.** Norfolk Island's opportunity to raise revenue in this area is the Lighterage service. Given the nature of the isolation of Norfolk Island and the already high cost of moving goods to the Island, the Commission has assessed Norfolk Island to have no capacity to raise revenue in this area.
- **Non-urban passenger transport.** The Norfolk Island equivalent of non-urban passenger transport is the air services to the mainland. The Norfolk Island Government is currently chartering a plane to service the Brisbane-Norfolk and Sydney-Norfolk routes. Depending on the level of tourist capacity, a dividend from a non-urban passenger type trading enterprise may be payable in the future. As a commercial service was operating in 2004-05, the Commission concluded that Norfolk Island had no capacity to raise revenue from this type of trading enterprise in 2004-05.

- **Forestry operations.** A forestry zone exists on Norfolk Island to grow timber for production and to protect areas of high conservation value. The Commission assessed zero capacity to raise revenue from forestry operations.

94 The above examination of the main sources of contributions by trading enterprises shows that Norfolk Island's capacity to raise revenues from the standard range of trading enterprises to be limited to the electricity GBE. This gave an estimated revenue capacity of \$346 000 in 2004-05.

INTEREST EARNINGS

95 State governments earn interest on their provisions and from managing their cash balances. Norfolk Island earned interest in 2004-05 which has been evenly allocated between the State and local sectors. Table C-16 shows a comparison of State-type interest earnings on Norfolk Island with those of the States.

Table C-16 Comparison of Norfolk Island and State interest earnings revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
50.97	155.13	68.01	131.29	58.63	104.44	90.48	239.22	91.71	114.76

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

96 The Commission recognises that Norfolk Island will not be able to raise such revenue unless it has the same average level of provisions and other cash. However, if average policies were followed, then Norfolk Island would have the capacity to raise interest earnings at the all-State level of \$115 per capita. This gave an estimate of \$231 000.

FEES AND FINES

97 Fees and fines include court fees and fines and road traffic fines.

98 Table C-17 shows a comparison of user charges — fees and fines on Norfolk Island with those of the States.

Table C-17 Comparison of Norfolk Island and State fees and fines revenue, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
15.28	69.38	68.86	44.69	60.59	45.89	49.01	3.93	21.33	59.78

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

99 At the conference, the issue of whether the all-State average could be raised on Norfolk Island was discussed. The Commission assesses a State's capacity to raise revenues from fees based

on the relative number of small and large business¹². The absence of big business on Norfolk Island would suggest a very low capacity to raise revenue from court fees.

- 100 The Commission considers that the capacity to raise revenue from fees and fines is likely to be less than the average of the States because of the absence of big business and a limited incidence of traffic and other infringements¹³. The Commission therefore decided to assess the Norfolk Island capacity to raise fees and fines as 50 per cent of the tourist adjusted average of the States (\$30 x 1.16), or \$70 000.

TOTAL REVENUE RAISING CAPACITY FROM STATE-TYPE TAXES

- 101 The tax by tax approach suggests a revenue capacity of about \$5.5 million for the Island, as summarised in Table C-18. It suggests that Norfolk Island could raise substantially more revenue than it did in 2004-05, if it applied State tax regimes. It also shows that actual revenue and estimated revenue capacity are not only different at the aggregate level, but also very different for individual revenue sources.

- 102 The approaches used in each assessment are summarised in Box C-1.

Table C-18 Norfolk Island revenue raising capacity, tax by tax measure, 2004-05

Revenue source	Norfolk Island actual revenue \$'000	Adjustment \$'000	Norfolk Island revenue raising capacity \$'000
Payroll tax	0	51	51
Land revenue	113	2 941	3 054
Stamp duty of conveyances	330	74	403
Financial transaction taxes and stamp duties on shares and marketable securities	1 144	-1 144	0
Gambling taxation	400	111	511
Insurance taxation	0	215	215
Motor taxes	471	198	669
Other revenue	946	- 905	41
Mining revenue	0	0	0
Contributions by trading enterprises	207	90	298
Interest	103	128	231
Fees and fines	31	39	70
Total revenue	3 744	1 799	5 544

Source: Actual revenues are from the Norfolk Island Government's Financial Statements for 2004-05. Revenue raising capacity is as calculated in this attachment.

¹² Big business has a greater propensity to pursue litigation through the courts than small business which, in turn, has a greater propensity to pursue litigation than individuals.

¹³ For example, there are no traffic lights on Norfolk Island.

Box C-1 Summary of assessment approach – State revenues

Source of revenue	Method
Payroll tax	<p>Tax levied on estimate of Norfolk Island payrolls for group payrolls above \$550,000 annually:</p> <ul style="list-style-type: none"> • two grouped companies with payrolls of \$0.7 million; • national companies with payrolls of \$0.6 million; • Airport with payroll of \$0.6 million. <p>Average tax rate applied: 5.31 per cent.</p>
Land tax	<p>Tax levied on value of commercial and industrial land and non-principal residential land (AVO valuation and Norfolk Island Government area data). Principal residential land and rural land exempt.</p> <p>Average effective tax rate for commercial/industrial land: 1.42 per cent; for non-principal place of residence land: 0.36 per cent.</p>
Stamp duty on conveyances	<p>Paid by the purchaser on value of transactions (Norfolk Island Government data plus estimate of transfers for 'natural love and affection' and the like).</p> <p>Average effective tax rate ranges from 1.98 per cent for values up to \$100,000 to 4.67 per cent, for values in excess of \$2 million.</p>
Financial transaction taxes and stamp duties on marketable securities	No capacity — States are abolishing these taxes.
Gambling tax	<p>Paid by the operator.</p> <p>Levied on gross household disposable income (discounted). Estimated using 75 per cent of Island income (\$28 609), discounted by 50 per cent, plus adjustment for tourist numbers.</p> <p>Average effective tax rate of 0.78 per cent.</p>
Insurance tax	<p>Levied on insurance premiums</p> <ul style="list-style-type: none"> • notional CTP insurance (estimate because the Island does not have CTP); • general and life insurance. <p>Average effective tax rates on CTP premiums: 4.37 per cent and general premiums: 10.2 per cent.</p>
Motor vehicle taxes (registration fees and stamp duty on transfers)	<p>Registration fees at national rates for heavy and other vehicles on register.</p> <p>Stamp duty on newly-imported vehicles and on transfers at 3.19 per cent.</p>
Other revenue	Equal to the all-State average per capita amount.
Mining revenue	No capacity.
Contributions by trading enterprises	Equal to the all-State average per capita amount raised from electricity and gas undertakings, adjusted for the impact of tourists.
Interest earnings	Equal to the all-State average per capita amount.
Fees and fines	Equal to half the all-State average per capita amount, adjusted for circumstances of small community (few large businesses to pay court fees) and the impact of tourists.

ATTACHMENT D

STATE SERVICE DELIVERY REQUIREMENTS

INTRODUCTION

- 1 Clause (i) of the terms of reference ask the Commission to advise on:
 - (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island government operates at the same level of efficiency as State and local governments.
- 2 This attachment considers what it might cost to provide services normally provided by State governments on Norfolk Island under those conditions. Such services include education, health, welfare, law and order services, general public services and the depreciation and financing costs of the assets required for the delivery of those services.

METHODS

- 3 General methods used to assess expense levels for a comparable community have been described in Chapter 3. Expenses are either based on a comparable community from other parts of Australia (including in some cases the all-State average expense) or are assessed from existing Norfolk Island service costs. The precise method used is explained in each section.
- 4 Where costs for an Australian comparable community have been used as the basis for an assessment, factors have been applied to recognise Norfolk Island's lower wage levels (0.70) and its isolation costs (1.06). Some assessments also recognise the additional costs incurred through tourism.
- 5 Each of the following sections begins with a description of the way services are delivered in the States and on Norfolk Island. This is followed by cost comparisons leading to an assessment of the expense that would be required to deliver services at the average range and level provided in the States.
- 6 A summary of the assessments for all service areas concludes the attachment.

EDUCATION

Pre-school Education

- 7 All State governments provide or subsidise pre-school education.
- 8 **Existing services.** A pre-school program, taught by a qualified pre-school teacher, is provided at the Banyan Park Play Centre. The centre receives a small annual subsidy (\$12 000 in 2004-05) from the Norfolk Island Government, although in the past the centre has requested, and received, extra funds.
- 9 **Comparisons.** Given the variable manner in which the States actually provide pre-school education, a service at the average range and level provided in the States would fall between a fully funded pre-school and some level of subsidy provided for private pre-school arrangements. In that circumstance, the Commission considers that Norfolk Island should be able to provide a service equal to the all-State average contribution to pre-schools. The per capita expense on pre-school education for each State is provided in Table D-1.

Table D-1 Comparison of Norfolk Island per capita pre-school education costs with the States, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
5.96	3.08	22.26	34.44	18.85	73.29	36.64	40.62	83.99	23.02

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 10 If Norfolk Island's pre-school expense was the same as the average per capita expense for all States combined it would amount to \$46 000 per year. Applying adjustment factors for lower salaries (0.70) and for additional isolation costs (1.06) results in an assessed expense of \$34 000.
- 11 The Commission has assessed a required expense for pre-school services on Norfolk Island of \$34 000.

School Education

- 12 State governments are responsible for schools education and either deliver this through government schools or regulate the delivery of the services through non-government schools. The Australian Government makes specific purpose grants to the States for general education purposes and to assist disadvantaged groups in government schools as well as payments directly to non-government schools.
- 13 **Existing services.** The Norfolk Island Government has executive responsibility for education, but legislative proposals are technically subject to Australian Government veto. It has a memorandum of understanding with the Australian Government and a contract with the New South Wales Department of Education and Training under which that State provides a kindergarten to Year 12 education package at the Norfolk Island Central School. The cost of

the education package is based on teachers' salaries¹ and a 4.5 per cent administrative fee. The package provides:

- teachers;
 - curriculum — including distance education;
 - access to assessment processes such as the Higher School Certificate and Basic Skills Testing;
 - training and development for all school staff; and
 - Vocational Education and Training (VET) and Technical and Further Education (TAFE) certificate courses.
- 14 Other expenses such as school requisites, cleaning and maintenance, electricity, telecommunications and improvements to grounds and buildings are met by the Norfolk Island administration.
- 15 The education package purchased from the New South Wales Department of Education and Training does not include elements of assistance available to other schools in New South Wales such as special arrangements for technology.
- 16 The Norfolk Island school has a total student population of 315, with 200 primary students and 115 secondary students. The teaching staff consists of a Principal, eight primary teachers, twelve secondary teachers, one support teacher learning/counsellor, one librarian/information technology/vocational education and two part time relief teachers. Clerical support staff consists of a senior school assistant, finance clerk, teachers aide, two part time library assistants and a groundsman. The school has student to teacher ratios similar to schools in New South Wales.
- 17 An active Parents and Citizens Association raises considerable funds which are directed into major school improvements and projects, such as computing equipment, refurbishment of the science laboratory, the oval, the tennis/basketball court, the netball court and playground equipment. It also operates a school bus service.
- 18 Students seeking a University Admissions Index are well served through face-to-face teaching and input through the New South Wales Distance Education program. In 2004, four students out of the six who were studying a University Admissions Index eligible course pattern were offered places in universities.
- 19 Only limited accredited VET-type courses can be offered to senior secondary students because few teachers on the Island have accreditation with the New South Wales Board of Studies to teach post-secondary subjects.
- 20 **Comparisons.** Table D-2 compares the Norfolk Island expense on school education with the Commonwealth Grants Commission estimates of the 2004-05 expenses of the States and

¹ As determined by New South Wales Department of Education and Training.

Territories. It shows that Norfolk Island spends less per student than all States except Queensland, but in per capita terms spends more than all States except the Northern Territory. These apparently conflicting observations are because State governments are educating 112 students per 1000 population in government schools compared with the Norfolk Island Government, which is educating 153 students per 1000 population. This difference is largely due to the fact that in State jurisdictions, on average, only 67.3 per cent of school students attend government schools. While this percentage would be higher in remote areas, the lack of an accessible non-government school means that residents of Norfolk Island have more limited choices for their children's education. A number of families, as in the rest of Australia, send their children to a boarding school.

- 21 Comparisons of expenses per student generally provide a better indication of the relative standards of education being provided. However, low expenses per student do not necessarily imply a lower standard of education. The figures may reflect lower salaries paid to non-teaching staff than would be the case in the rest of Australia and the relatively low need for additional resources to assist students with special needs, such those from a non-English speaking background.

Table D-2 State and Norfolk Island Education Expenses, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
Expenditure (\$m)	2.316	7 083	4 738	4 002	2 466	1 588	544	369	347	21 137
Per student (\$)	7 354	8 206	7 507	7 341	9 292	8 961	8 088	8 980	10 911	8 071
Per capita (\$)	1 150	1 050	949	1 019	1 236	1 033	1 123	1 138	1 727	1 046

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 22 **Assessment.** The education package purchased from New South Wales Department of Education and Training provides teaching staff and curriculum at a standard consistent with the provision of those components of school education in New South Wales. However, some areas of peripheral government funding available to comparable schools in New South Wales are not available to the Norfolk Island Central School.
- 23 Accepting the New South Wales average standard as a reasonable basis for making a comparable community comparison, information on non-comparable funding was sought from the Principal of Norfolk Island Central School. The Principal based these estimates on similar sized New South Wales schools of the type 'Central school, class 2', the category applicable to communities comparable with Norfolk Island. He selected schools with a similar demographic profile.
- 24 Services not provided on Norfolk Island, based on two schools of a similar size and category in New South Wales, are:

- Student assistance for financially needy students (uniforms, books, excursions etc.) — \$4000.
 - Homework Centre (salaries/resources for after school assistance) — \$8000.
 - Literacy/numeracy intervention — \$1500.
 - Integration funding to pay for teacher time or for a teachers aide for students with learning difficulties — \$15 000.
 - Computer co-ordinator — \$10 000.
 - Work Placement Co-ordination — \$5000.
 - Technology for Learning (yearly replacement of personal computers) — \$4 000.
- 25 This funding totals \$47 500. While it is not possible to calculate the extra funding New South Wales would provide Norfolk Island Central School, should it be a more traditional part of the New South Wales Department of Education and Training, this provides an estimate of the additional expenses that might be required to provide a fully comparable service.
- 26 In addition, it is estimated that there will be a one-off cost of \$120 000 required to upgrade the School network by replacing the School's 52 personal computers. Converting this to an average replacement cost on a three year cycle of use, an annual cost for replacing computer equipment accepted as necessary to meet curriculum requirements, would be \$40 000. This amount can be substituted for the Technology for Learning assistance amount (\$4000) to bring total supplementary funding requirement to bring Norfolk Island's school education to a New South Wales average standard to \$83 500
- 27 Adjusting Norfolk Island's 2004-05 expense for school education by the amount calculated for additional elements required to deliver the service in a comparable community (paragraphs 24 to 26 above) brings Norfolk Island's total required expense for school education to \$2 399 000.
- 28 No adjustment is required for differences in salary levels or isolation. New South Wales salaries are paid to most staff and the impact of isolation on costs is already reflected in Norfolk Island's actual costs.
- 29 The Commission has assessed a required expense for school education services on Norfolk Island of \$2 399 000.

Vocational Education and Training (VET) and Higher Education

- 30 VET is a State government responsibility. The States are primarily responsible for the provision of services, although they are required to meet national objectives.
- 31 *Existing services.* There are no publicly funded VET-type services on the Island, although the vocational courses offered at the school are, at times, attended by a small number of non-school aged students. Distance education through State providers offers a range of opportunities.

- 32 Higher Education is principally the responsibility of the Australian Government, although some States provide some minor funding.
- 33 **Comparisons.** The main target group for VET services is people aged 15 to 24 years old. Only 8.3 per cent of the Norfolk Island population is in this age group, compared with 13.9 per cent of the Australian population. This indicates a lower level of potential demand for VET services. Table D-3 compares the net per capita vocational education and training expenses on Norfolk Island with those of the States.

Table D-3 Comparison of Norfolk Island per capita vocational education and training costs with the States, 2004-5

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.42	212.88	257.91	180.24	187.52	208.91	240.08	279.32	442.11	218.86

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 34 In the rest of Australia, most residents of remote areas wishing to undertake vocational education or training have access to some courses, although they may not always have access to the course of their choice, and some would have to use distance education.
- 35 With the substantial increase in the provision of distance education through the internet, Norfolk Island residents now receive a service comparable with residents living in remote areas in the rest of Australia.
- 36 For apprentice training, States generally provide accommodation or subsidies for travel and accommodation for apprentices living in remotes areas, although the amounts differ between States. Because only very limited services are provided through the Norfolk Island Central School and subsidies are not available to assist students with residential costs, additional funding would be required for VET services on Norfolk Island if services equivalent to those offered in a comparable community were to be made available.
- 37 An estimate of what it would cost to provide services at a similar standard to comparable communities could be calculated by taking average State expenses on VET services. However, as mentioned above, Norfolk Island has a 40 per cent smaller proportion of its population in main target age group for VET services. Also, an adjustment factor of 0.75 should be applied to discount system overhead costs (head office type costs that would not be needed to deliver VET services on Norfolk Island (see Chapter 1). Thus, applying a population adjustment factor (0.60), an overhead costs reduction factor (0.75) and an isolation costs factor (1.06) to the State average expense for VET services results in an annual required expense of \$210 000 for a comparable service to the Norfolk Island population.
- 38 As a reality check, for this amount of funding 30 students could access apprentice-type training each year (10 students in each year of a three-year course) at an annual cost of \$7000 per student. No other higher education service costs could be met. The Commission considers that this would provide flexibility in meeting expenses, such as subsidy payments to

employers, travel and accommodation costs associated with block release programs, or for ad hoc specific training from time to time, to meet Norfolk Island training needs. On this basis, \$210 000 per annum would permit Norfolk Island to provide a VET service at a standard comparable with the States.

- 39 The Commission has assessed a required expense for VET services on Norfolk Island of \$210 000.

HEALTH

- 40 Hospital services in Australia are a State responsibility. States organise and provide hospital services, but the Australian Government makes specific purpose payments, under Australian Health Care Agreements, to assist States to provide public hospital services free of charge.

Existing services on Norfolk Island

- 41 Norfolk Island is not a party to the Australian Health Care Agreements and has implemented a charging regime to cover a large proportion of health costs.
- 42 Hospital services for Norfolk Island residents and visitors are provided either on the Island, through the Norfolk Island Hospital, or they are provided in hospitals off the Island, most often elsewhere in Australia.
- 43 **Norfolk Island Hospital.** Norfolk Island has a 24-bed hospital (12 beds for general patients and 12 for aged care). The Hospital employs about 30 full-time equivalent (FTE) staff, including 2.5 FTE doctors, a dentist, 3 FTE nurses aides, 14 FTE registered nurses, a radiographer, a pharmacist, a physiotherapist, and a lab technician
- 44 Salaried doctors are general practitioners with skills covering surgery, anaesthetics and obstetrics. This permits the Hospital to undertake low level surgery, for example appendectomy, and deliveries (20 to 30 per year), including caesarean sections. They also provide general practitioner services to the Island, while visiting specialists, including a gynaecologist, urologist, and orthopaedic surgeon perform minor operations. No cardiac surgery or complex orthopaedic surgery is undertaken and complex obstetrics cases evident in advance are referred to the States for treatment.
- 45 Telemedicine facilities are also now being used to a very limited extent following connection to the broadband system. There have been a number of patients who, through the use of this equipment, have been able to receive treatment on Island instead of being transferred to the States.
- 46 As in other small centres, the community uses the Hospital for provision of outpatient services that would be more generally obtained from community general practitioners in a larger centre. A 'significant majority' of the activity of the Hospital's doctors is in the provision of general practitioner services to the Norfolk Island community.

- 47 The Hospital contains the Island's only pharmacy where drugs are dispensed at full cost² and provides the ambulance service.
- 48 While the Hospital on Norfolk Island operates in an old building, submissions to the Commission attest to the quality of care delivered. The Hospital claims good care outcomes and no hospital acquired infections. Some ancillary services have newer accommodation provided from philanthropic grants (such as the dental clinic, the Mawson units and the child health clinic).
- 49 *Hospital service costs.* All patients on Norfolk Island are charged set fees for health services except veterans who pay less than full cost. This difference is paid by the Australian Department of Veterans' Affairs. Residents who receive welfare benefits are also entitled to receive assistance with hospital and medical expenses. Medical fees are set at Medicare Benefit Schedule rates. Visiting Medical Officers' session fees, less 15 per cent for support costs, are paid from the Hospital budget. The Hospital charges patients at Medicare Benefit Schedule rates per visit.
- 50 Health services on Norfolk Island are not covered by the Australian Government's Medicare scheme. The Norfolk Island Government operates a Health Care Fund which will meet medical costs over \$2500 per annum for a family. Membership of the Fund is required for residents who are 18 years or over, and who intend to stay on the Island for over 120 days. Those who receive health insurance cover through their work or those with comprehensive cover through MBF (which is available on the Island) can apply for suspension from the levy. A private insurer, Southern Cross, offers insurance cover for expenses below the Health Care Fund's \$2500 threshold but does not cover all costs.
- 51 *Treatment in other public hospitals.* If Island doctors decide that emergency treatment is not possible locally, medical evacuations to the States are provided. Depending on the degree of emergency, these may be by commercial flights, but are more usually under a Norfolk Island Government contracted Medivac arrangement. In 2004-05, the cost of Medivacs was \$167 000 met from a levy on wage and salary earners, paid in addition to the Health Care levy.
- 52 If a particular hospital service is not available on the Island, under a special agreement with New South Wales, Norfolk residents can receive hospital care equivalent to that provided to a public patient in a New South Wales public hospital, with no waiting period. All costs are borne by the patient, but expenses that exceed \$2500 can be recovered from the Health Care Fund if the Norfolk Island Government Medical Officer has issued a referral for that treatment.
- 53 Some Norfolk Island residents have Australian Medicare cards which they acquired while they were residents of the States (they remain valid for a number of years after they are

² There is only one pharmacy on the Island. It is located in the Hospital complex.

issued). Therefore, if these Norfolk residents visit the States, they can receive medical care under the same conditions as other Australian residents.

54 **Other health services.** Other health services are provided in the States, such as community health, population and preventive health. They are funded by State governments and partly through payments to the States from the Australian Government.

55 Other health services on Norfolk Island include:

- health promotion — including drug and alcohol services, child health and radio health sessions. These services are provided by 2 part-time health promotion workers;
- dental services — an orthodontist also provides regular visits;
- pre-natal and post-natal care as well as mothercraft nursing services; and
- immunisation programs — these are conducted at the Hospital for both children and adults.

56 Home nursing services are available on the Island three days per week through the Emilie Channer District Nursing Service. The costs for this service are met from a private source.

Comparisons and assessments

57 **Hospital services.** Hospital services are delivered on Norfolk Island in a manner that differs considerably from that in the States. Norfolk Island's fee for service model makes direct comparison with the States' hospital service costs difficult. The scale of operation of health services on the Island also means that the mixture of services offered through the Island's Hospital includes a number of 'non-hospital' elements that are included in the Hospital's budget.

58 Table D-4 shows a crude per capita comparison of Norfolk Island health expenses (hospital and other health) compared with those for the States. It should be noted that the per capita expenses for the States reflect the average per capita expenses across all State regions, and not just remote health expenses.

Table D-4 Comparison of Norfolk Island per capita health expenses with those of the States 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Expenses	1 215.99	1 330.13	1 309.49	1 101.30	1 419.22	1 587.14	1 490.38	1 577.95	2 589.64	1 329.27
User Charges	809.55	95.03	187.71	87.11	65.15	209.64	116.49	184.12	110.45	124.26
Net Expenses	406.44	1 235.10	1 121.79	1 014.19	1 354.07	1 377.50	1 373.89	1 393.82	2 479.20	1 205.01

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

59 The Norfolk Island expense level is below the average per capita expense of the States, which in part is explained by lower wage levels on the Island.

- 60 A more appropriate comparison of Norfolk Island Hospital services and expenses is obtained by comparing them to the services and expenses of small regional acute hospitals³ in the States.
- 61 There are 96 ‘small regional acute’ hospitals⁴, of which about half are located in inner regional areas and half in outer regional areas. They have an average size of 23 beds, about the same as the Norfolk Island Hospital. They include hospitals at Cherbourg (Queensland), Peterborough (South Australia), Manjimup (Western Australia) and Wee Waa (New South Wales).
- 62 For these hospitals, typical services include minor surgery, obstetrics/maternity, nursing home care and renal dialysis. They do not typically provide services such as psychiatry, complex surgery, specialised care units (that is, burns, neonatal, acute spinal cord injury, transplant, neurosurgical and high level intensive care). This service pattern generally matches the range of services offered by the Norfolk Island Hospital, although there appears to be more aged care provided at the Norfolk Island Hospital than there is in most small regional acute hospitals. A detailed comparison of case-mix for admitted patients is not possible as the Norfolk Island Hospital does not code patient morbidity related to admitted patient services.
- 63 Unlike the small regional acute hospitals in the rest of Australia, Norfolk Island Hospital is not accredited to Australian standards.
- 64 Allied health-type services provided at these hospitals include physiotherapy, occupational therapy, speech therapy, podiatry, dietetics/nutritionist, psychologists, social workers and mental health workers. The Commission is aware of only physiotherapy and counselling services being available on Norfolk Island.
- 65 Table D-5 compares an expense dissection for the small regional acute hospitals with the Norfolk Island Hospital. Expenses for the Norfolk Island Hospital have been adjusted to exclude some services of a welfare nature and a high proportion of the costs of running the Hospital dispensary, which also provides the community with medicines and related products.
- 66 Lower expenses of the Norfolk Island Hospital can be explained by Norfolk Island’s lower wage costs and the fact that its services include a higher proportion of lower cost patient care through its nursing home section.
- 67 The Commission considers the cost of a small regional acute hospital of the same bed size as the Norfolk Island Hospital provides an estimate of the cost of providing local hospital services in a comparable community.
- 68 Applying an adjustment factor for Norfolk Island’s lower wage levels (0.70) and allowing half of the isolation differential applied to other expense items (1.03) brings the comparable cost of operating a small regional hospital to \$2 396 000. The lower isolation factor in this

³ A definition of this group of hospitals, together with summary information, is reported by the Australian Institute of Health and Welfare (AIHW) in its annual *Australian Hospital Statistics* reports.

⁴ Data provided by AIHW in 2006.

case is because at least some element of isolation cost is implicit in the operating costs of small regional hospitals. The result is further adjusted by a factor of 1.035 on advice that between 2 and 5 per cent of Norfolk Island's Hospital services are provided to tourists. This gives an assessed expense level of \$2 480 000, or \$1232 per capita. The Commission considers that this amount would enable Norfolk Island to deliver the current mix of acute and sub-acute inpatient services, community outpatient medical services and a community pharmacy at standards comparable with the States.

Table D-5 Comparison of hospital expenses: Average per establishment expenses of small acute hospitals, small regional hospitals and Norfolk Island Hospital, 2004-05

	Small regional acute hospitals	Norfolk Island Hospital
	\$'000	\$'000
Wages expenses	2 044	1 653
Non-wages expenses (excluding depreciation)	1 279	726
Total recurrent expenses	3 323	2 379

Source: Data request from Australian Institute of Health and Welfare and Norfolk Island Hospital Enterprise financial accounts.

- 69 Unlike public hospitals elsewhere in Australia, Norfolk Island charges for all hospital services. As a result, the Norfolk Island Hospital Enterprise raises revenue through user charges (\$810 per capita in 2004-05 compared with \$124 for the average of all States).
- 70 Table D-6 shows that the user charging regime of the Norfolk Island Hospital is also a very different than that of the 'small regional acute' hospitals. Some of the Island revenue is obtained from services provided outside of the hospital, such as for the general practice consulting service provided by salaried hospital doctors.

Table D-6 Comparison of hospital revenues: States small regional acute hospitals (per establishment) and Norfolk Island Hospital, 2004-05

	Small regional acute hospitals	Norfolk Island Hospital
	\$'000	\$'000
Total revenue	465	1 631

Note: The Norfolk Island revenues from aged care and the Mawson units have not been included here as they were included in the Welfare and Public Housing revenue figures.

Source: Australian Institute of Health and Welfare and Norfolk Island Hospital Enterprise financial accounts.

- 71 The Commission considers that under policies operating in the States it would be reasonable to assess the revenue capacity of the Norfolk Island Hospital from the level of user charges in small regional acute hospitals. It therefore adopts the revenue earned by a small regional acute hospital as the assessed offsetting revenue amount. It is adjusted by the impact of tourists on the services of the Norfolk Island Hospital (1.035) to be \$481 000 or \$239 per capita.
- 72 **Offshore hospital treatment.** In a comparable community, the cost of public hospital care provided away from the local small regional acute hospital would accrue to the State.

Therefore, in estimating expenses for hospital care at the range and level available to a comparable community, the Commission has had to estimate the cost of care provided on referral in other public hospitals.

- 73 In 2004-05 the Health Care Fund paid out \$374 000 for offshore costs from total claims of \$598 000 from 118 families. To this can be added a part of the \$2500 costs borne by Islanders before they can make a claim. If it is assumed that onshore and offshore costs follow the same pattern as in processed claims, total offshore spending would increase to \$558 000. Part of that would represent claims for travel, but as that is limited to an annual \$200 per family and is difficult to estimate, the Commission has not attempted to exclude it from its estimates of the cost of offshore hospital care. Part of total offshore spending on hospital care would have occurred in private hospitals. If patterns of usage of private hospital care that are typical in State hospitals were to be assumed for a comparable service, this can be reduced by 16 per cent⁵ to \$469 000.
- 74 The Commission has assessed a required expense for offshore hospital services as the actual estimated expenses of Norfolk Islanders on offshore public hospital care of \$469 000.
- 75 All States have a travel assistance scheme for patients requiring specialist care not available within a specified distance of where they live. The schemes typically cover transport, support for accommodation and in some cases for the cost of an escort. Schemes generally require a small contribution from patients, averaging around \$50⁶.
- 76 Norfolk Island Hospital statistics indicate that there were 329 offshore referrals during 2004-05. These would have been for a mixture of hospital treatment and consultations with specialists. Assuming airfares of \$800, one week's accommodation allowance of \$140 and a \$50 patient contribution, the travel allowance would be \$890. This amount paid in respect of 439 persons (329 patients and 110 escorts) totals \$391 000, or \$194 per capita
- 77 The Commission has assessed \$391 000 as the expense for patient travel assistance.
- 78 In addition to patient transport assistance, costs to States for health care to comparable communities include inter-hospital transfers of patients needing a different level of care. On Norfolk Island this need is met through its Medivacs scheme, funded from a \$100 per annum levy on wage and salary earners, collected along with the Health Care levy. In 2004-05 the cost of Medivacs was \$167 000. The Commission considers that this amount should be assessed as the required expense for inter-hospital transfers.

⁵ Patient election status data from AIHW *Australian Hospital Statistics 2004-05* Table 7.5.

⁶ Department of Health and Ageing. *The State of our Public Hospitals, June 2006 Report* Canberra DoHA.

Health — overall assessment

79 The Commission has assessed a required expense for health services on Norfolk Island of \$2 959 000. It has assessed revenue from user charges for health services on Norfolk Island of \$481 000.

WELFARE AND PUBLIC HOUSING

80 Welfare services in Australia are State or local government responsibilities that are partly funded through payments to the States from the Australian Government. Many of the accommodation services provided to the elderly in the rest of Australia are private or are run by 'not-for-profit' community organisations such as churches.

81 The range of welfare services on Norfolk Island includes:

- counselling — services are provided by one full time counsellor, now based at the hospital but in previous years provided through general government services;
- residential aged care — 12 dedicated beds in the hospital to accommodate aged people who require institutional care; and
- welfare housing — 6 small accommodation units (Mawson units).

82 Aged care residential services are provided through dedicated beds in the hospital. The aged care recipients currently have 80 per cent of their pensions deducted as a fee for the service. The agreement of the aged care coordinator and medical superintendent is needed to acquire one of these beds.

83 There are no home and community care-type services on Norfolk Island. The Commission was advised that there is low demand for this type of service as residents' needs are generally met through family connections. Likewise, temporary residents may be assisted by friends they make on the Island when they need these types of services. Nevertheless, the Commission noted that there is no formal arrangement for services for which at least some need would arise.

84 There is no welfare housing on Norfolk Island and no equivalent of supported accommodation and assistance programs, although there are six small accommodation units (Mawson units) in the hospital grounds built from a philanthropic grant designated for pre-nursing home care. They are not normally fully occupied. At the time of the Commission staff visit, some were being used by social welfare recipients who have low level health care needs. Fees are charged for using this accommodation.

85 Other than the work of one counsellor, Norfolk Island provides no specific services in a number of fields covered by welfare expenses in the rest of Australia. These include child protection and other children's services, family support, services for youth, domestic violence, disability services or community development. Where needs of these kinds arise, the Commission was advised that general support comes from within the community.

Welfare and public housing comparisons

86 The range of welfare services provided on Norfolk Island is much narrower than that available in the rest of Australia and, for those services that are provided, fees for services offset a high proportion of the costs. The Norfolk Island Government charges set fees for residential aged care and welfare housing. As a result it raises revenue through user charges (\$184 per capita in 2004-05) that can be used to offset expenses. Overall, net per capita costs of \$40 in 2004-05 were very low compared with average net per capita expenses of \$603 in the States (after allowing for revenue raised in both cases).

87 Table D-7 shows welfare expenses on Norfolk Island compared to the States.

Table D-7 Welfare service and housing expenses on Norfolk Island compared to the States 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Welfare:										
expenses	223.10	471.35	538.99	349.02	393.53	494.35	261.94	574.64	993.11	460.21
user charges	- 183.60	- 17.46	- 3.21	- 5.29	- 5.97	- 37.33	- 6.03	- 5.96	- 19.36	- 11.51
Housing	0.00	160.72	103.15	130.22	155.36	250.35	244.46	258.42	526.87	154.07
Welfare and Housing	39.51	614.61	638.93	473.95	542.92	707.36	500.37	827.10	1 500.62	602.77

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

88 It should be noted that residential aged care and welfare housing components of the Norfolk Island expenses have been extracted from accounts of the Hospital Enterprise. The per capita expenses of the States reflect welfare service and public housing expenses of all regions, not just remote expenses.

89 The Commission considers that welfare and housing services on Norfolk Island are well below services provided in comparable communities. Therefore it is proposed that the average of the States be the basis for determining what it would cost for Norfolk Island to deliver services at the average range and levels provided in the States. The Commission has adjusted this by applying a factor of 0.80 in recognition of the fact that the low or negligible level of unemployment on the Island would reduce the demand for welfare services, and by additional factors for Norfolk Island salary levels (0.70) and additional isolation costs (1.06) to give a per capita amount of \$358.

90 The Commission has assessed a required expense for welfare and housing services on Norfolk Island of \$720 000.

LAW AND ORDER

Police

- 91 Police services are mainly a State government responsibility with the Australian Federal Police (AFP) looking after Australian Government facilities and the maintenance of Australian Government law.
- 92 **Existing services.** AFP officers provide police services on Norfolk Island. The costs are funded 70 per cent by the Norfolk Island Government and 30 per cent by the Australian Government. The Australian Government contribution reflects the costs of Australian Government responsibilities carried out by the local police that would normally be conducted by the AFP in States with their own police forces. AFP officers also provide community policing in the ACT.
- 93 There are three police officers on the Island, with four locally-engaged special constables to support them. One of the special constables is full time, the other three assist as required, usually on weekends. The special constables have little formal training and have different powers to police. They provide a valuable service to the community, supplementing that of the AFP officers in areas that do not require comprehensive police training.
- 94 As in many small communities, much of the time of the Norfolk Island police is taken up sorting out problems without laying charges. Much time is also spent in pro-active policing. Officers meet all planes and regularly patrol the school zone to minimise speeding.
- 95 Norfolk Island experiences a lower scale of social tensions than that evident in small towns in the rest of Australia. Local police told Commission staff that there were no particular community groups identified as requiring greater than average police attention.
- 96 The police station on the Island was built in 1993. The vehicles (two four wheel drives) are part-funded by the AFP and maintained by the Norfolk Island works depot. They are replaced every three to four years.
- 97 **Comparison.** There are 1.5 police for every 1 000 residents of Norfolk Island. Police to population ratios in the States are shown in Table D-8. The police to population ratio on Norfolk Island is below that of all States. Special constables have not been considered in this analysis but they do provide extra capacity for policing activity, as noted above. The Commission considers that Norfolk Island's special constables contribute a higher proportion of services than equivalent staff in the States and would be likely to reduce the difference between the Norfolk Island and the average of States' police per 1000 population ratio.
- 98 The number of police on Norfolk is influenced in part by its isolation. There are long periods (for example, during holidays, training, and change of officers) when the number of officers on the Island is reduced to two — the minimum number considered necessary to provide a service in an isolated locality. When a situation arises on Norfolk Island which requires specialist police support, the isolation of Norfolk Island means that it could take a long time

for that assistance to arrive. On the other hand, the reported crime rate is relatively low, which would suggest a lower need for police than in the States.

Table D-8 Police to population ratios, 2003-04

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
Police per 1000 resident population	1.5	2.2	2.1	2.2	2.5	2.4	2.3	1.9	4.3	2.2

Source: Norfolk Island Annual Report 2003-04. States and Aust 2003-04 — Productivity Commission Report on Government Services 2005, Table 5A.16, sworn staff.

- 99 Policing on Norfolk Island is at AFP standards. Submissions from Norfolk Island residents have expressed satisfaction with the level of policing. The Commission has taken these factors into account, along with the outcome of their own inquiries on the Island. The Commission judged that police services are equivalent to those in comparable communities. The Commission therefore accepts the current cost of policing as the cost of providing services equivalent to the average range and level of service provided in the States.

Table D-9 Comparison of Norfolk Island per capita police costs with those of the States 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
215.99	248.45	232.28	221.65	280.36	237.21	267.05	273.32	603.53	245.92

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 100 Table D-9 shows that the per capita cost of policing on Norfolk Island in 2004-05 was \$216. This compares with the average of the States of \$246. Lower average expenses can be explained by the relatively low reported crime rate and the relatively compact area covered by police operations. Norfolk Island actual expenses of \$435 000 are accepted as the cost of providing services equivalent to those of the States. As these are locally based costs, no adjustment has been made for Norfolk Island salary levels or the costs of isolation. Likewise the impact of tourist numbers on Norfolk Island is implicitly included.
- 101 The Commission has assessed a required expense for police services on Norfolk Island of \$435 000.

Administration of Justice

- 102 Court services are a State government responsibility except where the offence falls under Australian Government legislation.
- 103 **Existing services.** Norfolk Island is serviced by a Court of Petty Sessions, a Coroner's Court, a Family Court and the Supreme Court. The Court of Petty Sessions can sit with either one magistrate of the ACT or three local magistrates from a panel of lay people appointed by the Administrator. It can hear civil claims of less than \$10 000 and summary criminal offences.

The Chief Magistrate presided at special sittings of the court in Norfolk Island between 29 November and 1 December 2004 and between 30 May and 3 June 2005. During the year, the Chief Magistrate dealt with 8 direction hearings by telephone. Local magistrates dealt with various matters at 25 sittings and 3 special sittings. Family Court matters are dealt with by the Sydney registry. The Supreme Court may sit — in civil matters only — in New South Wales, Victoria or the ACT. Criminal matters must be heard on the Island. Year to year costs can be highly variable due to occasional exposure to the high costs of a criminal case. These costs could be very large and would occur with unpredictable frequency. No attempt has been made to include the extraordinary costs of a major criminal prosecution in the Commission's estimates. Because the Family Court rarely sits on Norfolk Island, it is necessary for complainants to travel to Sydney or Brisbane, making proceedings very expensive. The Coroner's Court dealt with two matters in May 2005.

- 104 Legal aid is available on Norfolk Island, with conditions the same as the ACT Legal Aid scheme. Funding is 80 per cent Australian Government and 20 per cent Norfolk Island Government. The Norfolk Island Government collects interest on trust accounts operated by real estate agents, accountants and solicitors on the Island to fund Legal Aid. Legal Aid assistance of \$46 414 was granted in 2004-05 by the Norfolk Island Government.
- 105 **Comparisons.** Country towns in the rest of Australia also have limited access to courts. Generally, country Magistrate courts are on a circuit from a major centre, and sit once a month. Higher courts are in major towns, and offenders are transported to these courts. Tele-conferencing facilities are providing better access in regional locations and at lower costs.
- 106 Access to courts and the availability of legal aid on Norfolk Island are equivalent to Australian standards, though the locally assembled Magistrates' courts may not offer the level of expertise that is available through 'circuit' arrangements in remote parts of the rest of Australia. This consideration, and the fact that Norfolk Island has not been paying the ACT for the time spent by its Chief Magistrate to deal with Norfolk Island matters, suggests that some additional expense is warranted to sustain justice administration.

Table D-10 Comparison of Norfolk Island per capita administration of justice costs with those of the States 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
114.60	103.89	145.56	99.48	125.07	121.81	106.27	135.61	237.76	118.68

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 107 The cost of administration of justice in 2004-05 was \$230 690, or \$115 per capita, similar to the average of the States (\$119). The Commission has augmented this amount by \$50 000 to provide for payment for the time of the visiting Chief Magistrate and to strengthen current arrangements for local magistrates. As these expenses are based on Norfolk Island costs, no

adjustment has been made for Norfolk Island's lower salary levels or increased isolation costs. It is assumed that Norfolk Island's tourist population does not impact measurably on the cost of the administration of justice.

- 108 The Commission has assessed a required expense for administration of justice services on Norfolk Island of \$281 000.

Corrective Services

- 109 In other parts of Australia, corrective services are a State government responsibility.
- 110 **Existing services.** The police station has two lockups. This year there have been three weekend detentions sentences involving a cumulative total of about ten months. The prisoners are supervised by locally engaged jailers who are paid by the Norfolk Island Government. Meals for the prisoners are provided by the Hospital kitchen. If an offender is sentenced to a prison term, the New South Wales prison system is used, although the transfer procedures are cumbersome and slow. Prisoner transfer to elsewhere in Australia is a problem for all external territories. The cost to the Norfolk Island Government is estimated to be \$100 000 per annum per prisoner.
- 111 **Comparisons.** The lockups on Norfolk Island are equivalent to those in other Australian communities.

Table D-11 Comparison of Norfolk Island per capita corrective services expenses with those of the States 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
33.51	111.01	60.89	82.44	156.91	95.21	76.98	118.14	327.14	97.85

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 112 The cost of corrective services in 2004-05 was \$67 000, or \$34 per capita, compared with \$98 for the average of the States. This figure is variable, depending on the number of Norfolk Island prisoners held in New South Wales prisons. There were no expenses of this type in the two previous financial years. However, it can be expected that Norfolk Island will incur ongoing costs in this area and the 2004-05 cost is assumed to meet the needs of an average year. The difference can be explained by the relatively lower need for the service on Norfolk Island. Norfolk Island actual expenses in 2004-05 of \$67 000 are accepted as the cost of providing services equivalent to that of the States. As these are actual Norfolk Island costs, no adjustment has been made for Norfolk Island's lower salary levels or increased isolation costs. It is assumed that Norfolk Island's tourist population does not impact measurably on the cost of corrective services.
- 113 The Commission has assessed a required expense for corrective services on Norfolk Island of \$68 000.

PUBLIC SAFETY AND EMERGENCY SERVICES

- 114 States provide fire and other emergency services and subsidies to volunteer services. Table D-12 shows average levels of expense in each State. No expense is shown for Norfolk Island. Its emergency service is by volunteers. The Island's fire services are provided by fire crew and equipment from the Norfolk Island Airport.

Table D-12 Comparison of Norfolk Island per capita other public order and safety costs with those of the States 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	17.31	10.70	9.48	14.52	32.52	2.67	108.20	130.93	17.28

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 115 Despite there not being any identifiable expense on public safety and emergency services on Norfolk Island, the Commission considers that the average expense of the States should be accepted as the cost of providing a comparable service. Average State expense of \$17 per capita amounts to \$35 000 when applied to the Norfolk Island population. This assessed expense is adjusted for Norfolk Island salary levels (0.70), for additional isolation costs (1.06) and for the impact of Norfolk Island's tourist population (1.16).
- 116 The Commission has assessed a required expense for public safety and emergency services on Norfolk Island of \$30 000.

CULTURE AND RECREATION

- 117 In the rest of Australia, cultural and recreational facilities and support grants are the responsibility of both State and local governments. States usually accept responsibility for the larger and more costly facilities, such as State museums and art galleries, State cultural centres and theatres, major heritage areas and major sporting facilities.
- 118 State governments also have expenses within this category for national parks and wildlife services. In the external territories they are a Commonwealth responsibility.

Existing services

- 119 Major State equivalent facilities are not provided on Norfolk Island. Nor would they be in comparable communities.
- 120 Norfolk Island shares with the Australian Government the responsibility for maintenance of the Kingston and Arthur's Vale Historic Area (KAVHA). The site is managed by a joint board established under a memorandum of understanding. Under the memorandum of understanding, the Australian Government's contribution in 2004-05 was \$590 000 and that by the Norfolk Island Government was \$308 000. Given the significance of the site to the

whole of Australia, it is assumed that the Australian Government will continue to share responsibility for the care and maintenance of this site.

- 121 The Norfolk Island Government has no responsibility for the Norfolk Island National Park, which is managed by Parks Australia.
- 122 Table D-13 summarises the average per capita expenses States and local governments incur on culture and recreation services, including national parks and wildlife services.

Table D-13 Average per capita expenses on culture and recreation services, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Culture and recreation	153.01	75.96	98.15	78.70	114.97	137.65	95.82	112.61	532.31	96.12
National parks and wildlife services	0.00	36.55	29.66	25.15	64.51	16.42	80.39	54.35	109.12	35.92
Total	153.01	112.51	127.81	103.85	179.48	154.07	176.20	166.96	641.43	132.04

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

Comparisons

- 123 Norfolk Island spent \$308 000, or \$153 per capita on KAHVA in 2004-05. This compares with an average expense by States of \$132, which includes expenses for national parks.
- 124 The current management of the KAVHA is comparable with other important historic sites in Australia, such as Port Arthur, Hyde Park Barracks and Fremantle Prison.
- 125 Other responsibilities for maintenance of historic sites are assessed as local government expenses in Attachment E. For Norfolk Island's contribution to KAHVA, the Commission considers that Norfolk Island needs to spend \$308 000, its actual expense.
- 126 As the Australian Government takes responsibility for national parks on Norfolk Island the Commission has assessed no requirement for such expenses. However, in respect of other culture and recreation expenses, the Norfolk Island Government has a requirement to provide assistance to sporting and cultural groups and to local government, but does not need to subsidise major facilities such as exist in larger centres. The Commission assesses Norfolk Island's expense as half of the average expense of the States, that is, \$48 per capita. This amount is adjusted for Norfolk Island's lower wage and salary levels (0.7) for the additional costs of isolation (1.06) and for the impact of tourists to become \$417 per capita or \$83 000 in total.
- 127 Overall, the Commission assesses Norfolk Island's expenses for State-type culture and recreation services, comparable with those of the States, to be \$194 per capita or \$391 000.

WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT

- 128 Water, sanitation and the protection of the environment covers a wide variety of services that are generally provided at either the State or local government level and in some cases responsibility for these services is shared.
- 129 The provision of water and sewerage is a classic example. States generally provide a regime which develops policies, undertakes planning, and regulates land and water managers and users, and the prices charged by water businesses, including the provision of subsidies. Local governments generally deliver water and sewerage services, although in some States where water availability and quality is a problem, such as Western Australia and South Australia, State trading enterprises are responsible for service delivery. In these States, subsidies are provided to the trading enterprises to keep the cost of providing water and sewerage at a reasonable level. Subsidies for pensioners are provided in all States.
- 130 Similarly, the planning function is shared. States oversee the planning regimes of local governments and provide advice and support to assist them to implement appropriate plans.
- 131 In this section, those services which are usually provided by States are discussed. These include the regulatory regimes and concessions.

Existing services

- 132 Through the Land Use and Environment Branch of the Administration, the Norfolk Island Government operates the Water Assurance Scheme (water, sewerage and waste management) and is responsible for planning and land management. While some monitoring of water quality, waste disposal, noise, dust and hazardous substances takes place and the planning and land management functions are performed, there is no real division of responsibility for the delivery of services and the oversighting or regulation of these services. There is no evidence of subsidies being paid to pensioners.

Comparisons

- 133 Table D-14 shows what the States spend on these services.

Table D-14 Average per capita expenses on State-type water, sanitation and protection of the environment services, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	53.79	51.65	17.86	196.08	183.02	8.27	- 15.38	12.98	67.55

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 134 It does not appear that the oversight and support function usually provided by State governments is well developed on Norfolk Island. For example, environmental monitoring is the responsibility of the same group that is delivering the services. The planning function on

- Norfolk Island is performed but there is little strategic review or assistance provided for the sole planner.
- 135 On average, about 30 per cent of State expenses are incurred on this regulation function, or \$20 per capita. The Commission considers that Norfolk Island would need a similar amount to deliver comparable services, adjusted to account for Norfolk Island's lower wage levels (0.70) and higher costs due to isolation (1.06) to become \$15 per capita or \$30 000 in total.
- 136 The States usually pay subsidies to pensioners up to a fixed maximum. The amount varies across States but the standard amount seems to be about \$100 per pensioner⁷. Under the common policy of the States, concession payments are capped so that they are not affected by excessive water consumption or differences in the cost of supplying water.
- 137 At the 2001 Census, there were 195 pensioners and superannuants amongst Norfolk Island's ordinarily resident population. At an average subsidy of \$100, comparable with the amount paid in the States, Norfolk Island would need to spend \$20 000 or \$10 per capita.
- 138 Because there are no lakes or natural reservoirs on the Island, all water available for use must be stored in tanks or drawn from a restricted number of bores. Long periods without rain and the fragility of the Island's watertable have caused concern in the recent past. The Island environment makes sewerage, waste disposal and planning important issues. Norfolk Island would pay general subsidies if it operated in a similar manner to a community in comparable circumstances.
- 139 The Commission estimated in its *2006 Update Report on State Revenue Sharing Relativities* that, on average, 40 per cent of State expenses were spent on general subsidies, amounting to \$27 per capita. For Norfolk Island's population this is \$54 000 in total. After adjustment to account for Norfolk Island's lower wage levels (0.70) and higher costs due to isolation (1.06) and the impact of tourists (1.16) this amount becomes \$23 per capita or a total of \$47 000.
- 140 In total, the Commission assesses Norfolk Island's expense as \$48 per capita, or \$97 000, to provide comparable regulatory services and subsidies.

ELECTRICITY

- 141 In other parts of Australia, the generation and distribution of electricity is not the responsibility of State governments. These services are provided by private or public enterprises that have no call on State budgets. However, States have regulatory responsibilities. They also provide subsidies to pensioners and Australian Government Health Care Card holders and to some electricity enterprises, mainly in remote areas, to facilitate uniform tariffs.
- 142 States regulatory regimes include:

⁷ Commonwealth Grants Commission (2002), *CGC 2002/35 Concessions and Community Service Obligations*, p29.

- monitoring critical factors, such as generation and network capacity and maintenance practices within the generation and network sectors;
- setting prices; and
- auditing and investigating complaints by customers.

Existing services

143 Norfolk Island electricity generation and supply is managed by Norfolk Island Electricity, a GBE. Its charges are set to cover the cost of electricity generation by diesel-powered generators. It pays an accounting and management fee to the Norfolk Island Government for services delivered and some dividend to its Revenue Account. This has been relatively small (\$200 000 in 2004-05). Welfare recipients are allowed a price concession but the value is not separately identifiable in the Norfolk Island accounts.

Comparisons

144 Table D-15 shows what the States spend on electricity and gas services. Norfolk Island does not have a reticulated gas supply.

Table D-15 Average per capita expenses on State-type electricity and gas services, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	3.19	5.59	64.12	31.34	5.77	1.92	0.00	199.66	20.47

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 145 As for water, sanitation and protection of the environment services, comparable services for electricity will include regulatory oversight of electricity operations, subsidies to welfare recipients and general subsidies to reduce the price of services in remote areas.
- 146 State expenses for regulatory oversight of electricity services are 12 per cent of the Australian average per capita expense of \$20. Applying factors to account for Norfolk Island's lower wage levels (0.70) and higher costs due to isolation (1.06) reduces this amount to \$2 which becomes \$4 000 when applied to the Norfolk Island population.
- 147 For pensioner subsidies, the Commission assesses that Norfolk Island's expense would be \$20 000 (195 pensioners multiplied by the \$100 average concession paid in the States⁸)
- 148 In relation to general concessions, the focus of remote area subsidies is on the provision of services at reasonable cost to consumers in high cost areas. Information provided by the States suggests remote communities often need to employ more expensive technologies such as stand-alone diesel generators. These must have complete redundancy built in to ensure

⁸ *Ibid*, pp16-19.

continuity of supply during times of maintenance and breakdown. The cost of transporting the fuel adds to the expense. Norfolk Island is in a similar position to such remote communities in the States.

- 149 Five States have uniform tariff policies. Three of them — Western Australia, South Australia and Tasmania (for the main Island) — make no explicit subsidy but allow the cost differentials between areas to be absorbed by cross-subsidy within the electricity tariff structure. New South Wales, Queensland, Tasmania (for Bass Strait Islands) and the Northern Territory provide direct operating subsidies from the budget to some operators. Victoria provides no recurrent subsidy but has provided a grant for capital purposes for regional and remote consumers. New South Wales also provides capital subsidies.
- 150 For its Bass Strait Islands, the Tasmanian Government provides a significant subsidy to the electricity authority to reduce the cost of generating power on the islands. Each island has independent power generation, mainly by diesel powered generators but supplemented on each island by wind turbines. The Tasmanian Government administers the Bass Strait Islands Community Service Obligation, which provides for the subsidised supply of electricity to Bass Strait Islands customers and the provision of concessions to pensioner customers on the Bass Strait Islands. This CSO has been funded since 1998-99. A contract with the supplier for the three years to 30 June 2005 had a budgeted allowance of approximately \$7 million per annum, which amounts to a subsidy of approximately 40c per kWh (or about 65 per cent of the total cost)⁹. This means that the subsidy reduced the price per kWh to consumers on the Bass Strait Islands from 61.5 cents to 21.5 cents.
- 151 The Commission concluded that standard State policy is to provide uniform tariffs and that the treatment of the Bass Strait Islands by the Tasmanian Government provided a reasonable community with which to compare Norfolk Island. It is similarly remote, is not connected to the grid and provides power using diesel generators. On Norfolk Island the price per kWh in 2005 was 44 cents¹⁰. This generated revenue of \$3 022 688 from electricity sales and meter rentals¹¹. Assuming \$3m for sales at 44 cents means that a subsidy of \$1 534 000 would be needed to reduce the price of electricity for Norfolk Island consumers to 21.5 cents, as calculated for Bass Strait Islands. Capacity to enable Norfolk Island to provide additional price reductions to pensioners (averaging \$100 per year in comparable communities) adds \$19 500 for the Island's 195 pensioners.
- 152 The Commission therefore assesses the required expenses to provide general subsidies comparable with those provided to Bass Strait Islands would be \$1 553 000, or \$771 per capita. As the assessment is based on Norfolk Island costs, no adjustment is made for

⁹ Office of the Tasmanian Energy Regulator. *Tasmanian Energy Supply Industry Performance Report 2004-05* accessed 12 September 2006 from website <http://www.energyregulator.tas.gov.au>.

¹⁰ Acumen Alliance. *Norfolk Island Government Financial advisory report to Department of Transport and Regional Services*, November 2005.

¹¹ Administration of Norfolk Island Financial Statements 2004-05.

Norfolk Island's lower wages or for the higher costs of isolation. Electricity usage by tourists is implicitly included.

- 153 In total, for regulation and subsidies, the Commission has assessed a required expense for electricity services on Norfolk Island to be \$1 553 000.

SERVICES TO INDUSTRY

- 154 State governments regulate and support industry, including tourism. Similar activities are undertaken at local government level.
- 155 The Norfolk Island Government makes no distinction between State-type and local government-type expenditure on services to industry and tourism. All of the Norfolk Island expenses relate to its principal industry, tourism. The Commission has allocated half of the Norfolk Island expense to each level of government.
- 156 Table D-16 compares Norfolk Island's estimated 'State' expenses on tourism with what is spent by governments in the States. It shows that the assumed Norfolk Island State-type expense is much higher than most of the States and similar to that of the Northern Territory.

Table D-16 Average per capita expenses on State services to tourism and other industries, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Tourism	248.50	6.84	9.33	33.31	45.07	22.87	115.79	60.85	219.42	23.18
Services to Industry	0.00	99.32	81.29	184.10	204.95	146.37	68.55	5.50	651.95	128.59
Subsidies, petroleum, alcohol	0.00	35.87	37.42	159.84	34.51	43.11	59.68	28.99	46.07	61.31
Total	248.50	142.03	128.03	377.25	284.54	212.35	244.01	95.34	917.45	213.08

(a) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics, Commonwealth Grants Commission 2006 Update adjusted budget*.

- 157 In its *2006 Update Report on State Revenue Sharing Relativities*, the Commission assessed the Northern Territory as needing to spend about \$60 per capita on State-type tourism expenses, and Tasmania \$30 per capita, in 2004-05¹².
- 158 Given the dominance of tourism in the Norfolk Island economy, the Commission considers that it would be reasonable for Norfolk Island to spend an amount that is well above the average of the States on the tourism industry. Tourists to Norfolk Island expand its daily population numbers by around three times the addition that tourists make to the Northern Territory population. As the Commission's assessed expense for the Northern Territory is around three times the State average expense per capita, it has assessed Norfolk Island's

¹² Commonwealth Grants Commission, *Relative Fiscal Capacities of the States 2006*, p266.

expense at nine times the average per capita expense of the States. This ratio is consistent with the proportion of Norfolk Island's labour force which is employed in the tourist industry. At 50 per cent, it is 9 times the national average of 5.6 per cent. The Commission has assessed that Norfolk Island needs to spend \$209 per capita or a total of \$420 000 on tourism promotion. As this expense is largely incurred in promoting Norfolk Island within the States, no adjustment is made for the lower wages and salaries on Norfolk Island or for the additional costs of isolation.

- 159 Though tourism is the dominant industry on Norfolk Island, the Commission considers that Norfolk Island should have capacity to support other industries and to seek to diversify its economy. A reasonable expense level for Norfolk Island's support to industry other than tourism would be half the per capita expense of the States. This amounts to \$64 per capita. After adjustment for the lower wages and salaries on Norfolk Island (0.7) and the additional costs of isolation (1.06) this becomes or \$48 or \$96 000 when applied to the Norfolk Island population.
- 160 Former State taxation arrangements that gave rise to current expense on subsidies for petroleum and alcohol, and other provisions relating to the Australian Goods and Services Tax, do not apply on Norfolk Island. It therefore has no need for an expense assessment related to this component of State expenses.
- 161 The Commission has assessed a required expense for services to industry on Norfolk Island of \$516 000, or \$491 per capita.

TRANSPORT

- 162 State governments provide funding for arterial roads and either operate or subsidise a range of transport services such as urban transport systems, coastal shipping, ferries and port services and some air services. The range of expenses is indicated in the following table and includes provision for the depreciation of transport assets.

Table D-17 Comparison of Norfolk Island per capita transport costs with those of the States 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Roads	0.00	367.41	299.09	318.07	279.33	187.44	199.91	79.89	289.72	309.16
Non-Urban Transport	0.00	39.81	48.90	67.80	62.73	10.59	12.40	0.00	30.77	46.15
Urban Transit	0.00	278.42	253.76	163.31	154.41	127.38	45.89	123.96	58.85	216.01
Total	0.00	685.65	601.74	549.17	496.47	325.41	258.20	203.85	379.34	571.32

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 163 Table D-17 shows Norfolk Island as having no State-type expenses in the transport area because it has no public transport system and no arterial roads. Its major expenses, for

non-arterial roads, are classified as local government-type expenditure and are covered in Attachment E. The Island's expenses related to landing shipping cargo are met within the Lighterage Service GBE and its airport services expenses are covered within the Norfolk Island Airport GBE. Both are out of scope for the Commission's analysis. However, since the failure of commercial air services, the Norfolk Island Government is chartering a plane and may need to provide a subsidy from 2005-06.

- 164 There appears to be no comparable community to which transport subsidies are paid for non-typical access services such as Norfolk Island's piers and lighterage service and its airport. Bass Strait Islands do not receive subsidies for the operation of their ports. They do receive additional Australian Government financial assistance for their airport facilities (King Island received \$35 000 in 2005-06). However, DOTARS provides a safety net air service for the Indian Ocean Territories, spending about \$0.7 million annually (net of revenue). It also spends \$0.5 million on ports and marine services.
- 165 Comments on the special circumstances of Norfolk Island, in Chapter 2, highlight special circumstances related to access. Norfolk Island is arguably more dependent on its different but limited transport infrastructure than communities of comparable size and structure that are not on a remote island.
- 166 The Commission recognises such special circumstances in transport by accepting that expenses equivalent to those of the average of the States on arterial roads and on the non-urban component of other transport costs (\$355 per capita) should be recognised to enable Norfolk Island to provide access services, notwithstanding that they would be different in nature from transport services in the States. As these costs derive from comparable Australian community standards they are adjusted for Norfolk Island's lower wage levels (0.70) and higher costs due to isolation (1.06). Further adjustment for the impact of tourism (1.16), raises the assessed per capita expense to \$306 or \$616 000 when applied to the Norfolk Island population.
- 167 Norfolk Island's access to the outside world is via sea or air and is facilitated by its Lighterage Service and the Norfolk Island Airport which may call on State-type subsidies to meet transport needs that are provided by arterial roads and other transport infrastructure in the rest of Australia. The Commission's assessment would provide a means of funding a subsidy.
- 168 The Commission notes that the Norfolk Island Government has an obligation to meet depreciation costs of its airport runway resurfacing, amounting to \$17 500 000 over the period to June 2020. In other communities the costs of maintaining assets would be funded predominately through user charges, for example an airport user fee or landing charges.
- 169 The Commission has assessed a required expense for transport services on Norfolk Island of \$616 000.

GENERAL PUBLIC SERVICES

170 In the States, general public services comprise residual expenses for State-wide general administration and governance services. They include expenses on:

- legislative bodies, electoral offices, financial affairs;
- community relations, supervision and regulation of local government authorities;
- overall economic and social planning and statistical services, administration and management of Crown land;
- labour and employment affairs, community development, town and community planning; and
- communication affairs and other administration and regulation of services not connected with a special function.

171 Administrative expenses are incurred on Norfolk Island through the following types of services/functions:

- General administration;
- Office of the Chief Executive;
- Finance Branch;
- Works Store;
- Legal Branch;
- Records Office;
- Information Technology / Human Resources (State-type component);
- Policy and Projects;
- Norfolk Island Legislative Assembly;
- Works Depot;
- Mechanical Garage; and
- Grants.

172 Table D-18 shows the per capita expenses for general public services on Norfolk Island compared to the States.

Table D-18 General public service expenses of States compared to Norfolk Island 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
786.73	213.79	212.33	366.13	260.17	239.34	656.75	925.17	1 480.92	284.18

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 173 The table shows that Norfolk Island's general public service expenses are considerably higher than the Australian average. They are less than the per capita expenses of the ACT and the Northern Territory. Because the Norfolk Island Administration includes the centralised expense of some 'head office'-type services that are distributed to specific functions in States, a higher expense for Norfolk Island would be expected than for the average of the States.
- 174 There is no community of the size of Norfolk Island that is responsible for delivery of State-type services. In the absence of a directly comparable community, the Commission considers that its assessed per capita expenses for the Northern Territory for 2004-05 (\$709) should be applied¹³. Adjusted for the impact of Norfolk Island's lower wages (0.7) and applying some adjustment for differential costs of isolation (1.03 rather than the full adjustment of 1.06) reduces this to \$511 per capita or \$1 029 000 when applied to the Norfolk Island population.
- 175 The Commission has assessed a required expense for general public services on Norfolk Island of \$1 029 000 in total.

SUPERANNUATION

- 176 By law, all employers in Australia are required to contribute at least 9 per cent of salaries to a superannuation fund. This includes State governments. In the past, State governments have contributed more because of the nature of the schemes they operated.
- 177 On Norfolk Island, eligible government employees may pay 5 per cent of their salaries into a Provident Account. The Norfolk Island Government also contributes 5 per cent for the first twelve years. For the next 6 years, the Norfolk Island Government contributes 6.5 per cent. After 18 years this becomes 8 per cent.
- 178 On resignation or retirement (at any age), own contributions plus interest are returned as a lump sum. If an employee has achieved at least 6 years service at this time, he or she is entitled to employer contributions as well. This is paid as a lump sum.
- 179 The Commission has not separately identified Norfolk Island Government superannuation contributions. It is assumed they have been included in the different functional categories of expenses. Table D-19 summarises State expenses.
- 180 The Commission has estimated that Norfolk Island would be required to spend \$359 000 on superannuation if it were provided in a manner comparable to that required by Australian legislation. This has been calculated as 9 per cent the estimated pre-superannuation 'State sector' salaries bill of \$3 490 000 adjusted to a pre-superannuation level and increased by 20 per cent to recognise the need to staff services not presently performed on Norfolk Island.

¹³ Commonwealth Grants Commission, *Relative Fiscal Capacities of the States 2006*, Table C-10.

Table D-19 Superannuation expenses of States 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
na	539.43	678.19	138.79	655.52	768.28	867.28	1 220.86	1 486.73	552.98

Note: na — not available.

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 181 Base includes salaries paid on identifiable State sector services (but excluding all police, education and health, where the Commission's assessed levels of required expenses includes the payment of comparable superannuation), 50 per cent of salaries related to the Legislative Assembly and Tourism and 53.9 per cent of the Norfolk Island Government Administration salaries that cannot easily be attributed to State or local government services.
- 182 The Commission has assessed a required expense for superannuation on Norfolk Island of \$359 000.

DEPRECIATION

- 183 With the introduction of accrual accounting, all State governments record depreciation in their operating statements. This relates to annualised use made of their assets over their estimated life. All asset replacement can then be funded from accumulated depreciation provisions. Relevant assets include buildings, plant and equipment, vehicles and furniture and fittings used in State-type service provision. Assets held by GBEs are not included as their replacement is funded internally.
- 184 Table D-20 lists the major assets Norfolk Island uses in State government service provision. Annual depreciation estimates derived from additional work undertaken by Asset Technologies Pacific, based on the Asset Management Plan it produced for Norfolk Island, are lower than depreciation recorded in the Norfolk Island accounts of some \$216 per capita (Table D-21). Asset Technologies Pacific's estimates derive from valuations written down from the original cost of the asset at its time of acquisition. In some cases, these were estimated.
- 185 Table D-21 compares average per capita State government expenses on depreciation with the amount shown in the Norfolk Island Government's accounts. Depreciation for roads and housing are not included in any of the State figures, in accordance with the Commission's usual practice of recognising depreciation in those separate expense areas. Nor are they included in the Norfolk Island figures as all roads have been classified as local and Norfolk Island provides no welfare housing.
- 186 To estimate the depreciation expenses that would be incurred in providing fully costed State government services in a comparable community, the Commission wanted to obtain estimates of replacement cost for a set of assets that would be used in State service provision by a

comparable community, rather than on the level of assets which currently exist on the Island. If this could have been obtained, the Commission could have estimated annual depreciation using the straight line method.

Table D-20 Built assets and infrastructure used for delivery of State-type services

Asset	Annual depreciation	
	\$pc	\$'000
School	29	58
Hospital	55	111
Police station and works depot ^(a)	8	17
Other assets	62	125
Total	154	311

(a) Both assets are used for the provision of services that are not only State-type. The expense indicated here includes 70 per cent of the depreciation on the police station and 50 per cent of depreciation on the works depot.
Source: Asset Technologies Pacific. Norfolk Island Asset Management Plan — Depreciation Report.
Norfolk Island Revenue Fund Balance Sheet and Norfolk Island Hospital Enterprise.

Table D-21 Depreciation expenses of States compared to Norfolk Island 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
215.58	188.45	164.74	227.70	204.68	195.28	143.99	221.46	570.22	195.60

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

- 187 Because of the paucity of data, the Commission instead started with the Australian average per capita depreciation expense. This was adjusted for Norfolk Island's lower salary levels (0.7), the additional costs of isolation (1.06) and the impact of Norfolk Island's greater proportion of tourists than the States (1.16), to give an estimate of \$168 per capita or \$339 000.
- 188 This assessment does not attempt to deal with any expenditure that might be required to bring existing assets up to a comparable standard in the short term. Rather it will provide sufficient funds to enable assets of a type that exist in comparable communities to be replaced at the end of their useful lives, after recognising the special circumstances of the Island.
- 189 The Commission has assessed Norfolk Island's required expense for State-type depreciation at \$339 000.

DEBT CHARGES

190 State governments are required to meet debt charges associated with their borrowings. They do so at rates reflecting their own capacity to borrow. A comparison of expenses for all States and Norfolk Island for 2004-05 is shown in Table D-22 below.

Table D-22 Debt charge expenses of States compared to Norfolk Island

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	121.63	84.34	54.14	76.01	143.47	70.55	164.28	631.02	100.99

Source: Norfolk Island accounts and financial statements and Commonwealth Grants Commission 2006 Update adjusted budget.

191 Norfolk Island did not have any debt charges expense in 2004-05 because its two loans from the Australian Government are interest free and do not relate to services that are assigned as State-type. The Commission considers that the special circumstances that attach to the Norfolk Island's borrowings, including the interest-free status of current loans, do not warrant assessment of a capacity to pay debt charges. If the present arrangements were to change, then this assessment would need to be revisited.

TOTAL REQUIRED EXPENSES

192 A summary of how Norfolk Island's required expenses have been assessed is provided in Box D-1.

193 Table D-23 summarises existing State-type expenses and adjustments calculated within this chapter to show what it might have cost in 2004-05 to provide State government services on Norfolk Island comparable to the services available in comparable communities in the States and Territories, having regard to the circumstances of the Island and assuming that the Island operates at the average level of efficiency.

Box D-1 Summary of assessment approach — State expenses	
Service	Method
Education	Pre-schools: equal to the all-State average expense, adjusted for lower salaries and isolation. Schools: equal to Norfolk Island actual expenses, plus the cost of additional services to a similar sized New South Wales central school, including for computers. VET: equal to the all-State average expenses, adjusted for population profile, overheads and isolation.
Health	Cost of small regional acute hospital adjusted for salary levels, isolation costs and use by tourists, less revenue received by such hospitals, adjusted for use by tourists, plus cost of offshore services, estimated from payments for offshore services by Norfolk Island Health Care Fund, adjusted for average private hospital use, plus an estimate of private travel costs.
Welfare and public housing	Equal to the all-State average expense discounted for nil unemployment (discounted by factor of 0.2) and salary levels and increased by isolation costs.
Police	Actual Norfolk Island expenses.
Administration of justice	Actual Norfolk Island expenses, adjusted to strengthen arrangements for magistrates.
Corrective services	Actual Norfolk Island expenses.
Public safety and emergency services	Equal to the all-State average expense, adjusted for salary levels, isolation costs and the impact of tourists.
Culture and recreation	Equal to actual expenses on KAHVA plus half of the average State spend on culture and recreation adjusted for salary levels, isolation, and the impact of tourism.
Water, sanitation and protection of the environment	Equal to the all-State average expense for regulation, adjusted for salary levels and isolation, and general subsidies, adjusted for salary levels, isolation and the impact of tourism, plus pensioner subsidies at \$100 per pensioner.
Electricity	Equal to the all-State average expense for regulation, adjusted for salary levels and isolation, plus pensioner subsidies at \$100 per pensioner and a general subsidy equivalent to those received by the Bass Strait Islands.
Transport	Equal to the all-State average expense for arterial roads and the non-urban component of other transport, adjusted for salary levels, isolation and the impact of tourism. This could be used to subsidise access of passengers and freight.
Tourism and services to industry	Equal to nine times the all-State average expense on tourism, plus half the all-State average expense, adjusted for salary levels and isolation.
General public services	Equal to the Northern Territory's assessed expense on general public services, adjusted for salary levels and isolation.
Superannuation	Calculated as 9 per cent of the estimated pre-superannuation salary bill of \$3.5 million, increased by 20 per cent to recognised need for staff for services not presently provided.
Depreciation	Equal to all-State average, adjusted for salary levels, isolation and tourism.
Debt charges	No capacity required.

Table D-23 Norfolk Island required expenses for State-type services, 2004-05

Service	Norfolk Island expenses	Adjustment	Required expenses
	\$'000	\$'000	\$'000
Education	2 328	315	2 644
Health expenses	2 448	1 059	3 506
Health user charges	- 1 630	1 148	- 481
Welfare and public housing	80	640	720
Law and order	733	80	813
Culture and recreation	308	83	391
Water, sanitation and protection of the environment	0	97	97
Electricity	0	1 557	1 557
Services to industry	500	16	516
Transport	0	616	616
General public services	1 584	- 555	1 029
Superannuation ^(a)	0	359	359
Depreciation	434	- 95	339
Debt charges	0	0	0
Total	6 785	5 320	12 105

(a) Estimated to be \$166 000 included in the expenses of other functions.

Source: Norfolk Island actual expenses are from the Norfolk Island Government's Financial Statements for 2004-05.

Required expenses are Commonwealth Grants Commission estimates.

ATTACHMENT E

LOCAL GOVERNMENT REVENUES AND SERVICES

INTRODUCTION

- 1 Clauses (i) and (ii) of the terms of reference ask the Commission to advise on:
 - (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island Government operates at the same level of efficiency as State and local governments; and
 - (ii) the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.
- 2 This attachment provides estimates of what revenue Norfolk Island could raise from local government taxes and charges and what it might cost to provide local government services on Norfolk Island under the conditions specified in the terms of reference. Local government revenues and services have been defined to include those taxes normally raised and those services normally provided by local governments in the rest of Australia. Revenues include municipal rates, user charges and other revenues. Services include governance, roads, waste disposal and recreation and community facilities.
- 3 Revenues usually collected by State governments are discussed in Attachment C and services usually provided by State governments are dealt with in Attachment D.

METHODS

- 4 The Commission has estimated:
 - what Norfolk Island might raise in local government revenue by assuming Norfolk Island has the capacity to raise revenue in a similar way to comparable communities — this is called Norfolk Island’s local government revenue raising capacity; and

- what it would cost to provide local government services on Norfolk Island if they were provided as they are in comparable communities, assuming an average level of efficiency – this is called the Island’s required local government expenses.
- 5 The general methods used to assess revenue and expense levels are described in Chapter 3. They include the use of:
- the all-State average revenue or expense, adjusted for special circumstances, such as salary levels (0.7), isolation (1.06), population characteristics, or tourist incidence (1.16), as explained in Attachment B;
 - the experience of a comparable community from other parts of Australia, such as King Island or the Northern Territory; where King Island is used as the base for the assessment, no adjustment is made for salary levels because they are similar, the adjustment for isolation is halved (1.03) and the same tourist incidence adjustment is used; where the average Northern Territory council is used as the base, the adjustment for isolation costs (1.03) is halved, no adjustment is made for the impact of tourism but the wage level adjustment is unchanged;
 - the assessments made of the revenue capacity or required expenses for comparable communities, such as by the Tasmanian State Grants Commission;
 - the existing Norfolk Island experience where it is judged these activities are performed at average levels of efficiency.

The methods used to assess Norfolk Island’s revenue raising capacity and required expenses for each revenue source and service are explained in this attachment.

- 6 The methods the Commission has used to estimate revenue raising capacity or required expenses in no way suggest how revenue should be raised or services provided on Norfolk Island. There are many different models that could be adopted and the decisions to be made on these are a matter for the responsible governing body.

REVENUES

Municipal rates

- 7 Municipal rates are charged by the majority of local councils in Australia on all rateable property. No municipal rates are collected on Norfolk Island, although most of the land used by residents, businesses and GBEs would be rateable in comparable communities. Table E-1 summarises the per capita rate collections by councils in each of the States.
- 8 Per capita municipal rates ranged from \$283 in the Northern Territory to \$434 in Victoria. The Australian average was \$403. Applying \$403 per capita to the 2004-05 Norfolk Island population of 2013 gives approximately \$811 000.

Table E-1 Municipal rate collections, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	376.21	434.45	411.37	419.17	474.86	411.26	0.00	283.48	403.05

(a) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 9 The King Island Council raised some \$640 per capita in municipal rates in 2004-05¹. It was assessed by the Tasmania State Grants Commission as being able to raise less than it actually raised (some \$600 per capita)², if Tasmanian average rates were applied to its land values. If Norfolk Island raised the same per capita amount that the Tasmania State Grants Commission considered King Island could raise, Norfolk Island would raise over \$1.2 million.
- 10 As reality checks, the land valuation data for Norfolk Island were used in rates calculators for two New South Wales coastal communities with economies similar to Norfolk Island. They depend on tourism, fishing, pastoral and horticultural activities. Both communities include substantial numbers of Aboriginal residents, which is not the case on Norfolk Island. They also include multiple urban areas where kerbing and street lighting are expected.
- 11 If the rates charged by Shoalhaven City Council were applied to the Norfolk Island land values, the yield for 2005-06 would be \$1.3 million. This is the estimate for land where there is no water reticulation, no sewerage and no garbage collection service.
- 12 The Byron Shire Council rates calculator offers two options in calculating rates for 2006-07. The first is where Council receives no special variation to the rate pegging percentage. The second is where Council is granted a 4 per cent increase to the rate pegging. The first option (no variation) was used here. Two rate options for business land were available — land outside the Byron Business Centre or within it. The ‘outside the Business Centre’ option — the lower option- was used here. On this basis the Norfolk Island valuations would give estimated rates receipts of \$1.2 million. This does not include annual fixed charges for council services such as water supply, sewerage or waste services.
- 13 The reality checks undertaken suggest that, given its particular circumstances, Norfolk Island could raise more than the Australian average per capita collection. The Commission has estimated Norfolk Island’s revenue raising capacity from municipal rates at \$1.2 million.

User charges

- 14 Local governments in the rest of Australia raise revenues from charges and fees for a range of goods and services. These include building application fees, development fees, subdivision fees, water, sewerage, septic and waste levies, licence fees and fines, hall hire charges,

¹ King Island Council, *Annual Report 2004-05*, p6.

² Tasmanian State Grants Commission, *Annual Report for 2005-06*, p41.

landing charges and dog registration fees. On average, councils in Australia raise some \$326 per capita. Table E-2 summarises the average revenue raised from local councils in each State and Norfolk Island.

Table E-2 User charges^(a), 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(b)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Water, etc	310.29	131.58	53.66	429.71	87.24	35.13	369.93	0.00	59.68	161.40
Other	0.00	211.88	126.93	191.55	126.35	106.68	128.13	0.00	198.93	164.96
Total	310.29	343.46	180.59	621.26	213.60	141.81	498.06	0.00	258.61	326.36

(a) These are mainly water, sanitation and protection of the environment charges for Norfolk Island, Queensland and Tasmania, where local governments are largely responsible for water.

(b) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 15 Norfolk Island charges include a water assurance levy, a waste management levy and other charges relating to planning and development and minor services. The water assurance levy is applied to residences (\$255 per annum) and to a range of businesses in accordance with a schedule of minimum charges and charges per unit of capacity that vary by business type. (For example, 2 fee units per place in a restaurant in which liquor is sold, 9.3 units per bed in accommodation houses other than hotels. One unit is worth \$20). The waste management levy of \$15 per cubic metre or per tonne (whichever is the greater) imported by sea and 12c per kilogram imported by air is charged on goods other than mail and personal effects accompanying an air passenger. In 2004-05, in total, these charges raised \$625 000 or \$310 per capita.
- 16 If Norfolk Island imposed the full range of levies and charges raised by the average council in the rest of Australia, it could be expected to raise similar per capita amounts (\$326 on average). However, if it were to raise revenue from user charges in the same way as a community in similar circumstances, such as King Island, it would raise considerably more. King Island raised some \$470 per capita through water and sewerage rates, a fire levy and waste management fees³. Taking King Island tourist use into account, this becomes some \$466 per capita.
- 17 As noted in Chapter 2, the Commission considers Norfolk Island to be more similar to King Island than other parts of Australia. It has an island's concerns about water, sewerage and waste disposal and its charging regime should reflect this. Therefore an estimate of Norfolk Island's revenue raising capacity has been based on King Island revenue raising efforts. The Commission has adjusted this amount by the tourist adjustment factor of 1.16. The

³ King Island Council, *op cit.*, pp 6 and 51. Excludes airport landing charges.

Commission estimated Norfolk Island's revenue raising capacity from user charges at \$1 088 000.

Interest income and other revenue

18 In the rest of Australia, local governments raise other revenue from interest earnings, rents, fines, contributions from business undertakings, profits on sale of fixed assets and revenues from other sundry activities. Table E-3 summarises the average revenue raised from local councils in each State and Norfolk Island.

Table E-3 Interest income and other revenue, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Interest	50.97	43.12	13.61	32.86	30.08	13.66	35.13	0.00	29.84	29.29
Contribution by trading enterprises	703.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	638.23	153.95	207.22	320.18	188.03	48.14	101.27	0.00	193.96	191.38
Total	1 393.10	197.07	220.83	353.04	218.11	61.80	136.40	0.00	223.80	220.67

Note: The ABS classifies all ACT revenues and expenses to the State sector.
For Norfolk Island, other revenue is half of the interest earned by the Norfolk Island Government. The remainder has been classified as State-type revenue.
Other revenue for State councils is not dissected into contributions by trading enterprises and other. Norfolk Island revenue includes departure fees.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 19 Norfolk Island raises more revenue per capita from these sources than the average local government body. It raises large amounts from its trading enterprises, particularly from its Liquor Supply Service, which operates as a monopoly and makes a major contribution to the Norfolk Island Revenue Fund.
- 20 Other revenue for Norfolk Island includes revenue from departure taxes. As this tax is not matched in the revenue raisings of local governments in the States, no assessment of capacity to raise revenue from departure taxes has been made.
- 21 However, if Norfolk Island raised other revenue like comparable local governments in the rest of Australia, it would raise at least the Australian average level of about \$220 per capita — about \$29 in interest and \$191 in other revenue. King Island raised similar amounts in 2004-05, excluding an amount from profit on the sale of assets⁴. It would not seem unreasonable to assume that Norfolk Island could raise the average level of income raised by local governments in the States (even though it actually raises considerably more). The Commission has assessed Norfolk Island's revenue capacity as equal to the per capita amount

⁴ *Ibid.*, p6.

earned from interest, plus the per capita amount raised from other revenue, adjusted by 1.16 for the impact of tourists — an amount of \$251 per capita, a total of \$506 000.

Grants from the State government

- 22 Local governments receive funding from the State governments. Specific purpose payments (SPPs) are provided for major road maintenance and construction of local roads and for other purposes, including childcare, aged care, disability services, recreation and cultural facilities and local government development programs. Councils generally make application to the State agency administering the program.
- 23 Table E-4 shows the grants and subsidies received by councils from State governments. The Australian average per capita amount was \$18 per capita in 2004-05.

Table E-4 Grants from State governments, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0.00	10.75	28.91	25.53	0.00	24.65	48.27	0.00	145.46	17.72

Note: Local governments also receive general and specific purpose payments from the Australian Government, including identified local road funding.
The result for Western Australia is probably the result of timing differences in the data sources used to estimate these grants.
There are no transfers from the State to the local sector in the ACT because the ACT Government is responsible for both State and local services.

Source: Norfolk Island Administration financial statements. State figures estimated by the Commonwealth Grants Commission using ABS publication *Catalogue 5512.0 Government Finance Statistics* and Commonwealth of Australia (2005), *Federal Financial Relations, 2005-06*, pp27, 84.

- 24 Because of Norfolk Island's special circumstances, it is likely that Norfolk Island would be entitled to more than the Australian average payment from State governments. Using the average Tasmanian council receipts of \$48 per capita is considered more appropriate for the Norfolk Island situation.
- 25 The Commission assessed Norfolk Island's likely revenue from grants to be \$97 000.

NORFOLK ISLAND LOCAL GOVERNMENT REVENUE RAISING CAPACITY

- 26 The methods used in the assessments are summarised in Box E-1. Table E-5 summarises the Commission's estimates of Norfolk Island's local government revenue raising capacity. It shows that the Norfolk Island Government presently raises more from what has been classified as local government-type revenues than the Commission has estimated it might, if a comparable range and level of taxes were applied as in the rest of Australia — some \$3.4 million compared with \$2.9 million.

- 27 However, the Norfolk Island Government raises its revenue from different sources. It raises none from municipal rates, but, as already noted, considerable amounts of revenue from its GBEs and from departure taxes.

Box E-1 Summary of assessment approach — local government revenue sources	
Revenue source	Method
Municipal rates	Equal to the Tasmanian State Grants Commission assessed per capita capacity of King Island.
User charges	Equal to King Island tourist adjusted per capita revenue, adjusted for the impact of tourists on Norfolk island.
Interest and other revenue	Equal to the Australian average per capita amount of interest earnings plus the Australian average per capita amount of other revenue adjusted for the impact of tourists.
Grants from the State government	Equal to the average per capita Tasmanian council receipts.

Table E-5 Norfolk Island’s local government revenue raising capacity, 2004-05

	Norfolk Island actual revenue \$'000	Adjustment \$'000	Norfolk Island revenue raising capacity \$'000
Municipal rates	0	1 200	1 200
User charges	625	464	1 088
Interest income and other revenue	2 804	-2 298	506
Grants from the State	0	97	97
Total revenue	3 429	- 538	2 891

Note: For Norfolk Island, user charges mainly comprise charges for Water, Sanitation and the Protection of the Environment

For Norfolk Island, interest income and other revenue includes revenue from departure tax and contributions by trading enterprises, including the Liquor Supply Service.

Source: Norfolk Island Administration financial statements and the Commonwealth Grants Commission’s estimates.

SERVICES

- 28 In the rest of Australia, the delivery of local government services is the responsibility of an elected council, supported by an administrative arm. For example, the King Island Council comprises a mayor and eight councillors. It is supported by a staff of 28 which is responsible for supporting the council, raising revenues to fund services and providing those services. The services provided include corporate and financial services, roads, community services,

health, building and planning services, maintenance of recreation and reserves, waste management, water, sewerage and storm water services and the operation of the aerodrome.

- 29 The Norfolk Island Legislative Assembly and Administration have similar responsibilities. Their costs have been allocated between the State and local government sectors.

General Public Services

- 30 These services include the provision of an elected government and its support staff, corporate and financial services, other administrative functions and public works. Table E-6 compares an allocation of Norfolk Island's general public service costs, estimated to relate to local government services, with local governments in the States.

Table E-6 Average per capita expenses on local government general public services, 2004 -05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
585.41	157.51	101.31	295.48	97.77	111.89	181.87	0.00	497.33	162.49

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 31 The average local government expenses per capita on these functions is \$162, but is as high as \$497 in the Northern Territory where many councils are Indigenous community councils.
- 32 The Tasmania State Grants Commission assessed the King Island Council as needing to spend \$350 per capita in 2004-05 (2005-06 assessment)⁵. It assessed Flinders Island Council, with a much small population of about 900 as needing to spend about \$425 per capita. On this basis, a reasonable expense for Norfolk Island would be about \$350 per capita. This amount has been adjusted by factors to account for the larger incidence of tourists (1.16) and the higher costs associated with isolation (1.03). In this case, the Commission has applied a reduced factor for isolation costs to recognise that King Island costs implicitly incorporate a measure of increased cost due to these influences which is higher than the Australian average. The resultant assessed expense is \$418 per capita.
- 33 Because Norfolk Island presently delivers different State and local government services from most governments in the rest of Australia, and does so in a different way, it is difficult to estimate what a separate local government administration might need to deliver comparable services. A similar allowance to that which the Tasmanian State Grants Commission gives King Island would seem reasonable.
- 34 The Commission has assessed the Norfolk Island required expense on the provision of general public services for local government purposes to be \$842 000 in total.

⁵ Tasmanian State Grants Commission, *op cit.*, p45.

Public order, education, health and welfare

35 Local governments in the rest of Australia spend varying amounts on these services. For example, Table E-7 compares what Norfolk Island spends with local governments in the States and Australia as a whole.

Table E-7 Average per capita expenses on local government public order, education, health and welfare services, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Public Order	0.00	33.78	18.42	19.87	30.08	11.71	10.33	0.00	14.92	23.95
Education	0.00	5.19	9.21	0.76	1.50	0.00	0.00	0.00	9.95	4.40
Health	22.46	10.67	12.21	12.48	17.05	18.21	24.80	0.00	39.79	13.06
Welfare	0.00	44.45	139.75	13.75	46.13	37.73	39.27	0.00	39.79	60.81
Total	22.46	94.09	179.59	46.87	94.76	67.65	74.40	0.00	104.44	102.22

(a) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

36 The Commission notes that the Tasmanian State Grants Commission considered that King Island would need to spend about \$41 per capita on public order, education, health and welfare to deliver the Tasmanian average level of service⁶. This is much lower than the all-State average.

37 As the Commission considers Norfolk Island to be more similar to King Island than the average Australian council, it has estimated that Norfolk Island needs to spend the same amount as King Island on these services or \$41 per capita. This amount was adjusted for Norfolk Island's higher costs associated with isolation (1.03) to become \$42 per capita.

38 The Commission assesses the required expenses of Norfolk Island on public order, education, health and welfare to be \$85 000.

Housing and community amenities

39 Housing, water supply and sewerage, waste management and planning and protection of the environment services are included in this group. Most of the expenses relate to services other than housing, because local governments generally provide little welfare housing, although some provide refuges or temporary emergency accommodation. Table E-8 compares expenses incurred by Norfolk Island with those of councils in the rest of Australia.

40 The low level of expenses per capita in Western Australia, South Australia and the Northern Territory are due to the State governments' providing water through trading enterprises that

⁶ Tasmanian State Grants Commission, *op cit.*, p45.

operate on a State-wide basis. Local governments are not responsible as they are in other States.

41 A discussion of the services included under this group is provided below.

Table E-8 Average per capita expenses on local government-type housing and community amenities, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Water	381.47	- 0.59	105.31	338.27	86.24	80.01	351.33	0.00	69.63	115.24
Other	0.00	212.48	62.47	39.23	50.14	52.69	68.20	0.00	268.56	107.27
Total	381.47	211.88	167.77	377.50	136.38	132.70	419.53	0.00	338.19	222.50

Note: The ABS classifies all ACT revenues and expenses to the State sector.
Water expenses are Water, sanitation and protection of the environment expenses.
The negative number for New South Wales Water is most likely a classification effect.
Other expenses are Housing and community amenities expenses.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 42 **Water Supply and Sewerage.** In much of Australia, water supply and sewerage services in small communities are generally local government responsibilities. Most attempt to run them on a cost recovery basis.
- 43 **Existing services.** There is no public water supply on Norfolk Island. Every household and tourist accommodation facility has its own rainwater storage facilities. However, hotels and motels, in particular, are unable to service all their requirements from rainfall and draw on bores tapping underground reserves. The Administration monitors the quality of the bore water.
- 44 The Norfolk Island Water Assurance scheme provides sewerage services to the high population density areas of Burnt Pine and Middlegate (about 25 per cent of the area and 50 per cent of the total population, including most of the tourist accommodation). The remainder of the population uses septic tanks and effluent trenches. Tourist accommodation units outside the area covered by the Water Assurance Scheme are required to provide systems that produce a high quality effluent suitable for use in on-site irrigation.
- 45 **Comparisons.** Norfolk Island's approach to providing water and sewerage is much the same as that in country areas in the rest of Australia that have similar sources of supply. However, small country towns usually have a public water supply. When allowance is made for the terrain and dispersed nature of settlement on Norfolk, the sewerage system on Norfolk Island is broadly comparable with those in rural areas in the rest of Australia.
- 46 The Commission concludes that additional operating expenses for a town public water supply would be required for Norfolk to operate at the same level as comparable communities but that the sewerage system is at about Australian average levels.

- 47 **Waste Management.** Waste disposal is a local government responsibility in the rest of Australia.
- 48 *Existing service.* The waste management centre adjacent to the airport has been operating for two years. The facility accepts all waste generated on Norfolk Island. Batteries are sent back to the mainland and there is some recycling of cans, soft-drink bottle and cardboard, but the rest is burnt and/or tipped into the sea at the Headstone tip.
- 49 It is the Norfolk Island Government's intention that the waste management centre be funded by a levy on all goods bought to the Island, the Waste Management Levy, and any revenue from recycling. In 2004-05, the levy raised \$245 000 and recycling \$20 000. This does not completely fund the operations of the centre and the balance is funded from the Water Assurance Scheme.
- 50 Waste is burnt at the lower Headstone tip, although alternatives are being investigated. As a result of grants from the Natural Heritage Trust, Norfolk Island plans to process green waste and some builders waste into a re-useable garden product. As part of a staged approach to dealing with the various waste streams, a glass crusher will also be considered.
- 51 Residents and business are responsible for the removal of their own waste.
- 52 *Comparisons.* The waste collection services on Norfolk Island are not comparable to those on Christmas Island, where contractors collect rubbish from domestic properties twice a week. The Cocos (Keeling) Islands and small remote communities in Queensland (such as Thursday Island and Weipa) also have at least weekly waste collections.
- 53 King Island Council pursues a waste minimisation strategy and is aiming for a self-funded waste management system (curb-side collection (wheelie bin service) and recycling). It has a landfill with no public access and a waste transfer facility at which residents can dispose of their rubbish. It is working towards satisfying all the legislative requirements for waste collection and disposal.
- 54 The Commission concludes that waste collection and disposal on Norfolk Island are not at comparable community standards and additional expenses would be required to allow Norfolk Island to operate at a comparable level.
- 55 **Protection of the Environment (including planning).** In the rest of Australia, land administration is a responsibility shared between State and local governments.
- 56 *Existing services.* The Australian Government has responsibility for land administration on the Island but the Norfolk Island Government has executive and legislative control over various land administration components such as planning, development, building control and environmental management. These are generally local government-type functions.
- 57 In 2004, the Norfolk Island Legislative Assembly approved the Norfolk Island Plan. The Plan was prepared in accordance with the Planning Act 2002. It was intended to be the framework for the future development and land management of Norfolk Island. It provides both a strategic plan for the Island and planning requirements.

- 58 *Comparisons.* The legislation in place seems to give Norfolk Island arrangements similar to other small rural communities in Australia. These arrangements cover comprehensive land administration and title registration legislation and practices.
- 59 A planner is presently employed by the Island but the work is not supported by State-type planning arrangements as would be normally be the case.
- 60 **Conclusion.** Because water supply and sewerage, waste management and protection of the environment services can be difficult and expensive to provide in Island environments, and noting that services on Norfolk Island are in some areas below the standard provided in comparable communities (particularly waste management), the Commission has estimated that Norfolk Island would need to spend more than the all-State average and more than it is presently spending.
- 61 The Commission considers that Norfolk Island would need to spend much the same per capita as King Island to deliver comparable services. Adjusting the \$500 per capita⁷ for the higher costs associated with isolation (1.03) and the impact of tourists (1.16), this becomes \$597 per capita.
- 62 The Commission assessed Norfolk Island's required expenses on local government-type housing and community amenities as \$1 203 000.

Culture and recreation

- 63 In the rest of Australia, local governments generally provide local cultural and recreational facilities and grants to support local cultural and recreational initiatives. This includes the provision of park and barbeque facilities, play equipment, local sporting grounds and grants for local sporting and cultural activities, such as support for a sporting team, art displays and theatre groups. State governments also provide culture and recreation services. An assessment for those is in Attachment D.
- 64 Table E-9 summarises the average per capita expenses local governments incur on culture and recreation services.

Table E-9 Average per capita expenses on culture and recreation services, 2004-05

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
79.03	136.61	152.56	128.12	198.05	134.65	128.13	0.00	139.25	142.45

(a) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 65 **Existing services.** The Norfolk Island Government provides local government recreational facilities at picnic areas, sporting ovals and netball courts. It operates a library, museums and

⁷ King Island Council, *op cit.*, pp 6. Best estimate.

the public hall. It also provides some cultural activities, including Bounty Day and Foundation Day, and supports a range of festivals. It meets some of the costs of Norfolk Island representation at international cultural and sporting events. It subsidises airfares and makes grants available to individual sportsmen and women or to sporting bodies.

- 66 **Comparisons.** When the Norfolk Island Government expenses on KAVHA are classified to the State sector, Norfolk Island spent \$79.03 per capita on Culture and Recreation in 2004-05. This is less than local councils in all States spend.
- 67 This may be because Norfolk Island's historic sites on the Register of the National Estate, other than KAVHA (Longridge Agricultural Settlement Site, Cascade Agricultural Settlement Site, and St Barnabas Church Area), do not receive the same comprehensive management. The Western Australian Local Government Grants Commission (WALGGC) recognises that local governments administering and maintaining heritage sites require extra support. The WALGGC provides an allowance of \$10 000 per registered site and \$2 000 for each additional building located on the site up to a maximum of \$50 000 for five or more sites.
- 68 For Norfolk Island to have the capacity to provide comparable culture and recreation services as those provided by governments in the rest of Australia, including the ability to provide facilities, fund grants to local arts and sporting groups and its large heritage responsibilities, the Commission has estimated that it would need to spend an amount equal to the average Australian local government expenses of \$142 per capita. After adjustment for the lower wages on Norfolk Island (0.7), the higher costs due to isolation (1.06) and the larger proportion of tourists it must cater for (1.16), this amount becomes \$122 per capita.
- 69 The Commission has assessed Norfolk Island's required expenses for local government-type culture and recreation expense to be \$247 000.

Services to industry and tourism

- 70 Local governments generally provide some support to local industries, either by attempting to attract tourists to the area, by supporting local markets and products and facilitating development. State governments also regulate and support industry and a separate assessment is included in Attachment D.
- 71 Table E-10 compares what Norfolk Island spends on these activities with what is spent by State and local governments in the States. Norfolk Island's expense on local government-type activities is assumed to be half of its total expense on services to industry and tourism. On this basis it spends about seven times what local governments in the States, on average, spend. Only the Northern Territory spends more.
- 72 Part of the explanation for Norfolk Island's large per capita spending is that Norfolk Island heavily promotes tourism to the Island. This is the industry on which its economy is dependent. The Commission considers that Norfolk Island's dependency on tourism is a special circumstance. Consistent with the State assessment (see Attachment D), the

Commission concluded that Norfolk Island would need to spend nine times the national average on tourism, or three times the Northern Territory's assessed per capita expenses.

Table E-10 Average per capita expenses on services to industry and tourism, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Services to Industry	0.00	18.52	0.40	39.99	16.04	22.77	2.07	0.00	39.79	17.81
Tourism ^(b)	248.50	37.19	38.04	28.02	22.56	34.48	26.87	0.00	288.45	35.62

(a) The ABS classifies all ACT revenues and expenses to the State sector.

(b) Described as other Economic Affairs in GFS.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistic*. Commonwealth Grants Commission 2006 Update adjusted budget.

- 73 After adjustment for lower wage levels (0.7) and higher isolation costs (1.06), the Commission estimated that Norfolk Island needed to spend \$238 per capita.
- 74 The total of assessed expenses on tourism at the State and local government levels is \$903 000 per capita. Though it is nine times the actual expenses of the combined support for tourism at State and local levels in the States, it is less than it actually spends. The Commission notes that the high level of expense is presently funded in a non-standard way (through departure tax). Because it is not a tax raised in the States, Norfolk Island's capacity to raise revenue from this tax has not been included in the assessments.
- 75 Norfolk Island spends little supporting industries other than tourism. Consistent with its State expense assessment, the Commission estimates that to deliver comparable other services to industry, given its industry structure, Norfolk Island might spend half of the amount per capita as the average spent by local governments in the States, or \$9 per capita. Adjusted for lower salary levels and higher isolation costs, this becomes \$7 per capita.
- 76 In total, the Commission assesses that Norfolk Island needs to spend \$247 per capita on local government services to industry and tourism, or \$492 000 in total.

Transport and communication

- 77 For local governments in the rest of Australia, expenses in this category mostly relate to roads maintenance. It can also include support for the local airport, maintenance of jetties and boating facilities and subsidies for public transport.
- 78 Norfolk Island's road maintenance expenses are the main item of expenses in this category. The airport is self-funding in an operating sense, although the Australian Government has provided a loan to allow the landing strip to be resurfaced. In 2004-05, the airport made a contribution to the Norfolk Island Government of \$185 000, which includes an administration fee.
- 79 Table E-11 shows that in 2004-05 Norfolk Island spent \$271 per capita on these functions, compared with an Australian average of \$226.

Table E-11 Average per capita expenses on local government-type transport and communication services, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Roads	270.91	205.66	176.78	277.90	280.28	174.98	254.20	0.00	159.15	214.98
Other	0.00	0.00	7.41	42.54	0.00	12.36	6.20	0.00	0.00	11.18
Total	270.91	205.66	184.19	320.44	280.28	187.34	260.40	0.00	159.15	226.17

(a) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 80 The Commission has assessed Norfolk Island's required expenses for roads maintenance expenses using the average per capita amount spent by rural councils on road maintenance of \$238 per capita⁸. After adjustment for lower wage costs on Norfolk Island (0.7), the higher costs of isolation (1.03) and the larger proportion of tourists to population using the roads (1.16), the assessed required expenses were \$199 per capita.
- 81 An additional amount equal to the Australian average on other transport and communication services is also required to allow Norfolk Island to deliver comparable services. This would amount to \$10 per capita, after adjustment for special circumstances.
- 82 The Commission assessed Norfolk Island's required expenses on local government transport and communication as \$209 per capita, or \$420 000 in total.

Depreciation

- 83 With the introduction of accrual accounting, all local governments record an amount of depreciation in their operating statements. This relates to annualised use made of their assets over their estimated life. All asset replacement can then be funded from accumulated depreciation provisions. Relevant assets include buildings, roads, plant and equipment, vehicles, furniture and fittings used in local government-type service provision.
- 84 Table E-12 lists the major assets the Norfolk Island uses in local government service provision. Annual depreciation estimates derived from additional work undertaken by Asset Technologies Pacific (ATP), based on the Asset Management Plan it produced for Norfolk Island, are higher than depreciation recorded in the Norfolk Island accounts of some \$480 000, or \$439 per capita. ATP's estimates derive from valuations written down from the original cost of the asset at its time of acquisition. In some cases these were estimated.

⁸ Data provided by State local government grants commissions indicate that the average amount for maintenance of urban roads was \$65 per capita, for rural roads \$238 per capita, and for remote community roads \$496 per capita.

Table E-12 Assets used for delivery of local government-type services

Asset	Annual depreciation \$'000
Roads	343
Waste management	48
Sewerage treatment	20
Forestry and nursery facilities	9
Works depot (50 per cent)	15
Piers and weighbridge	24
Open air items ^(a)	15
Library, radio station, radio shack and satellite building	55
Rawson Hall	9
Residences and Barkman estate	44
Motor vehicles, plant, furniture, fittings and other equipment	302
Total	884

(a) Toilet blocks, change rooms.

Source: *Norfolk Island Asset Management Plan* and Norfolk Island Government Revenue Fund.

85 Table E-13 compares average per capita local government expenses on depreciation with the amount shown in the Norfolk Island Government's accounts that the Commission has estimated is due to local government assets.

Table E-13 Average per capita expenses on local government-type depreciation ^(a), 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(b)	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Depreciation	220.44	175.73	154.76	294.97	224.63	182.14	293.46	0.00	298.40	200.24

(a) For the States, depreciation expenses are included in the expenses shown for each function. Norfolk Island's depreciation could not be allocated to functions.

(b) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

86 The ATP estimates are much higher than Norfolk Island's recorded depreciation, which is higher than the Australian average level of local government depreciation.

87 The Commission's preferred method of estimating depreciation expense is to calculate straight line depreciation over the future life of an Australian average range of local government assets, starting with current replacement values. However, current replacement costs of assets on Norfolk Island are not available.

88 Because some of the expense assessments undertaken in this attachment have used Australian average expenses which include depreciation as the base, care needs to be taken to avoid double counting of depreciation requirements. No additional depreciation expense is required for public order and safety, education, health and welfare, culture and recreation, services to

industry and other expenses. Thus additional required depreciation expenses need to cover general public services, housing and community amenities and transport and communications.

- 89 For comparison, the Commission examined depreciation figures published by the King Island Council. In 2004-05, its total depreciation expense, excluding the airport and heritage assets, was \$1 036 354, or \$635 per capita. This covers depreciation on a similar range of assets that need to be covered in this assessment, including roads and bridges (\$391 per capita), administration buildings, plant and equipment, furniture and fittings, stormwater infrastructure, sewerage and water (\$238 per capita).
- 90 Being a much larger island, King Island has a considerably longer length of roads (47 km of sealed roads and 389 km of unsealed roads compared with 67 km of sealed roads and 9 km of unsealed roads on Norfolk Island). Adjusting King Island's depreciation on roads and bridges for Norfolk Island's road length and larger proportion of sealed roads⁹, gives an adjusted depreciation expense for the King Island Council of \$177 000, or \$109 per capita. After adjustment for differences in tourist numbers (1.16) and isolation costs (1.03), a per capita expense of \$130 was obtained.
- 91 The Commission has assessed local government required expenses for depreciation for Norfolk Island of \$130 per capita for roads and \$284 per capita for other assets (\$238 adjusted for tourist numbers and isolation), or \$414 per capita in total or \$833 000.

Debt charges

- 92 Local governments are required to meet debt charges associated with their borrowings. They do so at rates reflecting their own capacity to borrow. They can also borrow through their State central borrowing authorities at preferential rates of interest. Table E-14 provides a comparison of the average debt charges paid by local governments in each State.

Table E-14 Average per capita expenses on local government-type debt charges, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Debt charges	0.00	13.78	8.21	45.85	8.02	19.51	16.53	0.00	0.00	18.21

(a) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 93 As discussed in Chapter 3, Norfolk Island's capacity to borrow is limited by legislative arrangements. At present, it has two loans from the Australian Government which are interest free. Hence, it had no expenses on debt charges in 2004-05.

⁹ The assumption is that depreciation of sealed roads is twice that of unsealed roads. Therefore, Norfolk Island would require $[(67 \times 2) / ((47 \times 2) + 389) = 0.277]$ of King Island's depreciation on roads of \$638 146. King Island Council, *Annual Report 2004-05*, p53.

- 94 If present borrowing arrangements continue, then Norfolk has no need to pay debt charges. The Commission has assessed Norfolk Island's required expenses for local government debt charges as zero. If the present arrangements were to change, then this assessment would need to be revisited.

Other expenses

- 95 Other expenses include miscellaneous costs, not able to be classified elsewhere. It is reasonable to assume that Norfolk Island would incur costs of this nature. Table E-15 shows that in 2004-05, although Norfolk Island had no expenses classified to this category, the Australian average expense was \$35 per capita.

Table E-15 Average per capita expenses on local government-type other expenses, 2004-05

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT ^(a)	NT	Aust
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Other expense	0.00	29.93	43.25	13.25	46.13	72.21	53.73	0.00	0.00	34.59

(a) The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 96 The Commission has assessed Norfolk Island's required expenses as equal to the all-State average expense, adjusted for lower salary levels, higher isolation costs and the impact of tourists. Norfolk Island's required expenses are \$30 per capita or \$60 000 in total.

NORFOLK ISLAND LOCAL GOVERNMENT EXPENSE REQUIREMENTS

- 97 The methods used to assess Norfolk Island's expenses requirements are summarised in Box E-2.

Box E-2 Summary of assessment approach — local government expenses	
Service	Method
General public services	Equal to assessed required per capita expenses for King Island (Tasmanian State Grants Commission), adjusted for differences between Norfolk Island and King Island in tourist incidence and isolation costs.
Public order and safety, education, health and welfare	Equal to the average local government per capita expense, adjusted for lower salary levels, lower unemployment and higher isolation costs.
Housing and community amenities	Equal to the King Island per capita expense, adjusted for differences between Norfolk Island and King Island in tourist incidence and isolation costs.
Culture and recreation	Equal to the all-State expenses per capita, adjusted for lower wages, higher isolation costs and the impact of tourists..
Services to industry and tourism	Equal to 9 times the all-State average local government expenses on tourism and half the average local government expense on other services to industry, adjusted for salary levels and isolation costs.
Transport and communications	Equal to \$238, the average per capita expense of rural councils on roads maintenance, adjusted for salary levels, isolation costs and tourism, plus an amount equal to the average local government expense on other transport, adjusted for salary levels, isolation costs and tourist incidence.
Depreciation	Equal to the King Island per capita expense on roads, adjusted for differences in road length and the proportion sealed, isolation costs and tourist numbers and on other assets adjusted for isolation costs and tourist numbers.
Debt charges	No capacity to pay debt charges required because of Norfolk Island's special circumstances of interest free loans.
Other expenses	Equal to the all-State average per capita expense, adjusted for salary levels, isolation costs and the impact of tourists.

98 Table E-16 summarises the Commission's estimates of local government expense requirements for Norfolk Island. It suggests that Norfolk Island would need to spend some \$4.2 million to deliver local government services comparable to those provided in the rest of Australia.

Table E-16 Norfolk Island expense requirements for local government services, 2004-05

	Norfolk Island actual expenses	Adjustment	Norfolk Island expense requirement
	\$'000	\$'000	\$'000
General public services	1 178	- 336	842
Public order, education, health and welfare	45	40	85
Housing and community amenities	768	435	1 203
Culture and recreation	159	88	247
Services to industry and tourism	500	- 8	492
Transport and communications	545	- 125	420
Depreciation	444	389	833
Debt charges	0	0	0
Other expenses	0	60	60
Total	3 640	543	4 183

Note: A separate allowance for superannuation expenses has not been required. This has been included in the individual service assessments.

Housing and community amenities includes water, sanitation and protection of the environment.

Source: Norfolk Island Administration financial statements and Commonwealth Grants Commission estimates.

ATTACHMENT F

SUBMISSIONS RECEIVED BY THE COMMISSION

- 1 The Commission released *Issues Paper CGC 2006/1 Review of the Financial Capacity of Norfolk Island*, in March 2006 for comment. The paper was made available to the Island community, the Norfolk Island Government and Administration, Department of Transport and Regional Services and other interested parties.
- 2 The issues paper was placed on the Commission's web site www.cgc.gov.au.
- 3 A total of 39 submissions were received in response to the issues paper. Thirty-four submissions were placed on the web site. Four submissions were identified by the authors as confidential and were not published. One submission was a petition from many residents of Norfolk Island. This was not placed on the web site. The submissions are listed below.

SUBMISSIONS RECEIVED IN RESPONSE TO ISSUES PAPER CGC 2006/1

NI2006/SUB/001	Accommodation and Tourism Association of Norfolk Island — Review of the Financial Capacity of Norfolk Island — March 2006
NI2006/SUB/002	Norfolk Island Central School (NICS) — Review of the Financial Capacity of Norfolk Island — March 2006
NI2006/SUB/003	Norfolk Island Resident — Mr John Kenneth Forrester — Review of the Financial Capacity of Norfolk Island — March 2006
NI2006/SUB/004	Norfolk Island Resident — Mr Terrence Grube — Review of the Financial Capacity of Norfolk Island — March 2006
NI2006/SUB/005	Norfolk Island Resident — Ms Robin Eleanor Adams — Review of the Financial Capacity of Norfolk Island — March 2006
NI2006/SUB/006	Confidential
NI2006/SUB/007	World Traders — Review of the Financial Capacity of Norfolk Island — March 2006

NI2006/SUB/008	World Media and Norfolk Online (Wally) — Review of the Financial Capacity of Norfolk Island — March 2006
NI2006/SUB/009	Norfolk Island Resident Ms A L Tavener (Louise) — Review of the Financial Capacity of Norfolk Island — March 2006
NI2006/SUB/010	Norfolk Island MLA — Mrs Lorraine Boudan — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/011	Norfolk Island Resident — Boni Maywald — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/012	Confidential
NI2006/SUB/013	Norfolk Island Resident — Mary Christian-Bailey — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/014	Norfolk Island Residents Petition — Review of the Financial Capacity of Norfolk Island — April 2006 (Not published)
NI2006/SUB/015	Norfolk Island Business Group — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/016	Norfolk Action Group — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/017	Norfolk Island Resident — John Kelly — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/018	Norfolk Island Resident — Peter Horrocks — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/019	Norfolk Island Resident — Gaelene Christian — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/020	Norfolk Island Resident — Andre Nobbs — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/021	Norfolk Island Resident — Denise Quintal — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/022	Norfolk Island Resident — Belinda Grube — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/023	Norfolk Island Resident — Ron Nobbs — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/024	Norfolk Island Resident — Geoff Mosley — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/025	Norfolk Island Resident — P.F Christian — Review of the Financial Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/026	Norfolk Action Group — Charles Blackwell — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/027	Norfolk Action Resident — D. Fletcher — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/028	Norfolk Action Resident — R. Davis — Review of the Financial Capacity of Norfolk Island — April 2006

Attachment F Submissions received by the Commission

NI2006/SUB/029	Norfolk Island Resident — Rael Donde — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/030	Norfolk Island Resident — Bruce Taylor — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/031	Norfolk Island Resident — Derek Greenwood — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/032	Norfolk Island — Resident — Louise & Simon Bigg — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/033	Norfolk Island Government — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/034	Norfolk Island Resident — Allen Bataille — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/035	Norfolk Island Resident — Michael Stephens — Review of the Financial Capacity of Norfolk Island — April 2006
NI2006/SUB/036	David Barton — ANU — Review of the Financial Capacity of Norfolk Island — June 2006
NI2006/SUB/037	Norfolk Island Resident — Sheila Grimshaw — Review of the Financial Capacity of Norfolk Island — August 2006
NI2006/SUB/038	Confidential
NI2006/SUB/039	Confidential

ACRONYMS

ABS	Australian Bureau of Statistics
AFP	Australian Federal Police
AIHW	Australian Institute of Health and Welfare
AVO	Australian Valuation Office
CGC	Commonwealth Grants Commission
CTP	Compulsory third party
DOTARS	Department of Transport and Regional Services
FTE	Full-time equivalent
GBE	Government business enterprise
GFS	Government Finance Statistics
GHDI	Gross household disposable income
IOTs	Indian Ocean Territories
KAVHA	Kingston and Arthur's Vale Historic Area
NPR	Non-principal residence
SPP	Specific purpose payment
VET	Vocational education and training
WALGGC	Western Australia Local Government Grants Commission

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
TERRITORIES
ATTORNEY-GENERAL'S DEPARTMENT

Question No. 7

The Committee asked the following question following the hearing on 12 April 2010:

What are the main changes to the financial framework and financial reporting requirements in terms of the accounting standards that are currently applied by the Norfolk Island Government?

The answer to the Committee's question is as follows:

Current Practice of the Norfolk Island Government

Annual financial statements

On 5 March 2010, the Norfolk Island Government produced audited annual financial statements in accordance with international financial reporting standards (IFRS) for the first time. Statements required by the *Public Moneys Act 1979* were also produced, but not audited.

The Public Account of Norfolk Island is currently divided into the Revenue Fund, the Administration Services Fund (which is further comprised of 17 "GBE's") the Trust Fund (comprised of 5 heads of the Trust Fund) and the Loan Fund (comprised of 2 heads of the Loan Fund) (see document "Structure of the Norfolk Island Public Accounts", tabled by the Department of Finance and Deregulation (Finance)).

Each of these 4 funds, and each head of each fund, prepare the following annual financial statements:

- Income and Expenditure Statement;
- Appropriation Account;
- Balance Sheet;
- Statement of Cash Flows; and
- Notes to and forming part of the Financial Statements

in accordance with the requirements of the *Public Moneys Act 1979*. Finance has advised that in its view, these statements are not prepared in accordance with accepted accounting conventions.

Prior to and including the 2008-09 financial year, a "consolidated" Income and Expenditure Statement, Balance Sheet and Statement of Cash Flows were also prepared (by convention), however these "consolidated" financial statements also do not appear to follow generally accepted accounting conventions. From 2008-09, IFRS compliant annual financial statements were also produced for the Administration of Norfolk Island, but these did not consolidate any other entities (i.e. the two Territory authorities).

Monthly financial statements

Monthly financial indicators also appear to be prepared (by convention), although they are limited to certain financial statements and only for certain funds (i.e. a Balance Sheet for the Revenue Fund, Cash at Bank Statement for the Administration and an Income and Expenditure Statement for the Airport).

Changes Proposed to Financial Reporting

Overview

The Territories Law Reform Bill 2010 establishes a legislative financial framework in the *Norfolk Island Act 1979*. The details of the financial framework are being developed for discussion in consultation with a joint working group, comprised of officers from Finance, the Attorney-General's Department and the Norfolk Island Administration and Government (as nominated by Chief Executive Officer of the Administration, Mr George Plant).

Details of the financial framework will be included in regulations and/or Commonwealth Finance Minister's Orders (the Orders), made under the *Norfolk Island Act 1979*. This is analogous to the Commonwealth's financial framework, which provides details supplementing financial management and accountability requirements in the *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997*, the *Charter of Budget Honesty Act 1998* and others in instruments such as the *Financial Management and Accountability Regulations 1997* and *Financial Management and Accountability Orders (Financial Statements for reporting periods ending on or after 1 July 2009)*.

The proposed financial framework will:

- bring Territory authorities into Norfolk Island's consolidated financial statements, budgets and annual reports (providing a more complete picture of Norfolk Island's financial position); and
- introduce a statutory requirement for all financial statements, annual reports, audit reports and budgets to be tabled in the Norfolk Island Legislative Assembly (currently some of these documents are tabled, by convention only).

Financial Reporting

Subject to consultation with Norfolk Island through the working group, the Orders are likely to establish minimum requirements for budgeted, periodic and annual financial statements, providing for greater transparency, comparability and readability of Norfolk Island's financial statements. These requirements are likely to include compliance with Australian Accounting Standards, which are based on IFRS, and include additional disclosure to reflect requirements particular to Australia and the not-for-profit sector, in particular. Compliance with Australian Accounting Standards would mean that Norfolk Island is preparing financial reports on a basis consistent with Australian Local Governments, State Governments and the Commonwealth Government.

The adequate level of separate fund and entity disclosure will also be addressed in the Orders, in consultation with the working group. However, we note that as the Orders will provide only the minimum requirements for periodic and annual financial statements, the Norfolk Island

Government will be able to supplement these with more detail, where they see additional benefit to users of those statements in doing so.

The Orders are likely to largely formalise the recent change to IFRS-compliant annual financial statements. Periodic financial statements are likely to be more comprehensive than those currently produced, providing more complete and accurate financial information as to the ongoing financial position of the Norfolk Island Government.

Other aspects of the new financial framework

Subject to consultation with Norfolk Island through the working group, the financial framework will also address the following areas:

- minimum budget requirements including the production of qualitative and quantitative statements (e.g. comprehensive budget financial statements, based on external reporting standards, including forward projections);
- commitments to spend public money; and
- accounts and records.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
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Question No. 8

The Committee asked the following question following the hearing on 12 April 2010:

How will the provisions regarding the Commonwealth Financial Officer be applied to Norfolk Island?

The answer to the Committee's question is as follows:

The provisions will enable the Commonwealth to appoint a Commonwealth Financial Officer to provide the Norfolk Island Administration and Government with access to expert knowledge of Commonwealth processes. The Commonwealth Financial Officer could be an existing Commonwealth officer.

The Commonwealth Financial Officer is not a mandatory appointment. The provisions allow the Minister for Home Affairs to appoint the Commonwealth Financial Officer; however they do not require the Minister to do so.

If appointed, the Commonwealth Financial Officer may assist the Norfolk Island Government and Norfolk Island Administration to implement the new financial framework. This appointment may be done at the request of the Norfolk Island Government or Administration. Alternatively, if the Norfolk Island Administration has difficulty in implementing the financial framework or meeting the requirements of the regime an Officer might be appointed to provide support, assistance, expertise, information or training.

The Commonwealth intends to monitor Norfolk Island's progress in implementing the reforms to determine if the appointment of such an officer is necessary.

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL AND EXTERNAL
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Question No. 9

The Committee asked the following question following the hearing on 12 April 2010:

The committee heard evidence that Norfolk Air is operating with continuing decreasing profit. How will provisions contained in this Bill assist Norfolk Air to remain solvent?

The answer to the Committee's question is as follows:

The Territories Law Reform Bill 2010 is not specifically targeted at ensuring the ongoing viability of the Norfolk Island Government-run business enterprises, such as Norfolk Air. However, the provisions will ensure that public funds used for such activities are properly appropriated, reported and accounted for.

The framework aims to establish higher levels of transparency, to provide the Norfolk Island community with more accessible information on the financial management of the Government and Administration. The new financial framework will also encourage better Budgeting practices to ensure that the Norfolk Island Government can adequately plan for the future.

The provisions implementing a new financial framework will help ensure that the Norfolk Island Administration and Government are subject to the same level of scrutiny as the Commonwealth, and will assist the Norfolk Island Government to meet community expectations.