

NORFOLK



ISLAND

## **The Government of Norfolk Island**

### **Briefing paper: Joint Standing Committee on the National Capital and External Territories inquiry into the changing economic environment in the Indian Ocean Territories**

#### **1. Introduction**

Norfolk Island is a remote community with a long history of self-reliance. Local people are more knowledgeable about, and more attuned to, the actual facts and circumstances of the Island. They are therefore more likely to be able to make decisions with real meaning, based on actuality rather than generalised comparisons with other communities in different circumstances.

This is not merely a matter of assertion. To test the proposition, it is instructive to consider first what self-government has achieved since 1979, and secondly what direct Commonwealth governance has more recently delivered to the Indian Ocean Territories.

The Norfolk Island Government's achievements since self-government have been significant. When Norfolk became self-governing in 1979, the Commonwealth had been in direct control of the Island for 65 years. Yet the Island then had no social security system, no workers' compensation, no healthcare or health insurance scheme, no land planning laws, an archaic land titles system and no reticulated sewerage scheme. Infrastructure was generally degraded or inadequate, and the Kingston and Arthurs Vale Historic Area (KAVHA) had received only the most basic attention. These examples are not exhaustive. On all of these matters, self-government has achieved in 27 years what the Commonwealth did not achieve in 65.

Except for local government functions, the Indian Ocean Territories (Christmas Island, and the Cocos-Keeling Islands) have been run by Commonwealth instrumentalities for the last 17 years, along the lines of an option put forward for Norfolk Island by Minister Lloyd in 2006, but subsequently not implemented by the Commonwealth. The limited progress of those territories over that period reinforces Norfolk Island's earlier experience of direct Commonwealth rule.

In 2006, the Shire of Christmas Island detailed a range of problems to the JSCNCET, including lack of Australian government accountability to the community, loss of local jobs, and inadequate or no consultation on service delivery arrangements.



At a JSCNCET hearing on 27 March 2006, a senior DOTARS officer, Ms Clendinning, was "not aware" of any process for local consultation on the wholesale extension of Western Australian law to the Indian Ocean Territories. The JSCNCET evidence discloses that it was at that time Commonwealth Government policy that the Islands eventually be fully integrated into the State of Western Australia. Both Islands have major economic problems, and Commonwealth outlays on them were estimated by DOTARS in 2006 to be \$60-70 million per year. That figure has increased in the last three years.

By contrast, direct Commonwealth expenditure on programmes in Norfolk Island is of the order of \$3 million per annum. Based on the historical experiences of Norfolk Island, and the current experiences of the Indian Ocean Territories, self-government is more likely to be efficient and cost-effective than departmental government from Canberra.

## **2. Co-operation between Norfolk Island and the Commonwealth**

The Norfolk Island Government acknowledges that Commonwealth expertise (and, sometimes, money) has significantly contributed to the Island's achievements since 1979.

For example, the Commonwealth has assisted with soft loans for the Norfolk Island International Airport and the Cascade Cliff face; KAVHA and the police are jointly funded by both governments; funds were made available for the water assurance scheme, and more recently for the waste management centre and Kingston pier works. These examples, too, are not exhaustive. In less obvious ways, the Commonwealth has also assisted with the development of the land titles system and criminal justice package.

The Norfolk Island Government acknowledges these, and other, contributions of expertise and money by the Commonwealth. Under the existing governance model, Norfolk Island revenues are adequate to provide ongoing community services but major infrastructure maintenance and replacement pose challenges to a small community where such costs are often disproportionate to population (such as the high cost *per capita* of the international airport).

What this shows is that the way forward is to continue to deal with specific, actual issues on a task-by-task basis, and in a co-operative way. The Island does not need a heavy ideological overlay so as to be made "...the same...as other Australians in comparable communities" (Minister Lloyd, 2006) or to ensure that "...the delivery of essential services...should be comparable to those received by other Australians – remote mainland locations are a good benchmark" (Minister Debus, 2008). Such an ideological approach is unlikely to achieve the kind of results which history has shown can readily be achieved by co-operative partnership between the elected representatives of the Island and the federal



authorities, with structures and programmes designed to meet the specific requirements and circumstances of Norfolk Island.

### **3. Essential features of the Norfolk Island economic and governance models**

#### **3.1 Introduction**

The sustainable and self-supporting Norfolk Island governance and economic structures are unique and are based on very different principles from those of other Australian jurisdictions. Norfolk Island has remained sustainable due to a careful public policy mix of low taxes, moderate bureaucratic/regulatory controls and relatively low wage costs. As well, the Norfolk Island Government generates substantial revenue from business activities to underwrite health, education welfare and other essential community services. Norfolk Island has effectively had no unemployment for many years, due in part to its sound economic performance and also to a flexible immigration regime which allows for effective movement of temporary workers to and from the Island.

This formula has enabled Norfolk Island to retain as its major industry a competitive tourism sector, revenue from which in turn is a major factor in funding social programmes and welfare services equivalent to those on the mainland, and in most cases substantially better than those in comparable remote Australian communities.

#### **3.2 Public sector service delivery**

We draw to the Committee's attention just a few examples of the unique Norfolk Island programmes which provide appropriate services to our community at levels which are equivalent or better than mainland standards.

##### **3.2.1 Education**

Compulsory and comprehensive education is provided for all Reception to Year 12 students without any government charges. (The Parents' and Citizens' Association requests a voluntary parent contribution of \$10 per term.) The education system has operated for 101 years in cooperation with New South Wales, and we continue to enjoy a productive partnership with the NSW Department of Education and Training (DET) under a Memorandum of Understanding. The education system currently provides tuition in English and the School now also provides Norfolk language classes. A range of vocational training courses are offered at secondary levels. The Norfolk Island Government has recently reached agreement with DET to expand the range of TAFE courses and apprenticeship opportunities available to Norfolk Island students on-island and in Australia. The Norfolk Island Government subsidises preschool education and provides GST exemptions for child care. We submit that these levels of educational services are substantially better than those in comparable mainland communities, and in many cases superior to services in urban areas of Australia.



### 3.2.2 Social Welfare

Norfolk Island has a comprehensive but less complex system of social welfare than the Australian model. Pensions and benefits are paid at fortnightly rates in most cases above those in the Commonwealth scheme. For example, current standard pension rates for single and married persons are set at about 106% of Australian rates. Current rates per fortnight are:

Single - Age – Invalid - Widows	\$603.00
Married - Age - Invalid	\$503.20
Orphans	\$111.20
Handicapped Children	\$144.90
Supplementary Children	\$ 85.60

These rates are indexed to the Retail Price Index, so that they are automatically adjusted to compensate for price inflation.

Special (hardship) benefits are available on a range of grounds, which can include hardship due to unemployment, sickness and dependent children, among others. Pensions are subject to an income test but there is no assets test. The overall social welfare budget is lower as a proportion of total budget than in the Commonwealth because of the very low unemployment rate, which has remained statistically insignificant in recent years. There is also no compulsory retirement age in Norfolk Island.

Pensioners receive significant fringe benefits, including concessions on charges for electricity, telephone rentals and vehicle registrations. There are no property taxes in Norfolk Island, meaning that pensioners do not receive rates or land tax concessions as in Australia - they do not pay these taxes at all. Those in receipt of full pensions receive most medical services free of charge, with a proportionate scale of reductions applying to others in receipt of part pensions assessed in accordance with the income test.

### 3.2.3 Health care

There is a comprehensive and compulsory health insurance scheme for all adults residing in Norfolk Island with the exception of eligible pensioners and those holding private health insurance to a prescribed level. No premiums are payable for dependent children. The Norfolk Island system works differently from Medicare in that there is effectively an annual excess amount, after which most treatment is free of charge. In response to recommendations in external reports, a component of the scheme now provides for emergency medivac expenses for patients requiring urgent transfer off-island.

The fully-staffed hospital operates 24 hours a day and has three full-time doctors (including a surgeon and an anaesthetist), a physiotherapist, a dentist, a counsellor and a radiographer, among others. It has surgical, medical, maternity and intensive care wards, together with outpatients, pharmacy, baby health and aged care facilities. There are no waiting lists for elective surgery or for dental treatment. Under a long-standing arrangement with New South Wales, Norfolk



Island referrals are treated as full fee paying public patients in NSW hospitals when required.

The health service provides a range of immunisations and vaccinations (particularly for infants and adolescent girls) free of charge or at subsidised rates, with higher take-up rates than in comparable Australian communities. All infants, pre-schoolers and school-aged children, together with pregnant women, receive dental care free of charge. This is provided at a fully-equipped and staffed dental clinic in close proximity to the hospital.

The Hospital Board has established two working groups which have made substantial progress on projects to replace the existing hospital buildings and to improve aged care facilities, within the resources of the Norfolk Island Government and community. These plans currently involve the phased replacement of buildings in modular form, with first priority being given to aged care facilities. The responsible Norfolk Island minister has approached the Commonwealth seeking possible assistance with this project. There are also ongoing discussions with Uniting Care about options for independent living support for aged members of the community to complement the existing hostel and high dependency care provided at the hospital.

We submit that standards of health care remain superior to those in comparable Australian communities and in the Indian Ocean Territories, and that the range and quality of services continue to be above those provided on the mainland, as found by the Australian Grants Commission.

#### *3.2.4 Other programmes and services*

There are many areas where services in Norfolk Island are of much better standard and/or of lower cost than those in comparable remote Australian communities of similar size (current resident population in Norfolk Island is just under 1,900) and in the Indian Ocean Territories. Some of these include:

- Four free-to-air television channels and four radio frequencies relayed by Norfolk Telecom plus local AM/FM radio and one television channel;
- A fully funded comprehensive local workers compensation scheme;
- A provident fund for all permanent public service staff which is fully funded with funds held in trust;
- A fully functional Category 6 international airport with associated fire safety and emergency services;
- Community ownership of a successful international airline, Norfolk Air;
- Over 90% of public roads sealed and maintained;
- Three museums with associated research centre, café and bookshop, with free entry for local residents;
- A commitment to provide highspeed FTN broadband through contractual arrangements which will result in access to undersea fibre optic cable links at a capacity of 155 megabits per second by the end of 2010;
- Mortuary, undertaking, funeral and cemetery services provided free of charge; and



- Community ownership and operation of the public library, postal service, electricity supply, telecommunications, visitor information centre and many others.

This list is not exhaustive, and does not take into account services provided in partnership with NGOs, such as ambulance, emergency rescue, arts, culture, heritage, Commonwealth Games, international sporting and Norfolk language activities.

### 3.3 Private sector

The Norfolk Island private sector has developed differently from the predominant model on the Australian mainland. This has been due to a unique mix of factors designed to encourage resident local operators to maximise investment and employment and to receive a sound return on genuine business activities.

Successive Norfolk Island Assemblies have developed their roles in facilitating local private sector activity while providing a full range of essential community services, an adequate universal welfare safety net, a broad but appropriate framework of legislation and regulation and the operation of GBEs to cover service gaps not provided by the private sector (such as fuel storage, RPT airline and postal services).

Business activity is encouraged through low taxes which both ensure reasonable returns on investment and result in lower labour costs due to the absence of income and business related taxes. Norfolk Island also has a range of statutory and regulatory programmes which achieve similar results to those in Australian jurisdictions, but with less complicated bureaucratic requirements and thus lower "red tape" costs. Relevant areas include the island-wide workers compensation scheme; the mandatory healthcare health insurance programme; employment law and regulations including no-cost resolution of workplace disputes; and occupational health and safety law and education programmes.

This mix of factors has resulted in a private sector, consisting of more than 600 small to medium sized businesses, which is not dominated by outside ownership or large corporations. The predominant tourism industry is highly decentralised, with over 60 individual accommodation houses, numerous tour and event operators and many successful restaurants, cafes and food retailers. The industry has developed a very wide range of experiences, festivals, events, tours and activities which build on and complement the Island's scenic beauty and unique culture/history. There are also more than 50 local retailers and many ancillary service providers and trades operators in areas including financial services, building and construction, fitness and personal services, training and employment services, conference and seminar organisation and many others.

The private sector continues to create full-time and casual job opportunities and unemployment has remained at very low levels for many years. This effective and successful private sector is in stark contrast with those in many comparable remote Australian communities, including the Indian Ocean Territories.



### 3.4 Population

Unlike the situation in many comparable small remote communities, the relatively strong local economy has meant that the ordinarily resident population of Norfolk Island has remained remarkably stable in the last 20 years, when comparisons are made on valid long-term trends. (Those "ordinarily resident" include Residents and holders of General Entry Permits and Temporary Entry Permits. Tourists and other short-term visitors are excluded.)

Numbers measured weekly show considerable volatility due to a range of factors including the availability of airline special fares over restricted periods, special community events on-island (such as Bounty Day) and the absence of large delegations for events such as the Commonwealth Games or the Festival of Pacific Arts. There can also be seasonal variations due to fluctuations in the tourist trade with consequent effects on the number of temporary workers in Norfolk Island.

The Norfolk Island census is taken in the second week of August at five-yearly intervals. Numbers of persons ordinarily resident as at that date in the last five census reports were:

1986	1977
1991	1912
1996	1772
2001	2037
2006	1863

The ordinarily resident population as at 29 May 2009 was 1895. The above figures show a 20-year average of just over 1900 persons ordinarily resident in Norfolk Island, but are distorted by the much higher figure in 2001, when Norfolk Island was serviced by two private sector airlines operating from Australia. Subsequently, one of these organisations withdrew and the other went into liquidation. Tourist numbers in 2001 (and thus the numbers of temporary workers) were artificially high due to unsustainable price competition between two airlines. It should also be noted that in 2001, Norfolk Island hosted the South Pacific Mini Games, a single event which brought more than 1,000 extra visitors to the Island.

Like many small and remote communities, Norfolk Island sees some drift to the cities by younger persons seeking greater educational and employment opportunities. However, unlike comparable communities in Australia, Norfolk Island is able to balance this outflow with a continual number of persons, including Residents, who return or relocate here for employment or lifestyle reasons. The ongoing ability of the Norfolk Island economic model to generate employment in a small and remote location has been a key to the Island avoiding the steady population decline which has affected many comparable mainland towns and regions.



### 3.5 Governance structures

In August 2009, Norfolk Island will celebrate 30 years of self-government. The structures and procedures of governance are embodied in the *Norfolk Island Act 1979* (Cth). The preamble to that Act includes the following:

“...the Parliament considers it to be desirable and to be the wish of the people of Norfolk Island that Norfolk Island achieve, over a period of time, internal self-government as a Territory under the authority of the Commonwealth and, to that end, to provide, among other things, for the establishment of a representative Legislative Assembly and of other separate political and administrative institutions on Norfolk Island and...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.”

The Norfolk Island Legislative Assembly is a unicameral house with nine members elected from a single electorate through a modified cumulative vote list system of proportional representation<sup>1</sup>. The Assembly has functioned very successfully for almost 30 years as a Westminster System parliament with its own Speaker, Clerk and standing orders. The Assembly is a member of the Commonwealth Parliamentary Association, which has used it as a model for the guidance of small member states. The Assembly has developed its own legislative code of conduct for Members, a statutory register of Members' pecuniary interests and a committee system, including a Committee of Privileges to which complaints can be made about Members' behaviour, including real or perceived conflicts of interest. Norfolk Island also has a statutory ability for citizens to initiate referendums on any issue, including votes on whether an immediate election should be called.

The Norfolk Island and Commonwealth Governments have been in discussion for many months concerning measures to strengthen transparency, accountability and administrative review in Norfolk Island. On 29 May 2008, the Minister for Home Affairs announced details of Australian Government agreement to assist with measures in these areas already proposed by Norfolk Island, as well as some other “fine tuning” suggestions for changes to governance arrangements.

Taken together, these measures address previous report recommendations from the JSCNCET as well as additional issues raised in discussions by both governments. They include the establishment of ombudsman and anti-corruption services, enhanced review roles for tribunals, broader audit functions and processes leading to more sophisticated and accountable financial management and to improved public access to information.

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<sup>1</sup> For a full description of the Norfolk Island voting system and comparisons with the various systems used in state and federal elections, see Parliament of Australia, Parliamentary Research Service, *Research Brief on Electoral Systems*, Canberra, 21 February 2006.



The processes leading to these reforms and the proposed implementation strategies, including extensive public consultation, indicate the degree to which the Norfolk Island self-government model has matured and developed. The working relationship between the two jurisdictions has shown that it can accommodate robust debate and achieve effective legislative and social reform in the interests of the Australian and Norfolk Island communities.

#### **4. Norfolk Island as part of the Australian tax system**

##### **4.1 Introduction**

In contrast with a widely-held view in Australia, it is critical to recognise that *Norfolk Island is already part of the Australian taxation system*. As with other specific geographic areas or income groups, some special provisions have been made by the Commonwealth to account for the unique circumstances of Norfolk Island, particularly the largely self-supporting economic structures which have arisen from a historic mix of low taxes, low labour costs, low external assistance and purpose-designed local social and community service programmes. These have resulted in a model of cost-effective service delivery comparable to Australian standards and significantly superior to the models available to most Australian citizens in similar small and remote communities.

The Norfolk Island Government is concerned that so much of the cooperative relationship we seek with the Commonwealth has been obstructed in recent years by the inaccurate and misleading perception that Norfolk Island remains outside the Australian taxation system. The specific treatment of incomes earned by persons genuinely resident in Norfolk Island by the Australian Taxation Office does not place Norfolk Islanders outside the Australian taxation system and is parallel to other special interest categories including remote area residents, diplomats, aid workers, some occupational groups and residents of other external territories.

Australian taxation law currently extends to Norfolk Island, and although it appears that there are no reliable statistics on the levels of Commonwealth, state and local taxes paid by Island residents for incomes earned in Australia, we believe that those payments are very much higher than the relatively small amounts of Commonwealth expenditure on delivering services in Norfolk Island. In the main, those services – such as KAVHA (partly funded by the Commonwealth) and the National Park - are delivered for the benefit of Australian citizens, the majority of whom are tourists not resident in Norfolk Island.

##### **4.2 Application of Australian taxes to Norfolk Island residents**

Persons and businesses in Norfolk Island (including individuals who seldom or never visit the Australian mainland) are subject to the full range of federal, state and local government taxes for incomes earned in Australia (such as rents, dividends, interest, commissions or wages). This includes income/company tax, capital gains tax, property taxes, stamp duties and many other taxes. They are also liable to pay all Norfolk Island taxes and charges to fund the full range of



services not provided in Norfolk Island by any level of Australian government, including health, education, welfare, immigration, customs, quarantine, postal, electricity and telecommunications services, public infrastructure, economic development/promotion and many others as detailed above.

#### 4.3 Application of Australian taxes to Australian residents for incomes earned in Norfolk Island

Persons and businesses in Australia (including individuals who seldom or never visit Norfolk Island) are subject to the full range of federal government taxes for *incomes earned in Norfolk Island*. This includes most of the 125 taxes identified in the current Australian Government taxation review. The Commonwealth and states do not offer any tax incentives or rebates to Australians investing, or earning, incomes in Norfolk Island. None of the incomes earned in Norfolk Island are taxed locally, although registered businesses are required to collect GST on sales of most goods and services made on island.

#### 4.4 Application of Australian Goods and Services Tax to purchases by Norfolk Island residents and businesses

While Australian GST does not in theory apply to “exports” to Norfolk Island, the Norfolk Island Chamber of Commerce advises that businesses have much difficulty in attempting to convince suppliers that GST should not be added to invoices. Because of this and due to the complex bureaucratic processes involved in seeking refunds from ATO, many businesses continue to pay Australian GST and to pass it on to Norfolk Island consumers. This also has the effect that many Norfolk Island businesses source goods and services from New Zealand as there is no such “grey area” in New Zealand legislation and GST does not apply to exports to Norfolk Island.

A similar situation applies to individuals who buy off the internet or by mail order from Australia, where GST is routinely charged as part of the invoiced price. Refunds are virtually impossible to obtain when the amount has been paid in advance (as required by most suppliers) by EFT or credit card.

#### 4.5 Incomes earned by *bona fide* residents of Norfolk Island

The area which seems to cause the most misunderstanding relates to the exemption from Australian income tax for *incomes earned in Norfolk Island* (not elsewhere) by persons or businesses *domiciled in the Island for at least 183 days in a financial year*. This does not make Norfolk Island a tax haven. Offshore residents or companies, or even Norfolk Islanders holding Residency status, do not obtain any tax benefit unless they are actually *bona fide* in residence in Norfolk Island for six months or more in a financial year.

Of course, any person or business located in Norfolk Island is subject to paying all Norfolk Island taxes and charges to fund the full range of services provided by the Norfolk Island Government. This does not currently include a local income tax because it would be likely to be severely detrimental to the full-employment enterprise based economic model outlined above.



## 5.0 Opportunities for development in Indian Ocean Territories

### 5.1 Norfolk Island experience

The Norfolk Island Government is of the view that there could be significant benefits in purpose-designed revenue and governance arrangements for the Indian Ocean Territories, drawing from the Norfolk Island experience of self-government and service delivery.

It is recognised that there are many features of the Indian Ocean Territories which require specialist governance and revenue arrangements, that their locations and distance from major markets pose different tourism opportunities and challenges and that the populations and economies of those territories have a number of different features from those of Norfolk Island. However, the success of the governance arrangements in Norfolk Island over the past 30 years and some of the factors which have contributed to economic growth over an even longer period may provide some pointers for economic and governance reforms which could benefit the Indian Ocean Territories.

The Norfolk Island Government respects the role of the Committee in making independent determinations on its current reference concerning Indian Ocean Territories, based on information from many sources. We therefore do not propose to make specific suggestions or recommendations on particular mechanisms or programmes. However, members of the Committee may wish to consider whether any of the information outlined above may be of use in framing its conclusions on governance and economic models for the Indian Ocean Territories. Relevant factors might include:

- The role of low taxes in encouraging economic development and community prosperity by rewarding investment and initiative;
- Self-determination and greater autonomy as factors in developing cost-effective locally appropriate structures, procedures and programmes which address needs as articulated by members of small, remote communities;
- Elaboration of methods for consultation and cooperation between local and federal authorities to ensure that standards of service delivery and programme outcomes are recognised as equivalent (but not necessarily identical) to nationally established levels;
- Flexible immigration and population measures to encourage high levels of employment and to facilitate free market labour flows;
- How to create and support programmes which encourage skill development and educational achievement within the local community;
- Achieving equivalence and equity in service delivery outcomes without imposing high levels of costly bureaucratic or legislative red tape;
- Measures to share expertise and resources while maintaining high levels of local autonomy;
- Mutual development of democratic self-determination mechanisms to allow maximum involvement of citizens while ensuring that human and civil rights are protected.



## 5.2 Models from other jurisdictions

Norfolk Island has regular contact with other small states, territories and dependencies through Commonwealth Parliamentary Association activities and directly from comparable states seeking to share experiences of governance and economic development in small, remote locations.

The Committee may wish to consider some of the models of relationships between major countries and their territories/dependencies based on mentoring, budget support and mutual cooperation and consultation. For instance, Great Britain and New Zealand tend toward a more "hands off" approach to territories when compared with the high levels of control, direction, examination, restriction, externally enforced standards and reporting requirements exercised by Australia with both the Indian Ocean Territories and Norfolk Island. This model tends to divert many resources away from actual service delivery into consultancy fees, compliance and reporting costs, excessive legislation and regulation, parliamentary committee expenses and costly bureaucratic structures and procedures.

The Norfolk Island Government is strongly of the view that any alternative model of governance or economic structures which the Committee may recommend for the Indian Ocean Territories should take account of one aspect of the experience of 30 years of self government in Norfolk Island. That is that the parameters of the relationship – especially the rights and responsibilities of all parties - need to be agreed and documented in unambiguous language so as to avoid "grey areas" and constant destabilisation through revisiting of the governance model and the legislative and financial relationships between the parties. In the absence of such certainty, a climate of miscommunication and misunderstanding is created and both community and business confidence are weakened, to the detriment of economic and social progress.

5 June 2009