



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT STANDING COMMITTEE ON THE NATIONAL CAPITAL  
AND EXTERNAL TERRITORIES

**Reference: Norfolk Island governance**

THURSDAY, 4 AUGUST 2005

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**JOINT STANDING COMMITTEE ON  
NATIONAL CAPITAL AND EXTERNAL TERRITORIES**

**Thursday, 4 August 2005**

**Members:** Senator Lightfoot (*Chairman*), Senator Crossin (*Deputy Chair*), Senators Hogg, O'Brien, Scullion and Stott Despoja and Mr Causley, Ms Annette Ellis, Mr Neville, Ms Panopoulos, Mr Secker and Mr Snowden

**Members in attendance:** Senators Crossin, Hogg, Lightfoot and O'Brien

**Terms of reference for the inquiry:**

To inquire into and report on:

Measures to improve the operations and organisation of the Territory Ministry and Legislature on Norfolk Island, with particular emphasis on the need for a financially sustainable and accountable system of representative self-government in the Territory.

The inquiry should consider possible alternative measures, such as:

- a) direct elections for the position of Chief Minister; and
- b) fixed terms of government.

These matters should be considered in the context of the financial sustainability of self-government arrangements on Norfolk Island, with particular consideration of:

- a) the findings of the Commonwealth Grants Commission documented in its 1997 report on Norfolk Island on the Territory's capacity to administer and fund obligations associated with:
  - current and future government functions and responsibilities;
  - the Island's current and foreseeable infrastructure requirements;
  - the provision of government services on Norfolk Island at an appropriate level;
- b) subsequent government and parliamentary reports relevant to the above; and
- c) the role of the Commonwealth and its responsibilities for Norfolk Island as part of remote and regional Australia.

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**Committee met at 9.03 am**

**CHAIRMAN (Senator Lightfoot)**—I declare open this hearing of the Standing Committee on the National Capital and External Territories' inquiry into governance on Norfolk Island. This is the second part of an inquiry which originally began in March 2003 on a reference from the then Minister for Regional Services, Territories and Local Government, the Hon. Wilson Tuckey. The first part of the inquiry culminated in the committee's report *Quis custodiet ipsos custodes?* in December 2003, which made a total of 32 recommendations aimed at improving the system of governance on Norfolk Island. The second part of this inquiry is focused on the financial sustainability of the island's governance arrangements.

In the course of this inquiry the committee has held a series of private briefings and inspections on King Island and Kangaroo Island, in an attempt to understand the difficulties of similar island communities. Today we will be hearing from the representatives of government departments that have recently provided advice to the Norfolk Island government on financial sustainability issues. The committee will also hear from a former chief executive officer of the Norfolk Island administration.

[9.04 am]

**JOHNSON, Mr Anthony Grahame, Director, National Accounts Research, Australian Bureau of Statistics**

**KENNEDY, Mr David, Acting Section Head, Norfolk Island and Northern Territory Section, Territories Branch, Department of Transport and Regional Services**

**MAGOR, Mr Richard, Acting General Manager, Territories Branch, Department of Transport and Regional Services**

**BIGNELL, Mr Philip, Tax Design Specialist, Indirect Tax Division, Revenue Group, Department of the Treasury**

**COLMER, Mr Patrick, General Manager, Indirect Tax Division, Department of the Treasury**

**CHAIRMAN**—Welcome. I remind witnesses that, although the committee does not require you to give evidence under oath, this hearing is a legal proceeding of the parliament and warrants the same respect as proceedings of the houses. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. Does anyone wish to make a brief opening statement before I invite members of the committee to proceed with questions?

**Mr Magor**—Yes. I would like to pass on apologies from Ms Sema Varova, Executive Director, Territories and Local Government Division, Department of Transport and Regional Services. She wished to be here today but had another appointment in Melbourne with our minister, which she was required to attend. Ms Varova asked me to state that she is available to meet with members of the committee or the secretariat separately if that is appropriate.

**CHAIRMAN**—Thank you, Mr Magor, that is appropriate. Mr Colmer, do you have an opening statement?

**Mr Colmer**—Yes, I would like to make a brief opening statement. The Department of the Treasury was approached by the Administrator of Norfolk Island in 2003. The then Administrator, Mr Tony Messner, wrote to the Treasury seeking some technical advice. I want to emphasise that we have done some work for both the Norfolk Island government and the Department of Transport and Regional Services, and I think it is important to also emphasise that in doing so we have not pursued any particular agenda. We have tried steadfastly to maintain a role as independent advisers on this issue. We have no particular role or authority in relation to Norfolk Island, and so we have essentially tried to play this with a straight bat and provide the best advice that we could without any particular investment in that advice.

**CHAIRMAN**—That advice has always been with a straight bat, Mr Colmer, from my experience on the committee. Do you wish to make an opening statement, Mr Johnson?

**Mr A Johnson**—No, I do not wish to make an opening statement.

**CHAIRMAN**—There being no further statements we will proceed to questions.

**Senator O'BRIEN**—Would you further describe the role of Treasury in relation to the Norfolk Island administration and the Administrator. As an independent adviser how does Treasury function? Are there officers who perform that function without reporting to the minister? What is the reporting structure in those circumstances?

**Mr Colmer**—We have sent people to the island three times in the last three years. As I said, the initial request for advice was by way of a letter from the then Administrator of the Norfolk Island government to the executive director of the revenue group which is responsible for taxation work in the Treasury.

We had to think about this for some time, and I guess the reason for that is that we do work for the Commonwealth government. The Norfolk Island government has its own roles and responsibilities and, as I said, we have no formal relationship with the Norfolk Island government. We have been involved, as the Treasury, in a number of issues relating to Norfolk Island in the past, and the Treasury has made submissions to this committee in the past as well, on other matters. We decided at the time that, although we had no particular resources—we all have our own jobs in Treasury and our own responsibilities there—the situation was such that it would be worth while if we were to try to provide some advice.

As I said before, our advice is the best advice that we can provide in the circumstances. We spent some time on Norfolk Island, meeting members of the legislative assembly there—and members of the community and other interested parties. We have now provided two separate reports, but it is really extra curricular work for us. It is not part of our ongoing roles and responsibilities and it is not part of our formal work requirement, I guess. But we did think that the issues were such that it would be useful to see what help we could provide.

**Senator O'BRIEN**—Who pays for all this?

**Mr Colmer**—There has been a variety of funding. From memory—and I do not actually have this detail with me—we paid for the first trip, and I believe the Norfolk Island government paid for the second trip and the department of territories paid for the third trip.

**Senator O'BRIEN**—Is there any augmentation of your budget for this work?

**Mr Colmer**—No.

**Senator O'BRIEN**—Does it come out of Treasury's appropriation?

**Mr Colmer**—It comes out of existing resources.

**Senator O'BRIEN**—Are you able to give us some indication of the value of the Treasury input into this process—either now or on notice.

**Mr Colmer**—I would have to take that on notice.

**Senator O'BRIEN**—I would appreciate it if you could. Mr Magor, could you tell us what contribution the Department of Transport and Regional Services have made to Treasury's role, so that we can get a full picture?

**Mr Magor**—We will have to come back to you on that, on notice, but as I recall it we assisted the Australian Taxation Office, the Bureau of Statistics and Treasury with travel costs associated with the last visit to Norfolk Island. I think that was all, but I will get back to you on that.

**Senator O'BRIEN**—Mr Colmer, as a result of the work that Treasury have done, are you able to give us a view as to the financial circumstances and sustainability of Norfolk Island?

**Mr Colmer**—I think it is important to recognise that we have provided advice on a range of taxation options that could raise additional revenue. We have not as part of this process done any independent assessment of the actual financial position of Norfolk Island. As I said, we are from the taxation area, and that is our area of expertise. I think it is probably fair to say that we have accepted the view put in a number of previous reports, going back I guess to the 1997 Grants Commission report, that there were issues around a need for additional funding for the Norfolk Island government. We have not really tried to independently assess those in any particular way.

One of the things that we did try to do—that we have had a variety of answers is probably the best way to characterise it—was to get from the Norfolk Island government an indication of how much additional funding they thought they needed. Probably the fairest way to put it is that there are a variety of views within Norfolk Island and within the Norfolk Island government as to how much additional funding is required. The current view is that they are looking for about \$3 million, and we needed to have some indication of that in order to provide some sensible advice on the sorts of options as to how to raise that money.

**Senator O'BRIEN**—Do I take it that Treasury played no role in assessing the nature of the services required and the costing of those services?

**Mr Colmer**—A different area of Treasury has been involved in the past, but as part of this exercise we certainly did not do that.

**Senator O'BRIEN**—How long ago did the other area have an involvement?

**Mr Colmer**—I think it was the *Focus 2002* report. Treasury and Finance, I think, both went to the island at that stage and did some work. I do not have the details of what exactly was done there.

**Senator O'BRIEN**—I presume some written advice has been provided to the Norfolk Island administration.

**Mr Colmer**—We have provided two reports. The first one was *Taxation options for Norfolk Island*. I think we provided it as part of our formal submission to the committee last year. It was completed early last year, in about March. Unfortunately, it is not dated. We have subsequently provided a second report which we gave to the department of territories. This was as a result of our recent trip. It is the report of the Australian government advisory group on the Norfolk Island

sustainability levy. At a formal level we have provided it to the department of transport, but I understand it has since been passed on to the Norfolk Island government.

**Senator O'BRIEN**—Those two reports are the extent of the advice that has been given by Treasury?

**Mr Colmer**—They are the extent of any formal written advice. We have had discussions with various members of the Norfolk Island government and the administration over the time, but I think those two reports are the key ones.

**Senator O'BRIEN**—Having seemingly exhausted all avenues of expenditure savings, what were the realistically achievable revenue raising options available to the Norfolk Island government?

**Mr Colmer**—In our first report we suggested a number of options. What I would say in the first instance is that the original request from Norfolk Island was to provide specific advice around the design of what they were calling a broad based consumption tax. There are probably, again, different levels of understanding of what that might be. When we first agreed to provide some advice to Norfolk we said to them, 'We understand that your request is to provide detailed advice on a broad based consumption tax,' but we did say that was a premature step and it was pre-empting a broader examination of the taxation options. What we said to Norfolk Island was that we were happy to give them advice but the first step on that was to look at a broader range of options across the tax spectrum. When we said that we were a little concerned about what might be the impact of the proposal as far as we could understand it.

Our first report does not make any recommendations. It merely raises a number of options and talks about the implications of them. If the committee has that report handy, starting at page 16 it canvasses the issues that might be involved. The first option is for Norfolk Island to become part of the mainstream Australian tax system. We did not expect that that would be automatically acceptable to the island, but we thought that in all fairness we had to cover the broad range of options. We considered what might happen if they just tinkered with their existing taxes. Their major tax at the moment is the customs duty, but they have a variety of other ones, so we considered some of the issues around that. Option 3 was the preferred option for the Norfolk Island government all along. We were somewhat concerned at some of the implications of that. We then suggested that they might want to consider a more broadly based land rates tax system. For the sake of completeness rather than anything else we discussed what might happen should Norfolk Island introduce their own income tax regime. Finally, we thought that one option that might provide some funding was the introduction of a payroll tax. As I said, we did not advocate any particular one of those options, although if you read our discussion of the implications you might say that we think some of them are better than others.

When looking at the implications of tax on Norfolk Island, the first critical issue is the capacity of the administration there to run various tax systems. That is a serious limitation on what options are really available. There are also a range of interesting cultural issues on Norfolk Island which play a fairly significant part. Probably more important at the end of the day are the impacts on the economy of those particular options.

**Senator HOGG**—I am interested in the comment that you just made to Senator O'Brien. At page 38 of your summary, the second dot point says:

Given the small population and the significance of the tourism industry to the economic viability of Norfolk Island, the best solution would appear to be for Norfolk Island to come into the taxation and welfare systems of the Commonwealth of Australia.

I took that as probably placing that option above the other five options that were canvassed. Is that a reasonable reading?

**Mr Colmer**—That is our assessment of the situation. I would stress that we decided not to make recommendations as such.

**Senator HOGG**—I accept that.

**Mr Colmer**—And so our approach has been, as I said, to provide our advice. In the circumstances of the limited administrative capacity and the impact of various tax options on the economy on the island, our assessment was that probably the most neutral arrangement would be for Norfolk Island to come into the Australian tax system. It is fair to say that we thought about that for some time because we did not expect that that would be particularly welcome advice.

**Senator O'BRIEN**—And you referred to the Christmas Island example as probably the best parallel.

**Mr Colmer**—That is right. The Department of Transport and Regional Services can probably talk in more detail around the arrangements for other external territories. When you look at Norfolk Island and the small population and range of functions that the Norfolk Island government tries to manage, you see that there are, as I said, some concerns over the capacity of the administration and the government to deal with some of these more difficult issues. We were struck quite strongly by the fairly limited financial resources available to the Norfolk Island government, although it is probably no surprise to anybody here that there are still ongoing calls for the government to make savings in their expenditure, so it seems fairly difficult to see where significant savings could come. Of course, you can always save some money but in terms of the actual size of the issue for Norfolk in the long term I do not think it is in any way feasible to look at the expenditure side of their budget.

The model of the Indian Ocean territories is only a model. It is a model that is already extant in the Commonwealth and may well have great significance on that basis, but there could be a different series of arrangements for that relationship between the Norfolk Island government and the Commonwealth government. The way that the Indian Ocean territories are funded seems to highlight fairly starkly the low level of resources currently available on Norfolk.

**Senator CROSSIN**—What is the annual income of Norfolk Island? What budget do they work off?

**Mr Colmer**—The Norfolk Island government?

**Senator CROSSIN**—Yes.

**Mr Colmer**—It is in the low twenties.

**Mr Magor**—Over the last few years the revenue annually has been in the vicinity of around \$23 million, I think. They have a similarly sized expenditure budget.

**Senator CROSSIN**—I notice in the list of recent Commonwealth assistance that that adds up to nearly \$17 million. So the Commonwealth is giving Norfolk Island, in terms of grants or assistance, almost as much as they generate in income, give or take \$3 million—is that correct?

**Mr Magor**—I am not sure what you have that has added up to \$17 million. I am guessing that there might be the \$12 million loan in there for the resurfacing of the Norfolk Island airport runway.

**Senator CROSSIN**—Which is an interest-free loan.

**Mr Magor**—Yes. I think there was a \$3 million grant that the Commonwealth gave for refurbishment of the Kingston pier.

**Senator CROSSIN**—The point I am making is: would it be your assessment that they are relying very heavily, still, on assistance from the Commonwealth government?

**Mr Magor**—I am not sure that I would say they are reliant very heavily. But certainly I think the airport situation highlights that the redevelopment of a critical piece of infrastructure for the island, in terms of its remoteness and access to Australia and also for its tourism industry, was not able to be financed by the government from its current revenue.

**Senator CROSSIN**—What do you understand to be the current government's policy under which DOTARS operates in relation to Norfolk Island?

**Mr Magor**—Perhaps if I start by giving you a little bit of a picture of all of the territories. You are obviously aware that there are a number of different territories, which we divide roughly into the non-self-governing territories, which include the Indian Ocean territories, and self-governing territories, which are the Northern Territory, the ACT and Norfolk Island. They all have similar status legally and constitutionally. Norfolk Island is different again in that, in addition to a broad range of state government and local government functions given to it under the Norfolk Island Act, it also has authority to make laws in relation to some Commonwealth type functions and has a power to raise its own revenue to fund those purposes. That is set out, as I said, under the Norfolk Island Act. The act effectively establishes the government's framework for Norfolk Island as a self-governing territory with a minimal residual role for the Commonwealth. Effectively, that is the implementation of government policy in relation to Norfolk Island.

**Senator CROSSIN**—You are saying to me that, in your assessment of government policy, you treat Norfolk Island in the same way you would treat the ACT and the Northern Territory?

**Mr Magor**—Yes.

**Senator CROSSIN**—Why are we then in a situation where we are allowing, supporting or tolerating a territory to develop a different tax system from what we currently have through the introduction of the NSL?

**Mr Magor**—They are entitled to under their act.

**Senator CROSSIN**—So the Northern Territory could do a similar thing?

**Mr Magor**—No, the act is different in that respect. I am not sure how familiar the committee is with the Norfolk Island Act, but there are two schedules in the act which list what the legislative powers of the Norfolk Island government are. It does have a power under schedule 2 of that act to raise revenue and introduce taxes, which is different I think to what applies in the Northern Territory and the ACT. They are able to make laws in that respect without reference to the Australian government. They are entitled to do that as a self-governing territory.

**Senator CROSSIN**—The Commonwealth government also has the power to change that act, does it not?

**Mr Magor**—It does.

**Senator CROSSIN**—So the powers for the Norfolk Island government to do that could be removed?

**Mr Magor**—In theory, yes—that would be a matter for the government.

**Senator CROSSIN**—You are not aware of whether that is currently on the government's agenda or on its mind?

**Mr Magor**—No.

**Senator CROSSIN**—So we have a situation where they are now going to have an NSL seven-month trial of a levy of only one per cent on certain goods and items. Is that correct?

**Mr Magor**—That is right.

**Senator CROSSIN**—How much income is that due to generate?

**Mr Bignell**—I think it is fair to say that the Norfolk Island government does not have a detailed knowledge of the size of their economy, so they are not certain how much revenue that would raise. Their idea is that they would introduce the levy at a low rate of one per cent to allow them over that seven-month period to get a greater understanding of the size of the economy. Once they have that data they will then decide what the final rate for that NSL might be.

**Senator CROSSIN**—So we have no idea how much that is going to generate—it could be \$3 million or \$500,000?

**Mr Bignell**—We have not undertaken detailed analysis. As I said, we do not have significant data in relation to the economy. That is the idea of the Norfolk Island government imposing that levy of one per cent to get a better understanding of the size of the economy and the likely size of the tax base that it would produce.

**Senator CROSSIN**—I just find it amazing. I think I have sat on this committee for seven years of my life in this parliament. Each time I go to Norfolk Island I see a serious need to improve infrastructure there. The hospital, for example—as you would be aware, this committee has done a report into it—is in serious need of bulldozing, basically, and rebuilding. It is completely inadequate. I am not entirely sure where you as officials see the line between tolerating that lack of infrastructure and still trying to assist or prop up the Norfolk Island government, pretending that somehow they are going to be able to generate enough income and get on their feet financially to resolve the chronic infrastructure problems they have there. At what stage do you draw a line in the sand and say, ‘That’s it—we will do something about this.’

**Mr Magor**—I am not sure that I can really comment. We as officials are responsible for looking at Norfolk Island governance arrangements in terms of the legislation that applies. For example, in relation to the hospital, the Norfolk Island government is responsible for health services and the provision of that infrastructure. It is responsible for raising the revenue to fund that.

**Senator CROSSIN**—But, in your assessment, how well do they do that? How competently can they do that?

**Mr Magor**—It is public knowledge that the Norfolk Island government has said it is struggling to continue the provision of services and infrastructure. It is now trying to implement a new revenue raising arrangement so it can address that situation.

**Senator CROSSIN**—So the view is that, if they do not want to accept Treasury’s recommendation of moving to the Australian taxation system or a variation of that, the Commonwealth will stand by and assist it while it implements this NSL?

**Mr Colmer**—We have said, right from the start, to the Norfolk Island government that we appreciate that they need further resources. We have said to the government on numerous occasions and in various different forums that the actual revenue that could be raised is very unclear precisely because of the lack of reasonable economic data. The problem is that we have a legally constituted government on Norfolk Island and that government tends to perhaps respond to crises rather than make long-term planning. We have said right from the start that unless we have decent economic data it is a fairly shallow exercise to try and consider the range of taxation options except at a very general level.

Our latest round of engagement with the Norfolk Island government was after they had already decided that they were going to start this levy from 1 October. Their initial request was to give them some detailed design advice on how that levy might work. We said, ‘We can’t do that. We do not have the basic information and data on which to do that.’ Instead, we sent a delegation of Treasury, ABS and the Tax Office. The aim of that delegation was to look at what preparatory work needed to be done. Again, the Norfolk Island government initially asked ABS to give them the answers. In the time available, it is just not possible. I do not know whether

Tony wants to make some comments on what might be required to put in place good sound economic data on which you can make some detailed design and decisions. It is not something you can do in a week, and I doubt that you could do it before 1 October at all. Would you like to comment, Tony?

**Mr A Johnson**—The ABS does not collect statistics for Norfolk Island under the Census and Statistics Act under which we operate. The external territories are out of the scope for a big part of what we do, especially collecting economic, employment and prices data. The act does allow us to collect population censuses for the external territories providing they are prescribed in the regulations. Norfolk Island is not a prescribed external territory for the purpose of the population census. The ABS has no power to undertake data collection for Norfolk Island.

**Senator CROSSIN**—Should that change, Mr Johnson, do you think?

**Mr A Johnson**—That is a policy matter and it would require changes to the act, of course. There are no proposals in the wind that I am aware of.

**Senator CROSSIN**—Would there be benefits in it changing?

**Mr A Johnson**—I don't know; there may be benefits for Norfolk Island. The ABS has an interest in collecting information for Australia, obviously. I guess we have priorities in terms of getting data that serves government needs. It has not been expressed as a need by the government as far as I am aware.

**Senator CROSSIN**—I am not sure whether they know what they need. So you are saying it will be difficult to ascertain the impact of the levy or to even implement it without basic statistical data. Is that right?

**Mr A Johnson**—Yes. The Norfolk Island government has recognised for some time that it needs information to design a tax, and that was part of the request for this government delegation with which ABS was involved. It was pretty clear to us that you cannot simply walk onto Norfolk Island and all of a sudden the data that is required materialises. It requires design, the cooperation of businesses and a collection system to be set up. We have no power to do that.

We recommended in our report that a way around this may be for Norfolk Island to collect information by trialling the NSL at a zero rate or perhaps a one per cent rate—in other words, a nominal rate. That would enable it to collect the information it requires to properly set a final rate for the tax and finetune how that tax might apply. That would provide data from which it could model scenarios. That was our recommendation for the best way of getting the information.

**Senator CROSSIN**—So what would have been the benefits of Norfolk Island coming under our taxation system? Mr Colmer, can you answer that?

**Mr Colmer**—The first thing about Norfolk Island is that it is a very small society and there is a lot of concern on the island about personal information and protection of privacy. One of the major challenges for the Norfolk Island administration is to maintain community confidence that any information it collects will be treated properly, and I think that is an enormous challenge.

**Senator CROSSIN**—Isn't that one of the benefits of someone in Canberra collecting that information? How does that differ from anyone else in this country who has to provide personal information?

**Mr Colmer**—I think that is exactly the case. Having a mainstream tax administered from Australia along with all the other Australian taxes, I would have thought, would go a fairly long way towards reassuring people on the island that their information was going to be protected. You said you have been on the committee for seven years. I do not know how many times you have been to Norfolk—

**Senator CROSSIN**—I am well aware of what happens on Norfolk Island.

**Mr Colmer**—You have probably seen people move from the business community to the assembly to the government and back again several times in your time.

**Senator CROSSIN**—Yes, and I have formed an opinion that Christmas Island manages its affairs far more efficiently than Norfolk Island does. Anyway, that is a personal view.

**CHAIRMAN**—Do you have a view on that, Mr Colmer?

**Mr Colmer**—I have never been to Christmas Island so I do not know about Christmas Island. I think there is a serious question over the practical realities of Norfolk Island running a modern tax system with the resources available to it. Those resources are not only money and people but also community goodwill. I think there is a fair degree of suspicion—I suppose that is the best word to use—amongst the community as to what will happen to their information. I think that is a very serious challenge. Whether it is achievable, I do not know—it is a very big challenge and it remains to be seen, although I am not overly optimistic.

**Senator CROSSIN**—What about the impact on the tourism industry? Has an assessment been made as to whether this levy will assist or inhibit the tourism industry that the island relies on?

**Mr Colmer**—The issue of the tourism industry is, again, a very difficult one. There were people who were quite overt in their comments when we first went to the island that we should be designing a tax that will fall predominantly on the tourists rather than on the islanders. I think that is killing the golden goose, potentially. I am not an expert on tourism, and there may be others here who are better able to comment, but my impression is that the sorts of tourists who seem to go to Norfolk Island—and I base that on a very wide sample of the passengers who travelled with us on the plane—are likely to be very price sensitive. You can still get package tours to Norfolk Island for a week for around \$800 or \$900, but you can also get to Singapore for not much more.

**Senator CROSSIN**—What is your assessment of the guidelines for implementing the NSL, issued by the Norfolk Island government?

**Mr Bignell**—We have not had the latest guide for a great deal of time, but the first thing I would say is that there are probably a range of issues that Norfolk Island needs to work through in terms of both the guide and the draft legislation. There are further issues, and I think there are some changes they will need to implement before they can have that at final standard.

**Senator CROSSIN**—Is the implementation date still 1 October?

**Mr Bignell**—My understanding is that they have deferred the commencement of a levy until 1 December, but the registration of businesses on the island under the NSL will, I understand, commence from 1 October.

**Senator CROSSIN**—And they have no idea how much they are going to generate from this new proposal?

**Mr Bignell**—My understanding is that they do not have precise information because of the scarcity of information about the tax base on the island—income tax does not apply to them.

**Senator CROSSIN**—Is there a rough guesstimate?

**Mr Bignell**—I presume they have a rough guess. As I said, Treasury has not done modelling and does not have the data to do it, and obviously Norfolk Island does not have detailed data. They could make all sorts of estimates based on levels of imports or whatever but they would only be estimates.

**CHAIRMAN**—Are you saying that you five gentlemen, who are heads, deputy heads or experts from various departments, have no idea what revenue would be raised from a one per cent tax of the type described by the Norfolk Island government as a test? Is that what you are saying? Are you saying that none of you have any idea, that you cannot give the committee any figure whatsoever?

**Mr Colmer**—The problem is that, first of all, there are not any reasonable estimates of the total size of the economy. The figure provided to us by Mr Messner in 2003 was that he thought—and I am not sure of the basis on which he thought it—the total island economy was around \$100 million. I think the Grants Commission had estimated it to be somewhere around \$80 million.

**Mr Magor**—They did.

**Mr Colmer**—But that was in 1997, so perhaps the \$100 million is a reasonable estimate. But we do not know, and we have no way of testing that figure. There are still some significant design elements around the levy as to what is in and what is out and what can be collected and what cannot be collected that would lead us to raise some questions about how much of the intended revenue could be raised.

I would just point out that on the current draft bill—as Phil said, we have not really spent a lot of time on it; we got it only last week—the Norfolk Island government seems to be attempting to apply its levy on Australian and New Zealand transactions, which is where the vast majority of the tourist dollars change hands. I should also say that, having looked at the Norfolk sustainability levy, we are still not sure exactly what it is. In our first report we said that there were a number of options for a broad based consumption tax, including the GST model in Australia, but, frankly, we thought that was far too complex to run for an island the size of Norfolk. We thought that a retail sales tax might be a better option. What we seem to have at the moment—and, again, what we are dealing with is not immediately apparent—is something that

is a turnover tax on all businesses. We think that is an interesting model. I do not think it has been particularly used in recent times. Turnover taxes were a significant revenue base in the Soviet bloc countries.

**CHAIRMAN**—This is a rather long answer to what I thought was a simple question and I am wondering how long it will go on.

**Senator HOGG**—I think it is a fascinating answer, Mr Colmer. We are now into the former Eastern bloc countries under the Soviet Union.

**CHAIRMAN**—Yes, I do not know what that has to do with it. Perhaps I could draw you back to my colleague's question, which I interrupted. Is it not a fact that none of you gentlemen at the table have any idea—because you have not given us one—about the amount of revenue that the proposed one per cent tax will raise? In the absence of a quick and simple answer, I have to assume that Hansard will record that Mr Anthony Johnson, Mr Kennedy, Mr Magor, Mr Colmer, Mr Bignell, heads, deputy heads and senior people within your departments do not have any idea of what that revenue will raise. Is that correct?

**Mr Colmer**—We think that it might raise something around a million dollars, but the bounds of uncertainty are fairly significant around that.

**CHAIRMAN**—Is there any variation on that figure? That is the last question I will ask.

**Senator CROSSIN**—Mr Colmer or Mr Magor, hasn't the Commonwealth, because of the budget deficit, recently provided the Norfolk Island government with \$3 million to assist?

**Mr Magor**—Because of the budget deficit?

**Senator CROSSIN**—Yes—is that right?

**Mr Magor**—No.

**Senator CROSSIN**—What did the \$3 million that somebody quoted in their opening statement refer to? I made a note: \$3 million was needed. What was that for?

**Mr Magor**—The Australian government had agreed to provide a grant of \$3 million—I think they agreed to do that back in 2003—to restore the Kingston pier, which is a heritage convict construction.

**Senator CROSSIN**—How much was the Norfolk Island government budget deficit in October 2004?

**Mr Kennedy**—We have seen figures that indicate that their 2004-05 budget was in deficit by something around \$2.2 million. That is what we understand. The Norfolk Island government would be able to provide that figure for you.

**Senator CROSSIN**—So, if you think this levy is going to raise around the million dollar mark, that will not be enough to even get them in the black.

**Mr Colmer**—That is at the one per cent level. There is a considerable degree of uncertainty about that.

**Senator CROSSIN**—Yes. I assume they have to crawl before they can walk.

**Mr Bignell**—I would also make the point that the revenue raising also depends on the range of other taxes and the extent to which they remove a range of other taxes.

**Senator CROSSIN**—Remove other taxes?

**Mr Bignell**—Yes. I understand that their plan is to introduce a levy and to remove a number of taxes.

**Senator CROSSIN**—So we might have a nil-nil net return? You might raise a million dollars on the levy and lose a million dollars on other taxes that are going to go.

**Mr Bignell**—The figure of a million dollars applies to the levy being imposed at one per cent. If they were to subsequently strike a higher rate then obviously there would be higher collections, which would allow them to remove a range of other taxes that they currently have.

**Senator CROSSIN**—I understand the Norfolk Island government has made a suggestion that the Commonwealth government and the Norfolk Island government commence a comprehensive joint review of the Norfolk Island Act. Has that started?

**Mr Magor**—No, it has not.

**Senator CROSSIN**—Are there plans to start that?

**Mr Magor**—I am not aware that there are.

**Senator CROSSIN**—That suggestion from the Norfolk Island government has not been progressed?

**Mr Magor**—I am not aware of that suggestion.

**Senator CROSSIN**—That is interesting. Why would that be? We have a briefing paper here that suggests that is their position.

**Mr Magor**—I think there have been some suggestions in the past from the Norfolk Island government that it is interested in being involved in an ongoing process of having additional powers given to it, which would effectively involve adding more of the powers that it currently does not have under schedule 2. That could be what is meant by ‘a joint review of the act’.

**CHAIRMAN**—On those three trips that I think you mentioned, Mr Colmer: DOTARS paid for one, the Norfolk Island government paid for one and the territories paid for the other?

**Mr Colmer**—That is right.

**CHAIRMAN**—What were the dates of those trips?

**Mr Colmer**—The first one was around October 2003. I think the next one was early 2004, perhaps around March. I can get the exact dates. Then we went back—

**Mr Bignell**—It was 1 to 4 June this year.

**CHAIRMAN**—Why is it that the ABS does not take statistics from Australians in an Australian territory—perhaps the only place in the Commonwealth where statistics are not taken? Do you have any idea?

**Mr A Johnson**—The Census and Statistics Act precludes us taking statistics in the external territories, of which, obviously, Norfolk Island is one. Part of our act relates to the population census. If a territory is prescribed in the regulations, we do collect for that territory. Some territories are prescribed; Christmas Island is one. In the last census we collected population and household information, but Norfolk Island was not prescribed. I understand they collect their own census data, and did so, I think, in a recent year.

**CHAIRMAN**—Who is responsible, then, for births, deaths and marriages registration? Is that the Norfolk Island government?

**Mr Magor**—Norfolk Island administration would do that.

**CHAIRMAN**—Would the ABS not have access to that fairly simply and easily?

**Mr Kennedy**—I do not think so. I think those figures are confidential information of the Norfolk Island government. They are not open to the ABS. They are generally published, but—

**CHAIRMAN**—The Administrator's office holds those?

**Mr Magor**—No, sorry, not the Administrator.

**CHAIRMAN**—You mean the government itself?

**Mr Magor**—Let us get our terminology right there. In Norfolk Island there is what we would call the Norfolk Island government, which is the Chief Minister and ministers, and then there is the legislative assembly, which is the elected body. Then, below that, there is what we would call the public service—in Norfolk Island it is called the Norfolk Island administration.

**CHAIRMAN**—And they hold it?

**Mr Magor**—Yes, that is right. But that administration is separate to the Administrator established under the Norfolk Island Act.

**CHAIRMAN**—Who has access to those statistics? Someone must have access to them.

**Mr Kennedy**—The Norfolk Island government and its administration.

**CHAIRMAN**—Anyone with a lawful reason would have access to them?

**Mr Kennedy**—Yes, and the census statistics are published. The Norfolk Island government publishes the census.

**CHAIRMAN**—And the ABS still does not pick them up. That is not your responsibility, anyway, but it is some good information to have. It is a good starting point. I notice that one of you gentlemen has responsibility—I think it is you, Mr Magor—for natural disaster relief. It seems to me that you could be preoccupied with this for 12 months of the year. Just assuming there is a natural disaster on Norfolk Island, could you briefly describe the process that you would initiate—if there were, for instance, a tsunami there? It is in an earthquake zone. If there were a tsunami there, what would you do? What would your department do?

**Mr Magor**—I am not sure if I can comment on that because I am not actually responsible for looking after the natural disasters functions within the department. We would expect that the Norfolk Island government, in the first instance, should be in a position to respond in some way, either with plans that it has or with emergency measures that it can put in place to provide financial assistance to anybody who was affected. I am not sure if the regular disaster relief assistance provided by the department does in fact apply to Norfolk Island. I would have to check that.

**CHAIRMAN**—On that point, would you be kind enough to take that on notice and come back to the committee with some details?

**Mr Magor**—Yes, I can check that.

**CHAIRMAN**—Not just a generic heading—perhaps some details, without being too profuse about them. We still require those to be reasonably comprehensive without going overboard.

**Mr Magor**—Yes. Failing that, it would be a matter for the government to consider any other emergency assistance that it might want to provide.

**CHAIRMAN**—This is for the sake of *Hansard*: your division, if I could put it that way, does encompass territories, local government and natural disaster relief. Is that correct?

**Mr Magor**—Yes, that is right.

**CHAIRMAN**—Who is head of the natural disaster area within that division?

**Mr Magor**—Adrian Beresford-Wylie is the general manager who looks after local government and natural disaster relief.

**CHAIRMAN**—Thank you for that. In your collective opinion, gentlemen, is there a nexus between what is, if I could put it kindly, a fundamental lack of funds, or a perception of a fundamental lack of funds, on Norfolk Island and self-government? We visited Kangaroo Island and King Island, and I have visited, along with Senator Crossin, island communities in the northern part of Australia and there seems to be, at a local government level, better coordination and more access to funds. I doubt that King Island and Kangaroo Island would attract the

attention of the natural disasters department within your division, Mr Magor. Is there a nexus between the type of government and the dearth of funding?

**Mr Magor**—I am not sure if there is necessarily a link between the types of government. In the case of Norfolk Island, I think it essentially boils down to the decisions that the Norfolk Island government makes in how it weighs up the overall priorities in terms of the extent to which it wishes to fund and provide services to the community and to fund infrastructure versus what judgments it might make about the level of revenue that it thinks is appropriate to be generating from the community. It essentially boils down to a policy decision that the Norfolk Island government makes.

**CHAIRMAN**—Every area of Australia is covered by the three tiers of government—local, state and/or territories and federal—and they all seem to be okay. I think it was Harold Wilson who said that all government is local. I do not always subscribe to what Harold Wilson said, but on that occasion I have some sympathy for what he said. He is saying that that isolated area of self-government has nothing to do with the inadequacy of funding.

**Mr Magor**—Again, it comes down to the fundamental policy choice that the Norfolk Island government makes and the resources that are available to it to generate revenue. I will give you an example. The Indian Ocean territories obviously are a completely different model—they have local government in the territory of Christmas Island and the territory of Cocos (Keeling) Islands, but the Commonwealth looks after the state government type functions as well the Commonwealth functions. So in order to fulfil those functions the Commonwealth ordinarily each year spends around \$55 million on provision of services in those territories which, between them—

**CHAIRMAN**—In the three territories?

**Mr Magor**—Christmas Island and Cocos—

**CHAIRMAN**—I mean the external territories.

**Mr Magor**—They are either non-self-governing territories or—

**CHAIRMAN**—Just the three: Norfolk Island and the Indian Ocean territories—

**Mr Magor**—No.

**CHAIRMAN**—Not those?

**Mr Magor**—Just the Indian Ocean territories. Annually, the government spends around \$55 million on provision of services and it has a capital program of around \$12 million. That is \$60 million to \$70 million spent annually on provision of services and infrastructure. As I said, it is a comparable sized community. The Norfolk Island government—

**Senator HOGG**—That is for how many people?

**Mr Magor**—I think there is about 1,200 people on Christmas Island and 500 people on Cocos—give or take 100 people.

**Senator HOGG**—I am not going to hold you to the figures. So the size is roughly 1,700 people?

**Mr Magor**—Yes. The Norfolk Island government has put in place revenue arrangements which give it around \$22 million a year. That gives you a bit of a comparison between those two places of how adequate the level of funding may be.

**Senator HOGG**—Would that \$60 million to \$70 million that you claim is spent on the Indian Ocean territories include infrastructure as well as everything else?

**Mr Magor**—Yes, infrastructure is part of the program.

**Senator HOGG**—If the airport needs upgrading there would be money allocated in the budget to do that. If the local health facility needs upgrading there is money in the budget for that.

**Mr Magor**—That is right.

**Senator HOGG**—If the harbour needs upgrading there is money in the budget for that.

**Mr Magor**—Yes.

**Senator HOGG**—So, out of that \$60 million to \$70 million, you are looking at recurrent expenditure on infrastructure items which need updating and changing from time to time. That would include roads and everything else. There is a whole suite of things that come out of that \$60 million to \$70 million. Is that a correct construct?

**Mr Magor**—Yes.

**CHAIRMAN**—Let me get back to the hospitals, as an example. Having been to Cocos (Keeling) Islands and Christmas Island on a number of occasions and having recently visited Kangaroo Island and King Island, those hospitals are infinitely superior to the facility on Norfolk Island. Why do you think that is?

**Mr Magor**—I would guess it has to do with the funding available for it.

**CHAIRMAN**—Why is the funding available for those islands I mentioned, which are isolated—although not as isolated as Norfolk Island? Why do you think the funding is there for Cocos (Keeling) Islands, Christmas Island, King Island and Kangaroo Island?

**Mr Magor**—In the case of Kangaroo Island that would be a decision that the state government has made for funding the hospital. In the case of the Indian Ocean territories the government's policy is that, as much as possible, service standards should be maintained at a level comparable with a similar mainland community. As I said before, Norfolk Island is

responsible for generating its own revenue for purposes on the island. It comes down to a decision it makes about what revenue it has available to it and how it allocates that.

**CHAIRMAN**—Would you concur that Norfolk Island is an integral part of Australia—

**Mr Magor**—Yes.

**CHAIRMAN**—and that the people who live on Norfolk Island as permanent residents are Australian citizens?

**Mr Magor**—Yes.

**CHAIRMAN**—Why is it then that this inadequacy is allowed to continue and that the government, through the varying departments that we have, with their immense expertise, continue to turn their back on Norfolk Island's inadequate health system? That is just one area.

**Mr Magor**—My understanding is that it comes down to the issue that Norfolk Island is not included in mainland taxation and revenue-sharing arrangements. For whatever reason, the Australian government decided back in 1979 that Norfolk Island should have the powers to create its own revenue to fund services on the island and it is responsible for doing that.

**CHAIRMAN**—You almost seem to be concurring with me, Mr Magor, that there is a nexus between the type of self-government on Norfolk Island and the inadequacy of health funding.

**Mr Colmer**—Perhaps I could make an observation. I am not sure that it is necessarily the type of government; I think it probably has a lot to do with the culture on the island. That may result in the decisions that that particular type of government makes, but I am not sure that the model of government is necessarily the cause as opposed to the actual island culture. One of the things—and this is totally anecdotal—that was said to me on a couple of occasions was, 'We're different on Norfolk,' and I guess that is self-evidently true. One of the things that people on Norfolk were very keen on portraying was that they had a lot more of a community effort rather than a government effort. Whether or not that actually results in any measurable effort is another matter, but they certainly believe that and it certainly seems to be part of the Norfolk Island culture.

**CHAIRMAN**—Should the government, through its departments, be concerned about the disparity between a standard of living on Norfolk Island as opposed to similar areas on the mainland of Australia or in isolated island communities that I have mentioned? Should the government be concerned through its departments, or should we just let it go?

**Mr Colmer**—I think that is fundamentally a policy decision for the government. The current situation flows from those basic self-government arrangements which have been in place since—

**CHAIRMAN**—Mr Johnson, Mr Kennedy, Mr Magor, Mr Bignell and Mr Colmer, through your departments, do you have no concerns about Norfolk Island and the manifest inadequacy of funding?

**Mr Colmer**—I think you are putting us in a difficult position here in asking us to comment on government policy. As you would appreciate—

**CHAIRMAN**—It is more a lack of policy!

**Mr Colmer**—Can I quote you on that, Senator? You do understand the position that we are in. For whatever reasons, there is a framework whereby Norfolk Island does have self-government and has been given those responsibilities. In that situation, it is not really up to us as officials to make comment on that basic arrangement. I think that is a fundamental policy decision for government to consider.

**CHAIRMAN**—Let me take some sympathy with my own question directed to you, Mr Colmer: I would hope that my question may precipitate your talking to your relevant ministers about the concerns that are quite obviously glaringly apparent about the inadequacy of funding on Norfolk Island and the inadequacy of statistics. This committee—and this is my ninth year on the committee—thought some of the information with respect to funding and statistical advice would have been at your fingertips. We thought that you, collectively, would have been able to give it to the committee—not just you, Mr Colmer, but collectively. Let me move on. Mr Colmer, we did get from you that around \$1 million was expected to be raised from this proposed one per cent tax. But, as you indicated, that could be—and I just want to make this clear—

**Mr Colmer**—There is some doubt around that figure.

**CHAIRMAN**—significantly more or significantly less. Is that correct?

**Mr Colmer**—That is absolutely correct. I think the thinking behind starting it off at one per cent is to get that basic data on which some more robust decisions could be made.

**CHAIRMAN**—Will Treasury get the precise figure?

**Mr Colmer**—At this stage Treasury have no role in this whole process. We are only acting on the request of either Transport and Regional Services or the Norfolk Island government. As I said before, we have taken the approach that we will provide advice, but if our advice is not sought it is difficult. We do not have a role except on request. That is essentially a result of the constitutional arrangements which apply between the Australian and Norfolk Island governments. Having said that, we have said that we are available to provide advice, but unless we are actually asked to do that then I am not sure where it will go. I did mention that we have noticed that there are some extraterritorial aspects to the legislation on Norfolk Island. It is our role to look at them from the Australian perspective. But anything that we do in terms of Norfolk Island has to be in concert with that government. If they do not want our advice then we have limited opportunities to provide that.

**CHAIRMAN**—Does Treasury advise the Commonwealth Grants Commission?

**Mr Colmer**—The relationship with the Commonwealth Grants Commission, again, is something that happens on reference. I am not sure how the Commonwealth Grants Commission

works with Norfolk Island. Certainly Treasury works with the Commonwealth Grants Commission on a range of issues.

**CHAIRMAN**—But the CGC goes to Norfolk Island—not often enough, but it goes there.

**Mr Magor**—It produced a report on Norfolk Island in 1997.

**CHAIRMAN**—Yes.

**Mr Colmer**—It must have had a reference to do that.

**CHAIRMAN**—Where does that reference come from? That is really what I am trying to get to. I am trying to work out whether Treasury has a direct or indirect role in the CGC.

**Mr Magor**—Unfortunately I have only the findings of that report with me. I would need to look at the full report to see how the CGC came to undertake that report. I can get back to you on that.

**CHAIRMAN**—All right.

**Mr Magor**—Chairman, could I go back to a point you were making before about the frustrations about the adequacy of data and statistics available about Norfolk Island.

**CHAIRMAN**—Do you want to make an explanatory statement?

**Mr Magor**—No. I just want to mention that in the context of business activity—there not being a taxation system—there is a low level of record keeping and that adds to difficulties in being able to form a picture of how large the Norfolk economy is. I refer you to a media release that was put out by Ron Nobbs, the Minister for Finance, on 22 July.

**CHAIRMAN**—The Hon. Ron Nobbs.

**Mr Magor**—Yes. He said that ‘basic economic data is available in a variety of locations within the administration’—that is, the public service of Norfolk Island—‘and whilst adequate to establish the concept of the NSL it is inadequate to provide the setting for the NSL percentage and to deal with the attendant issues.’ He then went on to talk about why the one per cent will be trialled in order to establish what the size of the economy is.

**CHAIRMAN**—We are pleased to get that information from you. What I want to establish is: what information, if any, have you received with respect to the dire circumstances relating to the loss of revenue by the recent collapse of the domestic airline? I use the word ‘domestic’ fairly broadly there. Has anyone received any information on that?

**Mr Magor**—Do you mean loss of revenue—

**CHAIRMAN**—I mean: as a result of the collapse of the airline.

**Mr Magor**—or money that the former airline may have owed the Norfolk Island government?

**CHAIRMAN**—It was to do with the loss of revenue through tourism, which is the biggest earner on the island for the government and, as a result, I suppose, for the commercial areas of the island. The collapse of the airline meant a loss of about \$120,000 a week. That was information that I had received as chairman of the committee, not information the committee had received or taken as evidence.

**Mr Magor**—We are not really party to the arrangements between the Norfolk Island government and the charter operator, Air Nauru, so I do not think we can comment on that. I understood that the cost of a return charter between the mainland and Norfolk Island was in the vicinity of \$60,000 per trip. I guess whether or not there is any loss being sustained comes down to what the load factors on the flights are.

**CHAIRMAN**—Could I say that Treasury and the Department of Transport and Regional Services, DOTARS, has received nothing about this?

**Mr Kennedy**—Yes. The Norfolk Island government manages that whole arrangement.

**CHAIRMAN**—I have just been given some information here—unlike the ABS—from Norfolk Island that the Norfolk Island government earns approximately \$1.8 million in landing fees alone on an annual basis. That is in the most recent report that we have, from 2004. With the government's direct involvement with the new charter arrangement this revenue may have been discounted to counter the adverse publicity of lower fares. There may have been some detrimental effect on that figure—not being, of course, a net figure but a gross figure. The report says 'earns'. I do not know what that means; I thought it meant a net profit.

**Mr Magor**—Probably about six months ago I saw some figures which estimated the revenue from landing fees, based on tourism arrivals of about 35,000 people for the year. That might be what that figure of \$1.8 million is based on. I am guessing that they are saying that if arrivals have been disrupted by the demise of the former airline then the revenue that would be generated by landing fees would potentially also be reduced. But we do not have any information about that. I can say that there was continuity of air services between the Australian mainland and Norfolk Island and between New Zealand and Norfolk Island throughout that period, so it was not that there was a time when people could not travel to Norfolk Island.

**CHAIRMAN**—When did you receive that information?

**Mr Magor**—Which information?

**CHAIRMAN**—The information you just gave. You said there was continuity of airlines between Norfolk Island and New Zealand and Norfolk Island and Australia.

**Mr Magor**—I was on Norfolk Island in the week that Norfolk Jet failed.

**CHAIRMAN**—Were you on government business at that stage?

**Mr Magor**—Yes, that is right.

**CHAIRMAN**—What government business were you on?

**Mr Magor**—I was there for a meeting of KAVHA management board.

**CHAIRMAN**—Were minutes taken at that meeting?

**Mr Magor**—Yes, there would be minutes.

**CHAIRMAN**—Would you make those minutes available to the committee?

**Mr Magor**—I will have to check with the board members and the chair.

**CHAIRMAN**—Subject to that; thanks very much. While you were there did you hear of the crisis that the tourist industry was in on Norfolk?

**Mr Magor**—We are aware that tourism numbers appear to be down on past years. I think 2003 was a record year in terms of arrivals. Anecdotal information is that numbers at the moment might be down in the vicinity of 25 per cent on past years.

**CHAIRMAN**—On past years or on the record 2003 year?

**Mr Magor**—The numbers do not vary significantly. The best year was 2003. But the decline in tourism numbers is not related to the airline collapse. They were already starting to decline before the collapse of the airline.

**CHAIRMAN**—But, obviously, there would be an exponential decrease on the collapse of the airline, as opposed to a decline on the mean figures of other years. The collapse of revenue derived from the tourist industry could only be described as catastrophic, couldn't it?

**Mr Kennedy**—As Mr Magor said, the Norfolk Island government put in place continuing air services, which is its role in such a collapse. It has happened before; the Norfolk Island government fills the gap until such time as a commercial operator becomes available.

**CHAIRMAN**—What was the figure, if any, that you heard in your capacity as the acting manager of Norfolk Island within DOTARS? Where you notified of any figures, in fact?

**Mr Kennedy**—Concerning what?

**CHAIRMAN**—Concerning the collapse of the airline.

**Mr Kennedy**—No, it is not something we would be advised of.

**Senator HOGG**—Can I help—

**CHAIRMAN**—Just let me ask this question and then I will go to Senator Hogg.

**Senator HOGG**—I am trying to help you out. There is a press release—

**CHAIRMAN**—Yes, all right; from the government of Norfolk Island. You never got a press release from the government of Norfolk Island, dated 2 June?

**Mr Magor**—We very likely did. What is the title?

**Senator HOGG**—It is headed ‘The government of Norfolk Island: Norfolk Jet Express’ and made by the Chief Minister, Mr Geoff Gardner. I do not want to steal Senator Lightfoot’s thunder, but I think he is getting to the contributions that are owed to the Norfolk Island government and the impact that that will have on this exercise which is currently under consideration in terms of their budget.

**CHAIRMAN**—Thank you for defining that, Senator Hogg; I appreciate that. We have had information that the Norfolk Island government had to put in half a million dollars. Was it put into the airline? This is the information that we have, Mr Kennedy. I say this because your particular bailiwick is acting director of Norfolk Island within DOTARS. The Norfolk Island government will be picking up a liability for prepaid tickets on the Norfolk Island Jet Express that will have to be honoured by Alliance Airlines and Air Nauru—I do not want to go into Air Nauru and who owns what part of that. This will include departure ticket prepurchases for the temporary entry permit holders on the island, and DOTARS has estimated this to be in excess of half a million dollars.

**Mr Kennedy**—Sorry, I misinterpreted your question before.

**CHAIRMAN**—You were not aware of that half a million dollars?

**Mr Magor**—I am not sure that DOTARS—

**CHAIRMAN**—I was asking Mr Kennedy.

**Mr Kennedy**—The only information we would have would be what has been publicly issued by the Norfolk Island government, so those—

**CHAIRMAN**—Is there a breakdown between what little information does come your way in your department, Mr Kennedy? Do you think there is a breakdown between your department and Norfolk Island?

**Mr Kennedy**—I think it comes down to a differentiation between the roles played by the Norfolk Island government and DOTARS.

**CHAIRMAN**—Is there a confusion there? And, if so, by whom?

**Mr Kennedy**—I do not think so. In relation to air services, that is the role of the Norfolk Island government.

**CHAIRMAN**—Where is the breakdown of information?

**Mr Kennedy**—It is in whether they provide those sorts of details to us.

**CHAIRMAN**—You never request information of that nature?

**Mr Kennedy**—That is not our role.

**CHAIRMAN**—It is not your role? Should it be your role?

**Mr Kennedy**—Under the Norfolk Island Act it is the role of the Norfolk Island government.

**CHAIRMAN**—There are two schedules under the act; maybe there ought to be some rearrangement of the schedules, in that case.

**Mr Magor**—That is a policy matter for the government.

**CHAIRMAN**—I would imagine that you advise the government.

**Mr Magor**—We are not in a position to—

**CHAIRMAN**—You advise the minister, who advises the government.

**Mr Magor**—In the end it comes down to policy decisions that the minister and the government might take.

**CHAIRMAN**—All right. Let me ask you one more question, and I will then go to Senator Hogg. I have taken up enough time.

**Senator HOGG**—I would like to come in on this point. Senator Lightfoot has just quoted a figure of half a million dollars liability for tickets that were picked up on the alliance. The press release of Mr Gardner, the Chief Minister, of 2 June, says that last year, among the many debts pursued, was an amount of \$569,075 owed by Norfolk Jet Express for landing fees and other services. There is some statement there about some attempt to pay some of the outstanding debt. If one takes into consideration the half a million dollars that has supposedly just been picked up for ensuring that prepurchased airline tickets are honoured, and the half a million dollars that is outstanding from Norfolk Jet Express, there is \$1 million in the whole of the budget of the Norfolk Island government to start off with. Is it reasonable to come to that conclusion?

**Mr Magor**—It would need to be met by the Norfolk Island government somehow.

**Senator HOGG**—That is correct. I accept that. Has that been taken into the equation for putting together the sort of taxation regime that they need on the island?

**Mr Colmer**—The taxation regime that Norfolk Island is currently pursuing has been put together on the island and we have been asked to comment on it. I do not know whether the Norfolk Island government has explicitly taken that sort of calculation into account. I think that the approach to a new taxation regime is based on an awareness that there are longer term issues, but certainly I would imagine \$1 million is a lot for the Norfolk Island government to find as a one-off thing.

**Senator HOGG**—It is one-twentieth of their net annual expenditure, which is not insignificant in anyone's terms. That is why I asked the question.

**Mr Colmer**—I am sure that would be challenging for the Norfolk Island government to find, but, as I said, the taxation decisions that they are trying to make are based on a longer term issue around providing sustainable finances. How you take into account a one-off like that in this sort of exercise—

**Senator HOGG**—I will come to that once Senator Lightfoot has finished.

**CHAIRMAN**—I will be brief. In the case of a territory government becoming chronically impecunious, to the point where it cannot pay its bills, who picks up the tab? Treasury might know.

**Mr Colmer**—I really do not know the answer to that one, but I suspect that that is a constitutional law issue at the end of the day.

**CHAIRMAN**—I would have thought that you might be generous enough, Mr Colmer, to say that you would take that on notice and come back to us.

**Mr Colmer**—I was actually hoping that Transport and Regional Services might make that offer, because—

**CHAIRMAN**—I purposely did not mention transport. I was just talking generically about a territory being unable to meet its accounts when they fall due. Obviously there is machinery in place—there may be some contingencies in place; I do not know—that allows fairly quick and expeditious settlement so that the people in those territories are able to get on with their lives and do not suffer as a result of any maladministration there. It may be a constitutional issue, but it ultimately gets back to Treasury. Treasury is the well, the font, of all of these matters fiscal at the end of the day.

**Mr Colmer**—I have to query that it does ultimately get back to Treasury. Treasury might ultimately be required to provide some funding, although that would actually come from the Department of Finance and Administration. I think it is fundamentally an issue around the relationship between the two governments. I really am waiting for the Department of Transport and Regional Services to—

**CHAIRMAN**—I am happy for anyone who wants to put their hand up to say—

**Mr Magor**—Certainly, there is nothing in the Norfolk Island Act which suggests how that sort of situation would be resolved. Under law, I suspect that there probably is a constitutional issue. We can undertake to see if there is some sort of legislative mechanism which would apply in that situation. It may come down to policy decisions that governments might take if that scenario were to arise, and we cannot advise you on that.

**CHAIRMAN**—Whatever you could do would be gratefully received by the committee. The whole intent of our committee is to ensure properly functioning governance of these territories—

particularly Norfolk Island—and to do anything that can assist the government in its function on, say, Norfolk Island. That is what motivates us.

**Senator HOGG**—I do not know where to start but I think I have picked out a point where I want to start from. It goes to comments that were made by Mr Magor earlier in response to a question from me about this sustentation that goes to the Indian Ocean territories. I think the figure you quoted was \$60 million to \$70 million per annum to sustain around 1,200 people on Christmas Island and 500 on Cocos (Keeling) Islands—about 1,700 people. Correct me if I am wrong, but it served all purposes. It looked after major infrastructure, whether it be roads, hospitals, ports or whatever.

**Mr Magor**—There are also local governments in each of the territories, which, I think, receive financial assistance grants as well. So they might be responsible for some of those things.

**Senator HOGG**—So really we are looking at an even bigger bucket. That makes my argument even better. Would that bucket of roughly \$60 million to \$70 million also include things such as necessary medical evacuations to Perth or to other ports?

**Mr Magor**—I would have to check on that.

**Senator HOGG**—Can you take that on notice?

**Mr Magor**—Sure.

**Senator HOGG**—In addition to that bucket of \$60 million to \$70 million, am I correct in assuming that the people in the Indian Ocean territories also have access to Australian social security benefits?

**Mr Magor**—They do.

**Senator HOGG**—And whatever the social security benefit might be, they receive it at the same or comparable rate to the Australian mainland? Is that correct?

**Mr Magor**—That is right.

**Senator HOGG**—They also would pay the Medicare levy and receive all the benefits that are available under the Medicare system—correct?

**Mr Magor**—Yes.

**Senator HOGG**—And have access to Centrelink and the benefits that come out of it?

**Mr Magor**—That is correct.

**Senator HOGG**—And those benefits, again, would be in addition to the \$60 million to \$70 million annual budget that is needed to keep those remote communities going?

**Mr Magor**—Correct.

**Senator HOGG**—Yet here we have Norfolk Island currently collecting \$22 million to try to achieve all of those things on a single island. Is that a reasonable comparison? What I am trying to get to—not that Treasury were asked to design and do the modelling—is that we must be able to use a very quick rule of thumb that says if \$60 million to \$70 million is needed for the Indian Ocean territories then surely, if not \$22 million, \$30 million or \$40 million is needed to give a comparable delivery of service on Norfolk Island. That is without going into social security, Medicare, Centrelink and all those other issues. Is that a reasonable sort of basis to operate from?

**Mr Magor**—You said before that the Norfolk Island government is generating revenue of \$22 million to cover all of those things that you mentioned that the Indian Ocean territories have such as Medicare, unemployment benefits and that sort of thing. It is important that a lot of those sorts of arrangements do not apply to Norfolk Island government because they have responsibility under the Norfolk Island Act for creating their own systems. In many cases, they choose to put in place services to the community at a different standard than you would expect on the mainland.

**Senator HOGG**—I accept all of that. I am referring to Senator Lightfoot's argument. We are talking about Australian citizens. We are not talking about second-class citizens. We are talking about Australian citizens who, in my estimation, have the right to the same treatment that every other citizen in Australia is entitled to. If one draws what I think is a reasonable conclusion—that it seems to me the Indian Ocean territories are getting \$60 million to \$70 million, excluding other benefits and forgetting about the standard of the benefit that they are getting in the Indian Ocean territories, and you have the likes of Norfolk Island budgeting for \$22 million—there is something drastically wrong with the Norfolk Island budgeting. It seems to me that if it is \$60 million to \$70 million for the Indian Ocean territories and \$22 million for Norfolk Island, there is a great disparity there. Is that not reasonable to assume?

**Mr Magor**—Yes, I think you can say that there is a disparity, but again it comes back to the fact that these are decisions that the Norfolk Island government, which is an elected government, makes for its community.

**Senator HOGG**—I accept that, but what I am trying to get at is that they have acknowledged that there are problems with their taxation system. They have acknowledged that they have got to do something to try and raise additional taxation. I assume that that tax has to be raised for a whole range of reasons. If one were even to look at gaining some comparability with what is happening in the Indian Ocean territories, one would think that the \$22 million that they might raise currently is well shy of the mark. One could even postulate, not even having done economics 101 at the University of New South Wales, the University of Queensland or wherever one might choose to study—you would not need to be Einstein to work it out—that \$22 million is short of the mark.

What worries me is that we now have a trial proposed for Norfolk Island which does not know what it is going to raise and does not know what it is going to service. And no-one has told us yet what is going to happen at the end of the trial—that is where I am leading to. Does the one per cent stay in place? Do the existing taxes suddenly get phased out? What happens? What is the period of time that has been allocated for some sort of assessment of the trial? My understanding

of trials is that, unless very good economic data has been collected and there is someone to interpret it properly, it may well take anything up to two or three months to do a proper analysis, even though it is a microeconomy, and then do the proper projection into the future as to at what level the NSL would need to be set. Can you, Treasury or anyone tell me what happens in that period post the seven months?

**Mr Colmer**—The Norfolk Island government's plan at least is set out in the media release from Mr Nobbs of 22 July. Do you have that?

**Senator HOGG**—I probably do but I just cannot find which attachment it is.

**Mr Colmer**—As I understand the Norfolk Island proposal, registration of business will start on 1 October. The one per cent levy will be implemented from 1 December this year with a view to setting a longer term rate by 1 July 2006. At the same time, the Norfolk Island government intend to review such things as thresholds for registration—they have made a list of things they are proposing to do—model the revenue at one per cent, review the minimum threshold, make determinations on hardship applications, make determinations on exemption applications, determine NSL funding required, consider inflationary effects and calculate the new rate.

I mentioned earlier that I was a little unclear as to exactly how the NSL should be characterised. I do not know whether I can find the reference straightaway but one of these documents talks about the one per cent being a turnover tax, whereas after 1 July it will move to a transaction based tax. Having read that somewhere in the documentation from the Norfolk Island government, it left me wondering what exactly that meant, because it does not seem to be reflected in any of the detail.

**Senator HOGG**—Even with a six-month trial there will still be no hard and fast statistical data that will allow a projection into the future.

**Mr Bignell**—They will receive monthly returns over that seven-month period, so they will be able to look at the tax base over that period. They will then need to make a judgment of how that seven-month period might be extrapolated to an annual basis. That is the sort of work they would need to do as they receive the monthly returns—

**CHAIRMAN**—This is the one expense you are talking about.

**Senator HOGG**—My point is that that will give them the data that they need to know in terms of the collection of a tax. It will not give them the data that they need in terms of establishing the level of taxation that is necessary to keep a sustainable economy on the island over a longer period of time.

**CHAIRMAN**—By a happy coincidence the money raised may eradicate the debt that the Norfolk Island government has incurred as a result of the collapse of Norfolk Jet.

**Senator HOGG**—The forward estimates are missing, though.

**Mr Colmer**—Yes.

**Senator HOGG**—I think there is some sort of discussion about trying to cobble together something that looks like forward estimates, but there are no forward estimates there yet.

**Mr Colmer**—That is right. There has been work done.

**Senator HOGG**—There have been two problems on Norfolk Island, from what I can see. There has been no close scrutiny of the accounting system over a long period of time, because there has been no independent audit office, and there have been no independent mechanisms for reviewing the accounts that have been put together on Norfolk Island. That goes to the first part of the report that goes to governance. The issue of governance here is really the key issue. If you do not get your governance right, you can put a two per cent, three per cent or four per cent NSL in place. It seems to me that the system does not advocate—and, again, I want your view here—any independent scrutiny of the taxation collection system. Is that correct?

**Mr Colmer**—There is some reference to some independent auditing, and I am not sure off the top of my head where that is. I am not sure whether it is in the NSL guide.

**Senator HOGG**—I have read the guide and I cannot see where there is independent—

**Mr Magor**—Under the Norfolk Island Act there are a couple of requirements in relation to financial statements and audits. The act provides for the appointment of an independent auditor for annual audits. I think it establishes the audit standard required and it includes a requirement that the audited financial statements be tabled in the Norfolk Island Legislative Assembly.

**Senator HOGG**—History records that there have been difficulties in the Norfolk Island government with respect to achieving those audits and tabling them on time and achieving the standards that are required to be met under the audit standards. They are not at all comparable to mainland standards. Unfortunately, I am going to run out of time, but we could sit here all day and talk about the lack of standards that exists on Norfolk Island. As I said, I did not know where to start, but here it talks about a chief revenue officer as part of the NSL system. What light can you shed on the chief revenue officer? Is the chief revenue officer similar to Mr Carmody of the Australian Taxation Office?

**Mr Bignell**—I think the idea of a chief revenue officer stems from community concerns in relation to secrecy and privacy of information. I understand that they have attempted to create a separate office to try to deal with those community concerns. Also, the draft bill contains quite steep measures in terms of unauthorised disclosure of information and punishment of imprisonment for up to two years and a significant—

**Senator HOGG**—But they do not have a prison on the island, so that is nonsense. There is only one person whom they have had to imprison, unfortunately, and they have had to seek an arrangement with New South Wales. You can write down these things; the difficulty is going to be the practical application and the difficulties on the island of people disclosing to a so-called chief revenue officer private details regarding their business transactions. Who appeals what the chief revenue officer says? Whom do they appeal to?

**Mr Bignell**—There is a mechanism within the—

**Senator HOGG**—Please do not tell me the AAT on Norfolk Island!

**Mr Bignell**—There is a mechanism in the draft bill for appeals regarding disputes that need to be lodged within 14 days of assessment by the chief revenue officer—

**Senator HOGG**—In such a closed community?

**Mr Bignell**—which allows for appeal to the court of petty sessions, constituted by the chief magistrate.

**Senator HOGG**—As part of the exercise you are undertaking for Treasury, did you look at the existing administrative structure in terms of taxation collection on the island?

**Mr Colmer**—Not in any great detail. The current taxation collection arrangements are fairly small.

**Senator HOGG**—They are rudimentary, to put it bluntly.

**Mr Colmer**—They are rudimentary. We had discussions with some of the people who were involved in that and I guess we were left, as I said earlier on, having some significant doubt about the capacity of the Norfolk Island administration to run a tax system.

**Senator HOGG**—There are two things: capacity and skill. Would they have the skill level?

**Mr Colmer**—I think skill is a part of capacity and, while I cannot comment on the individual officers working for the Norfolk Island administration—

**Senator HOGG**—I am not asking you to.

**Mr Colmer**—I would be surprised if there were a significant body of relevant skill on the island.

**Senator HOGG**—Would the existing administrative structure be able to implement the new administrative regime under the NSL, in your view?

**Mr Colmer**—I think they would find it difficult.

**Senator HOGG**—What would be needed? Would it be additional personnel, additional hardware, software or what?

**Mr Colmer**—I think they would probably need all of those things. To have any chance of making this work they would perhaps also need to rely on things such as private auditors from Australia or elsewhere coming onto the island to conduct audits. I think they would have great difficulty—

**Senator HOGG**—Would it be safe to assume that there are going to be cost increases in the administration of this new system?

**Mr Colmer**—Yes.

**Senator HOGG**—Have those cost increases been calculated or worked out?

**Mr Colmer**—We have not done any work on that.

**Senator HOGG**—I understand you were not expected to do the work—

**Mr Magor**—We would expect the Norfolk Island administration to work that out.

**Senator HOGG**—I expect so, but you do not have any idea of what the additional costs will be in the administration.

**Mr Magor**—No.

**Senator HOGG**—Clearly there are going to be increased costs, and no-one can tell me what those are at this stage. In terms of the businesses on the island, we described the current taxation system as being fairly rudimentary, as I understand there are a limited number of points of collection. So it can be operated, in a sense, fairly easily. I am not justifying the nature of the system or the value of the system. Under the new system, though, will there be a need for businesses to have a degree of sophistication in the level of equipment—whether it be by way of hardware, software or both—to enable the taxation to be properly implemented and monitored to feed the data into the Norfolk Island government such that they can make the conclusions that they need to make.

**Mr Colmer**—I think there is still a problem in trying to understand the detail of what is being proposed. As I said, the idea that this is a transaction based tax could lead to significant complexity. Our impression is that the general standard of bookkeeping amongst businesses at present is fairly low. I am sure that is variable; I am sure there are some businesses that do maintain good books and are well run. A lot of them seem to rely on exercise books in the cash drawer. We had a discussion while we were there with one of the accountants on the island who was basically complaining that they were approached by businesses when they wanted to put their businesses up for sale, and when they were asked to produce accounts they had virtually nothing to go on. It is very difficult for the accountants on the island to produce, at the present, a statement of accounts for existing businesses in some circumstances.

**Senator HOGG**—That raises another issue: the corporate governance of businesses on the island. It seems that there are deficiencies in the company laws that operate and govern the requirement for filing of accounts and so on in respect of certain businesses on the island. Would that be correct?

**Mr Bignell**—As I understand it, there is reporting in relation to companies, but obviously there would be a range of other entities operating on the island that would not have those requirements. I guess the point to make is that there is no income tax applying to Norfolk Island sourced income, so there is no statutory obligation other than by perhaps a company means that would require the businesses that operate on the island to produce records of their income and expenditure and net profit. So the imposition of the levy would impose additional requirements

on those businesses, other than companies that have an existing reporting obligation on the island.

**Senator HOGG**—Mr Colmer, could I come back to the point that I made before. Whilst you are unclear as to what sort of system will really emerge under the NSL, is it safe to assume that there will be a need for some element of modern sophisticated technology to enable the businesses to report whatever they need to report to enable the Norfolk Island government to collect the tax and make sure that there is integrity in the taxation system?

**Mr Colmer**—I think it is safe to assume that businesses will need to significantly change the way they operate. Whether or not that necessarily leads to a need for computerisation and so forth will depend on the nature of the business as much as on the final nature of the tax system, but they will certainly need to lift their standards.

**Senator HOGG**—Is there compensation in the package for businesses in the transition arrangements?

**Mr Colmer**—I do not think so. I am not certain about that.

**Mr Bignell**—As I understand it, that is only proposed in relation to stock on hand.

**Senator HOGG**—Yes, that is stock on hand, but in terms of changed procedures? Let us assume that someone, who might not pay a tax at all, now has to get in a computer and a computer package. That package might be required for reporting purposes to the chief revenue officer in the Norfolk Island government. Whereas when the GST was introduced there was assistance to small business in Australia to undertake the transition that was necessary from one system to the other, no such assistance is being offered in this case. Is that correct?

**Mr Colmer**—Not that I am aware of.

**Senator HOGG**—Is DOTARS aware of any?

**Mr Magor**—Not that we are aware of.

**Mr Bignell**—I think the finance minister's announcement ruled out such assistance for business.

**Senator HOGG**—So it is a cost to business on the island—and it is an unknown cost, because one really does not know how the system is going to operate. I will finish there. I would love to talk to you for a couple more hours.

**CHAIRMAN**—Yes, it is a particularly interesting subject for my colleagues and me. On behalf of the committee, thank you, gentlemen, for your attendance here today.

**Proceedings suspended from 11.02 am to 11.13 am**

**JOHNSON, Mr Luke Ross, Private capacity**

**CHAIRMAN**—Welcome.

**Mr L Johnson**—I am appearing before the committee today as an individual, not speaking on behalf of any organisation. I spent over three years working on Norfolk Island so I believe that provides me with a particular perspective on this inquiry.

**CHAIRMAN**—Thank you for that information. Do you wish to make an opening statement?

**Mr L Johnson**—I do have a statement I wish to make.

**CHAIRMAN**—Please proceed.

**Mr L Johnson**—It will take a while.

**CHAIRMAN**—How long is it?

**Mr L Johnson**—It is 15 pages. It is 1½ spaced.

**Senator CROSSIN**—Can you just summarise it, and then you could table it for us?

**Mr L Johnson**—I will try and go through it fairly quickly. It contains important things.

**CHAIRMAN**—If it is important, we are obliged to hear you. If you think there is something that is not important but you would still like it to be incorporated in *Hansard*, you can ask permission of the committee to have it incorporated.

**Senator HOGG**—I would like a copy of the statement anyway.

**Mr L Johnson**—I have a copy to provide.

**Senator HOGG**—I move that the statement be incorporated in *Hansard*.

**CHAIRMAN**—Is it the wish of the committee that the statement be incorporated in the transcript of evidence? There being no objection, it is so ordered.

*The statement read as follows—*

**Submission by Luke Johnson****To the Joint Standing Committee Inquiry into Governance on Norfolk Island Part Two  
Financial Sustainability and Governance Arrangements****Introduction**

I have worked in Local Government for over 20 years and hold a Bachelor of Arts and a Master of Business Management (Local Government).

My family and I moved to Norfolk Island in October 2001 when I commenced in the position of Executive Director Corporate Support and Business Development working for the Administration of Norfolk Island.

In October 2002 I accepted the role of Acting Chief Executive Officer.

In July 2003, following a recruitment process, I was appointed to the position of Chief Executive Officer.

In January 2005 I concluded as Chief Executive Officer and my family and I returned to mainland Australia. I am now the General Manager of Goulburn Mulwaree Council.

Importantly, I note that I resigned from the position of Chief Executive Officer and left Norfolk Island of my own volition and on good terms with the Norfolk Island Government. I have no agenda other than a desire to assist.

I appear before the Committee today as an individual and not speaking on behalf of any other organization.

I do not propose to provide specific details about the business of the Administration as I believe that information should be sought directly from the Norfolk Island Government and Administration

I appear before the Committee to provide an open, objective and independent perspective on the current concerns and how they may be best addressed.

### **Executive Summary**

I do not believe the current arrangements are sustainable.

However I believe it is possible for the Federal and Norfolk Island Governments to reach a mutually acceptable sustainable arrangement. Indeed, I believe it is essential to reach a mutually acceptable sustainable arrangement as a matter of some urgency to ensure Norfolk Island and its people can continue to maintain their core aspirations. This is particularly so given the current financial situation and the potential for already serious issues to worsen rapidly.

Norfolk Island is a unique and special place. The significance of its history, culture and language must surely be one of the key elements in these considerations. Other key elements of course include financial sustainability, equity and environmental protection.

In my submission I will focus my comments on issues concerning Norfolk Island's financial sustainability as I believe it is of fundamental importance to the other key elements.

Before commenting further on the sustainability of the current arrangements, I would like to highlight some important issues.

### **Norfolk is a Place of Achievements**

Clearly, Committee Members are well aware of the broad responsibilities of the Administration of Norfolk Island. To assist in putting this knowledge into context, I ask the Committee Members to imagine a medium-sized local Council (say 200 staff) and in addition to the generally accepted Local Government responsibilities, adding the following:

- Customs
- Immigration
- Police Service
- Legal (Public Prosecutions, Legislative Drafting etc)
- Courts Including:
  - Supreme Court
  - Court of Petty Sessions
  - Family Court
  - Coroners Court
- Land Titles Office
- Births, Deaths and Marriages Registry
- Telecommunications
- Electricity Generation
- Electricity Reticulation
- Postal and Philatelic Services
- International Airport
- Social Services including:
  - Age benefit
  - Invalid benefit
  - Widowed persons benefit
  - Handicapped Children's benefit
  - Special Benefit
  - Supplementary Children's benefit
- Healthcare Scheme
- Company & Business Registrations

- Consumer Price Index
- Education (Kinder to yr 12)
- Quarantine
- Emergency Services
- Historic Restoration
- Forestry
- Lighterage
- Fisheries
- Broadcasting
- Liquor Bond

Is it appropriate to expect the Administration of a small island of less than 2,000 people to be responsible for a broader range of infrastructure and services than any other state or territory in Australia? Clearly it is neither appropriate nor sustainable.

Put simply, this very small and unique community achieves remarkable outcomes in a remote and isolated environment with comparatively very limited financial assistance from the Commonwealth, which is of course a reasonable product of the current taxation arrangements.

Improvisation, determination and a “can-do” attitude are clearly evident among many Administration workers. These attributes are commendable but the lack of tertiary education and professional development is clearly evident within the Administration which has for many years relied on recruiting key professional and management positions from off-shore.

Given Norfolk Island’s small population, isolation, limited training opportunities and broad responsibilities, there are significant staffing and administrative capacity shortcomings.

Nevertheless, I certainly left Norfolk Island with a sincere admiration for the achievements of many staff members within the Administration.

#### **The Need for Financial Sustainability**

As the Committee would be aware, The Administration has in place a structured process of receiving annual estimates of expenditure, developing annual budgets, preparing annual financial statements and independent auditing.

This in itself is a very complex process for an organization with responsibilities spanning all three tiers of government.

However I believe that there are several serious and fundamental problems with the current revenue arrangements. In summary, the current revenue regime is:

1. Based on a very fragile economy
2. Very regressive
3. Unsustainable

#### **A Fragile Economy**

The current revenue raising arrangements are fragile because:

1. The economy is based (either directly or indirectly) almost solely on tourism and
2. The tourism market is volatile, unreliable and susceptible to price variation.

These are not just my views:

- In 1997, the Access Economics report (*Norfolk Island: Recent Economic Performance, Present Situation, and Future Economic Viability. Is There a Case for Change?*) concluded that the existing taxes and charges are biased against tourism making Norfolk Island a less competitive tourist destination and posing a threat to its prime income base
- The recent Taxation Options paper prepared by Commonwealth Treasury notes (p.4) that most of Norfolk Islands 349 businesses exist principally because of tourism
- The Commonwealth Grants Commission 1997 report notes (p.149) that in 1995/1996 Tourists comprised about 26% of the population but contributed about 40% of the Revenue.

#### **A Regressive Revenue Regime**

The revenue regime is regressive because of the complete absence of marginal adjustments that are an essential and core element of taxation theory and practice.

To put it in the plainest possible terms, the equity that is built into the Australian taxation system is almost completely absent from the Norfolk System. This is not surprising given that building equity into taxation creates complexities. Nevertheless, given the absence of features such as marginal income taxation, the system is very regressive.

On Norfolk Island the less well-off residents contribute a much higher proportion of their disposal income to taxation revenue than the wealthy residents when compared to the mainland Australian system.

Clearly, the Norfolk Island revenue regime is far less equitable than the mainland Australian system. As indicated in the Treasury “Taxation Options for Norfolk Island” report (p.7):

*“Norfolk Island’s current taxation regime does not appear to have regard to progressivity or any explicit redistributive objectives. The taxes levied are generally flat, across the board, meaning that lower income earners pay a higher*

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*proportion of their income on taxation than higher income earners. In 1995-1996, Norfolk Island raised only 4 per cent of its tax revenue from income and wealth, compared to 54 per cent in mainland Australia.” (underline added)*

Even the Island's Healthcare Levy is highly regressive - a flat \$250 every six months for each adult resident with an exemption for those who can afford private health insurance.

The Treasury paper also states (p.7):

*“There is also a range of interests that need to be balanced in developing a new taxation regime. Norfolk Island is small and many of the residents may have multiple interests, for example, politicians and government officials who will be involved in deciding on a new tax regime may also own land and business interests. Although the majority of the population are low to middle income earners who could be expected to benefit from a switch in taxes to a more equitable income tax system, a small number of very wealthy residents may oppose the removal of the ‘tax free status’ they have enjoyed to date.” (underline added)*

Indeed, an examination of the Norfolk Island financial statements clearly indicates that the Island is not “tax-free”. The system is simply different to the Australian taxation system and the main difference is that it is far less equitable and does not raise enough revenue to sustain the Island.

As indicated previously, the Taxation Options paper prepared by Commonwealth Treasury refers to the issue of conflicts of interest. This is an important issue and I therefore make the following general comments in relation to this matter.

The range of taxes, fees and charges set by the Norfolk Island Government and Assembly (an Assembly of nine members) is much broader than any other Australian Government because it combines (with few exceptions) all three tiers of government responsibilities. Accordingly, this small Assembly makes financial and policy decisions covering an extraordinarily broad range of issues that directly and comprehensively impact on the people of Norfolk Island. These decisions are then implemented by just one organisation, the Administration of Norfolk Island.

Coupled with this are the unavoidable issues associated with these decisions being made within a small and isolated community.

You might reasonably expect that in this situation the mechanisms for ensuring open, accountable and transparent decision-making would include a combination of the best attributes of that which is found in local, state and federal jurisdictions on the Australian mainland.

However, from my experience I can say with certainty that the requirements on Norfolk Island are far less rigorous than those which apply to local government in New South Wales.

Accordingly, I believe that given the broad responsibilities of the Norfolk Island Government and Administration, the current requirements on Norfolk Island concerning open meetings, conflicts of interest, freedom of information and privacy would benefit from being brought much closer to those that generally apply to all three tiers of government on the Australian mainland.

In 1997 the Commonwealth Grants Commission (p.163) noted that Norfolk Island could broaden its tax base by increasing its taxation of income and/or wealth and that if Norfolk Island were to extend its tax base it could most readily do so by imposing municipal rates or land taxes. However the only land-based tax on Norfolk Island is the Absentee Land-Owners Levy.

#### **A Financially Unsustainable System of Government**

Most importantly, I believe that the current system of government is financially unsustainable.

Given the constraints of such a small population, I believe that it is simply not possible to raise sufficient funds to provide on-going services and essential infrastructure at an acceptable level. Indeed, the Australian intergovernmental financial redistributive processes are specifically designed to address horizontal fiscal imbalances of this sort.

That is, to ensure that smaller and more isolated communities receive additional financial support to compensate for their challenging circumstances.

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

In my view, even leaving all other issues aside, the financial magnitude of the revenue short-fall will become apparent with the development of a detailed costing of asset renewal requirements. While on Norfolk Island I successfully negotiated with officers from the Department of Transport and Regional Services for funding to prepare an Asset Management Plan. I understand that this is currently being undertaken.

I suggest that it is equally important to carry out similar examinations of environmental and social priorities.

Typically, given the essential nature of much of the public infrastructure it would be reasonable to expect considerable reserve funds to be set aside annually and detailed forward plans for asset replacement in addition to sizeable working funds to provide a buffer against unforeseen revenue variations such as might arise from a tourism down-turn.

**I believe that the revenue short-fall is a fundamentally serious and rapidly growing problem.**

The scale of this problem is, without question, well beyond the capacity of the Island to solve. In the past the Assembly has frequently relied on expenditure cuts and organizational restructures to balance its budgets. Indeed, such an approach only serves to mask the real problem and delay the identification and implementation of a meaningful solution.

There are three fundamentally important issues that need to form part of any meaningful solution to Norfolk Island's fiscal crisis. It is necessary to:

1. Reduce or at least not increase the taxation burden placed on tourists
2. Introduce a meaningful measure of equity into the current revenue raising arrangements
3. And most importantly, significant additional revenue needs to be raised to meet the considerable and rapidly growing financial pressures facing the Norfolk Island Government

The Taxation Options paper prepared by Commonwealth Treasury:

- Reports on six options for taxation review
- Recommends, as the preferred option, some form of integration with the Australian Taxation system
- Recommends that if Norfolk Island wishes to make its own revenue base more robust, it develop either its own income tax system or implement a land tax system
- Notes that a broad based consumption tax is not the preferred model

**Having lived and worked on Norfolk Island for three years, and with the experience gained from having held the responsibilities of Chief Executive Officer of the Administration of Norfolk Island for the majority of that time, I agree with the recommendations made by Commonwealth Treasury. The only caveat I would add is that *some form of integration with the Australian Taxation system* only proceed in the context of genuine discussions with the Norfolk Island Government and a joint commitment to maintaining and respecting the uniqueness of Norfolk Island and the core aspirations of its people.**

#### **The Proposed Norfolk Sustainability Levy**

Norfolk Island is currently planning to implement a broad-based consumption tax (the Norfolk Sustainability Levy). I believe this will do very little to address Norfolk's financial and economic problems and will most likely do nothing more than result in a further deterioration of the current situation because:

1. There are clear and unavoidable constraints associated with attempting to raise the additional revenue required through the implementation of a broad-based consumption tax (such as the proposed Norfolk Sustainability Levy). The main constraints are Norfolk Island's small population and limited economy. I do not believe a broad-based consumption tax will have the required capacity. It is worth noting that the Government is attempting to better assess the capacity of such a tax by introducing it at a nominal rate (1%) to enable a period of assessment. But it must be clearly recognized that the core challenge is to raise millions of dollars in additional revenue each year.
2. The economy is almost solely reliant on tourism and the extent to which a broad-based consumption tax extracts additional revenue (directly or indirectly) from tourists will have a negative impact on tourism numbers. Thus, a broad-based consumption tax will most likely have a negative impact on tourism.
3. The introduction of a broad-based consumption tax, in the absence of an income tax system such as that which operates in Australia will result in Norfolk Island's revenue regime, which is already significantly less equitable than the Australian system, becoming much less equitable.
4. It is unlikely that a broad-based consumption tax (GST) will meet its revenue expectations because of the potential for avoidance. For example, in 1997 the Commonwealth Grants Commission noted (p. 162) that:

*"The Norfolk Island Government should look closely at tax mobility issues when any future restructure of the Norfolk Taxation system is being considered This would apply to any expenditure or goods and services tax. Given what happened when the FIL was increased, it is important to take into account the likelihood of sections of the community avoiding a GST by directing their discretionary expenditure off Norfolk."*

Furthermore, it is not clear that the proposed Norfolk Sustainability Levy has been arrived at through a process of carefully considering key issues associated with the range of realistic options available and a fully informed community debate. Some key matters for consideration would be:

- What is the additional revenue target? (In 1997 the Commonwealth Grants Commission suggested an additional \$8,000,000pa).
- In addition to infrastructure renewal and maintenance costs, what are the costs associated with environmental and social issues?
- To what extent will the proposed Norfolk Sustainability Levy impact on Norfolk's aging population and vice versa?
- To what extent is the Norfolk Sustainability Levy proposed to replace existing taxes and levies in addition to raising substantially more revenue?
- Do other options proposed in the Taxation Options paper prepared by Commonwealth Treasury have greater (and more equitable) revenue raising potential?
- To what extent does the proposed Norfolk Sustainability Levy address the serious equity problems inherent in the current revenue regime?
- To what extent is it appropriate to look to a broad-based consumption tax without giving serious consideration to "land-based" imposts such as property rates, land tax and developer contributions?

- How efficient is it to develop a unique broad-based consumption tax for a population of less than 2,000?
- To what extent does the proposed Norfolk Sustainability Levy reduce, or at least not increase, the disproportionate taxation burden being met by tourists?
- To what extent does the proposed Norfolk Sustainability Levy address the potential for tax avoidance?

**Perhaps the most important question is what are the possibilities and revenue implications of some form of integration with the Australian Taxation system and what sort of process is required to ensure the people of Norfolk Island can participate in a meaningful and informed debate about the options?**

It appears to me that the decision to implement the Norfolk Sustainability Levy has preceded a detailed analysis of the broad range of fundamentally important issues associated with such a decision.

I have witnessed, first-hand, much of the debate on Norfolk Island regarding the Joint Standing Committee's deliberations. I suggest that it would assist in addressing much of the concern on Norfolk Island if the Federal Government was to enunciate a model for consideration and in doing so, provide clear examples of the financial implications by preparing and distributing a *Family Impact Statement* so the people of Norfolk Island will be better informed about the options available. For example: the Taxation Options paper prepared by Commonwealth Treasury notes (p.19):

*"The total direct outlays allocated to Christmas Island in the Commonwealth Budget for 2002-03 was approximately \$49 million, including for local government services".*

The range of possibilities in terms of financial impact, access to health, social services, environmental protection and the ability of Norfolk Island to retain meaningful self-government need to be clearly and openly debated on Norfolk Island in an informed manner.

There is a clear and growing need for the Federal and Norfolk Island Governments to reach a mutually acceptable arrangement to address these issues - an arrangement that maintains Norfolk Island's unique and positive attributes while at the same time establishing and ensuring a sustainable future.

Finally, I simply note that any decision to change the revenue regime to bring in substantially more revenue (in the millions of dollars annually) will be a difficult one indeed for the Assembly. This would certainly be more difficult than introducing compulsory seat-belts and random breath-testing, however, after considerable community consultation and expert briefings from the Australian Transport Safety Bureau, the current Norfolk Island Legislative Assembly rejected both of these initiatives.

#### **Recommendation**

1. That the Federal Government enunciate a preliminary draft of a revised constitutional model for Norfolk Island to address financial, social and environmental issues.
2. That the model include a detailed Family Impact Statement.
3. That following dissemination of the preliminary draft model to the people of Norfolk Island, discussions take place with the Norfolk Island Government and broader community to establish a time-frame and parameters for negotiations to resolve the current concerns while maintaining the core aspirations of the people of Norfolk Island.

**Mr L Johnson**—Could I just ask a question? My understanding is that parliamentary privilege applies to these proceedings.

**CHAIRMAN**—Yes, indeed.

**Mr L Johnson**—Thank you.

**CHAIRMAN**—I should have advised you that if there is some evidence that you want to give in camera then the committee will consider that request, and we would then—

**Senator HOGG**—Clear the room.

**CHAIRMAN**—Yes, as Senator Hogg said, we would clear the room.

**Mr L Johnson**—No, I am comfortable giving the evidence.

**CHAIRMAN**—We would prefer that, but we do offer you that option if you feel so inclined. Are you happy to read your submission in public?

**Mr L Johnson**—Yes.

**CHAIRMAN**—Please proceed then, Mr Johnson.

**Mr L Johnson**—Thank you. I am pleased to be here today. I provided some information regarding my background. I have worked in local government for 20 years and spent over three years on Norfolk Island.

**CHAIRMAN**—We have that information.

**Mr L Johnson**—I do not propose to provide specific details about the business of the administration, because I believe that information is better sought from the Norfolk Island government or the administration of Norfolk Island, but I do believe that my experience and background gives me an opportunity to provide some open and objective information to the committee.

Firstly, could I say—and I noted earlier some questions about the overall arrangements on Norfolk Island—that I do not believe the current arrangements are sustainable. However, I do believe it is possible for the federal and Norfolk Island governments to reach a mutually acceptable sustainable arrangement, and I think it is essential that that happens and that it happens fairly quickly. There is a very important fact that I would like to mention. In endeavouring to reach that arrangement, I think it is really important to ensure that Norfolk Island and its people are able to maintain their core aspirations. Norfolk Island is a unique and special place. It has a unique history. It has its own culture, language and customs. I believe that surely that has to be one of the key elements of consideration for the committee—and I am sure it is. However, I will focus my submission on issues concerning financial sustainability, because I believe that is of fundamental importance.

Before I do that—and I will try and truncate this a little bit—obviously the committee is well aware of all the responsibilities of the Norfolk Island government and administration. Sometimes it is beneficial to try and place that in context. The way I would endeavour to place that in context is to imagine a local government of around 200 people in your own state or territory and add in the full range of responsibilities that the Norfolk Island government has over and above those local government arrangements. I will not read out the list, because it is in the submission, but it is a very large task indeed. That begs the question: is it appropriate for an administration of a small island of fewer than 2,000 people to be responsible for a broader range of infrastructure and services than any other state or territory in Australia? I do not believe it is appropriate, and I do not believe it is sustainable. That is just my personal view. But, as I mentioned earlier, in considering the issue, I believe it is of fundamental importance to be mindful of and amenable to the core aspirations of the people of Norfolk Island. Put simply, this small and unique community achieves remarkable outcomes. I believe what is achieved there is outstanding. It is in a remote and isolated environment. It has limited assistance from the Commonwealth government—which is reasonable, because it is not part of the taxation system.

In my experience of working with people in the administration, improvisation, determination and a can-do attitude are very evident among administration workers. They are very hard workers and the majority of them certainly have my strong respect. Nevertheless there is a lack of tertiary education and professional development, and that is clearly a problem for the

administration. That is evidenced in a number of key positions that have been recruited offshore for a number of years. In summary, I believe there are considerable administrative capacity shortcomings. Nevertheless, and I reiterate this, I certainly left Norfolk Island with a very sincere admiration for the achievements of many of the staff members within the administration.

I will now comment on financial sustainability in a little more detail. Under the current arrangement on Norfolk Island there is a structured process for putting budgets together and receiving estimates. The assembly adopts the budgets. There are financial statements done and there is independent auditing done through an auditing arrangement similar to that which applies to local government. It is a very complex budget because it is a very complex organisation. However, I believe there are three fundamental problems with the current financial arrangements. They are that the revenue arrangements are based on a very fragile economy, the revenue arrangements are very regressive and, as I mentioned, in my view it is not sustainable. I stress that these are simply my personal views through my experience.

**CHAIRMAN**—What is not sustainable?

**Mr L Johnson**—I do not believe the current arrangement is sustainable because—and I will come to this in a little more detail—I do not believe it is possible to raise sufficient revenue to maintain the infrastructure and services to the level required. The fragile economy, as the committee would be aware, is based either directly or indirectly almost solely on tourism. Obviously the tourism market is quite volatile and price sensitive. I have included in my paper some quotes from previous reports, which I will not read through now, for purposes of time.

In terms of the regime being regressive—and I think this is a very important point as well—in my view there is almost a complete absence of marginal adjustments such as that which apply in the mainland Australian system in income taxation, for example. To put it in the plainest terms, the equity that is built into the Australian taxation system is, in my view, almost completely absent from the Norfolk Island system. That is not surprising given that building equity into taxation is a very complex issue and creates the sorts of complexities that require specialist attention not only in development but in implementation. To put it most simply, in my view the less well-off residents on Norfolk Island contribute a higher proportion of their disposable income than the wealthy when compared to what happens in mainland Australia. I have included in my paper a quote from the Treasury taxation options paper, which was quoting, I think, the Commonwealth Grants Commission:

In 1995-1996, Norfolk Island raised only 4 per cent of its tax revenue from income and wealth, compared to 54 per cent in mainland Australia.

Often the equity that is built into taxation systems by governments is not only built into the taxation system but also built into the welfare system, so there is a trade-off there. Certainly Norfolk Island has welfare arrangements in place, but I would refer to the health care levy as an example. It is a flat \$250 for every adult every six months, with an exemption for those who can afford to pay private health insurance. So I do not believe that does particularly much in terms of equity. But, as I said, in terms of a small jurisdiction addressing an important problem, it is a pretty impressive effort.

The Treasury tax options paper also refers to conflict-of-interest issues. I will just read a small part of a quote, going back to the welfare issue for the moment:

Although the majority of the population are low to middle income earners who could—  
expect—

to benefit from a switch in taxes to a more equitable income tax system, a small number of very wealthy residents may oppose the removal of the ‘tax free status’ they have enjoyed to date.

Indeed, when you have a look at Norfolk Island’s financial statements, you will see that it is not actually tax free; it is simply a different arrangement, obviously, and not part of the mainland Australian arrangement. But in my view it is much less equitable and does not provide what is required in terms of sustainability.

Conflict of interest is, obviously, also an important issue—and here I am just making a general comment about the sorts of expectations that apply to various governments; my background is in local government. The range of taxes, fees and charges set by the Norfolk Island government and assembly—which is an assembly of just nine people—is much broader than any jurisdiction in Australia because, with a few exceptions, it covers all three tiers of government responsibility. The decisions that are made impact comprehensively and directly on the people of Norfolk Island and obviously those decisions are generally implemented by just one organisation, which is the administration. Coupled with this are the unavoidable issues associated with these decisions being made in a small and isolated community.

When one considers that sort of environment, one might expect to find the sort of public accountability mechanisms that are the best that local, state and federal government combined have to offer—because the responsibilities cover all those three areas. However, from my experience, I can say that the arrangements on Norfolk Island—and, again, it is a small jurisdiction and these things are complex—appear to be far less rigorous than those which apply to local government. Local government is my background, so I am using that as the benchmark. Accordingly, I believe that, given the broad range of responsibilities of the Norfolk Island government administration, the requirements on Norfolk Island concerning open meetings, conflict of interest, freedom of information and privacy would benefit from being much closer to those which generally apply in mainland Australia.

In 1997 the Commonwealth Grants Commission noted that Norfolk Island could broaden its tax base by increasing its taxation of income and wealth, and that if Norfolk Island were to extend its tax base it could most readily do so by imposing municipal rates or land taxes. However, the only land tax on Norfolk Island at the moment is the absentee landowners levy.

I now turn to what I believe are the problems concerning the financial system being unsustainable. Most importantly, I believe that the current system of government is financially unsustainable, because of the reasons that I have mentioned before—that is, given the constraints of such a small population, it is simply not possible to raise sufficient funds to provide ongoing services and essential infrastructure at an acceptable level. Again, I stress that the effort that has been made on Norfolk Island to achieve what it has achieved is remarkable. Indeed, the Australian intergovernmental financial redistributive processes—a bit of a mouthful!—are specifically designed to address horizontal fiscal imbalances, and because Norfolk Island is not part of the Australian taxation system it is not part of that.

When one considers the costs associated with maintaining and renewing essential infrastructure, ongoing service provision, the rapidly escalating costs of social services, health

care, education and the ageing population, the need to improve occupational health and safety and also the environmental pressures facing the island it is not surprising that that is going to be beyond the capacity of such a small population in a remote location. In my view, even leaving all the other issues aside, the magnitude of the revenue shortfall will become apparent with the development of an asset management plan. There have been some negotiations with DOTARS, and I understand that an asset management plan is currently being prepared. I believe that will be a very important document in terms of the clarity it adds to the debate about financial capacity. I suggest that it is equally important to carry out some sort of similar examination of environmental and social priorities on the island. In summary, I believe that the revenue shortfall is a fundamentally serious and rapidly growing problem and that that is beyond the scope of being addressed by expenditure cuts and organisational restructures.

There are three fundamentally important issues that, in my view, need to form part of any meaningful solution to Norfolk Island's fiscal crisis. Firstly, it is important to reduce, or at least to not increase, the taxation burden placed on tourists. Secondly, it is important to introduce a meaningful measure of equity into the current revenue-raising arrangements. Thirdly, and most importantly, significant additional revenue needs to be raised to meet the considerable and rapidly growing financial pressures facing the island. The Australian Treasury prepared a taxation options paper. I think it was released last year. That reported on six options. It recommended the preferred option as some form of integration with the Australian taxation system, it recommended that if Norfolk Island wishes to make its own revenue base more robust it either develop its own tax system or implement a land tax system, and it noted that a broad based consumption tax is not the preferred model.

That was the report and obviously it is a government decision which direction they take. I am sure they are working very hard to implement the path they have taken in the best possible way. But having lived and worked on Norfolk Island for three years, and with the experience gained from having held the responsibilities of chief executive officer for the majority of that time, I agree with the recommendations made by Treasury. The only caveat I would add to this is that, in endeavouring to have a debate about some form of integration with the Australian taxation system, and this is very important, the process only proceed in the context of genuine discussions with the Norfolk Island government and a joint commitment to retaining and respecting the uniqueness of Norfolk Island and the core aspirations of its people.

I have a few comments about the Norfolk sustainability levy. I heard a little bit of discussion about that when I came in. That has been developed since I left Norfolk Island. I have not read the specific papers that I understand the government on Norfolk Island has put out regarding it but I do have some important comments that I would like to make on my view about that sort of approach. Firstly, I believe there are some clear and unavoidable constraints with attempting to raise the additional revenue required through the implementation of a broad based consumption tax given the small population and the limited economy of the island. In fact, I do not believe that the tax would have the financial capacity, but I understand the government is working through a process with having the tax at a one per cent rate to measure that. It is important that it be clearly recognised that the challenge, in my view, is to raise millions of additional dollars each year, and that is going to be a very difficult thing.

Secondly, I mentioned earlier that the economy is almost solely based on tourism. The extent to which a broad based consumption tax extracts money from tourists will have a negative

impact on tourism generally on the island. Thirdly, in the absence of any income tax system, a broad based consumption tax will make an already regressive revenue regime even less equitable. Fourthly, it may well not reach its expectations because of the potential for avoidance. The Commonwealth Grants Commission noted in 1997:

... the Norfolk Island Government should look closely at tax mobility issues when any future restructure of the Norfolk taxation system is being considered. This would apply to any expenditure on Goods and Services Tax (GST). Given what happened when the FIL was increased, it is important to take into account the likelihood of sections of the community avoiding a GST by directing their discretionary spending off Norfolk.

As I mentioned, I left Norfolk Island before the government commenced the public consultation process in relation to the Norfolk sustainability levy, but I would pose some questions that might be thought-starters. I do not know the degree to which they have been debated on the island. I will just go through them quickly. What is the additional revenue target? The Commonwealth Grants Commission in 1997 suggested \$8 million per annum. There is a lot of detail behind that which would need to be looked at more closely. In addition to infrastructure, renewal and maintenance costs, what are the costs associated with environmental and social issues? To what extent will the Norfolk sustainability levy impact on the ageing population and vice versa? To what extent does it propose to replace existing revenue streams? Does the Treasury tax options paper have more appropriate and more equitable potential for some of the suggestions made in that paper?

To what extent does the sustainability levy address the serious equity problems inherent in the current revenue arrangements? To what extent is it appropriate to look at a broad based consumption tax without giving serious consideration to land based imposts such as property rates, land tax and developer contributions; and is it efficient to develop such a tax for such a small population? To what extent does it reduce, or at least not increase, the disproportionate taxation burden being met by tourists; and to what extent does it address the potential for tax avoidance?

Perhaps the most important questions to ask are: what are the possibilities and revenue implications of some form of integration with the Australian taxation system; and—this is very important—what sort of process is required to ensure the people of Norfolk Island can participate in a meaningful and informed debate about the options?

I witnessed first-hand much of the debate on Norfolk Island when the joint standing committee released its first report. I suggest that it would greatly assist in the debate if the federal government were to enunciate a model for consideration and provide clear examples of the financial implications, by preparing and distributing a family impact statement. I understand that in parliament there has been some discussion about family impact statements. I think that this would be an excellent opportunity to utilise such an approach to great effect because there is a broad range of different views about what it would mean to have some form of integration with Australia—both what it would mean financially to mums, dads and families and what it would mean to the aspirations of Norfolk Islanders in terms of the jurisdiction's future. I note with interest a comment in the tax options paper that was prepared by Commonwealth Treasury:

The total direct outlays allocated to Christmas Island in the Commonwealth Budget for 2002-03 was approximately \$49 million, including for local government services.

The range of possibilities, in terms of financial impact, access to health, social services, environmental protection and Norfolk Island's ability to retain meaningful self-government,

need to be clearly and openly debated in an informed manner. There is a clear and growing need for the Norfolk Island and federal governments to reach a mutually acceptable arrangement to address and debate this issue. That, in my view, needs to be an arrangement that maintains Norfolk Island's unique and positive attributes while at the same time establishing and ensuring sustainability.

Finally, this is going to be a very hard decision for Norfolk Island. There will be a lot of debate and really hard decisions to make. Previously, during my time there, there was a lot of community debate about the introduction of compulsory seatbelts and random breath testing, and the current assembly decided not to implement those. This would be an even harder decision than that, but obviously they are matters for governments to consider.

I have just three dot points in which I will try to summarise what I am saying. It is important for the federal government to enunciate a preliminary draft of a revised constitutional model for Norfolk Island to address financial, social and environmental issues. I believe the model needs to be accompanied by a detailed family impact statement, following which it can be disseminated to the government and people of Norfolk Island to enable meaningful and informed discussions, with a view to establishing the time frame and the parameters for negotiations while maintaining the core aspirations of the people of Norfolk Island. Thank you.

**CHAIRMAN**—Thank you, Mr Johnson, for your most interesting contribution this morning. We will now go to questions from the deputy chair, Senator Crossin.

**Senator CROSSIN**—Mr Johnson, thanks very much for that submission. It is useful, particularly given the time you have spent on Norfolk Island. Why do you believe the government has gone ahead with proposing the NSL? Was there discussion about that when you were on the island, or do you think it is almost a knee-jerk reaction to try to avoid any possible interference by the Commonwealth?

**Mr L Johnson**—There was a bit of discussion about it, but it was in the early stages of development when I was there. I believe they are endeavouring to do it for all the right reasons: they recognise that there is a financial problem and, being the people they are, they are committed to solving that problem. That is the way the government has chosen to solve it, and I believe both the government and the administration will work very hard to make that work—I sincerely believe that. It is simply my view that it will not work. I have no doubt that they are going to work very hard and effectively to try and make it work.

**Senator CROSSIN**—Is there perhaps a view that the Commonwealth government have not done enough to work more collaboratively with the Norfolk Island government? I get a feeling that the paper produced by the Taxation Office was just given to them—‘Here you are, that’s it; call us in 24 hours,’ sort of stuff—without a genuine effort to have a joint collaboration to resolve these issues.

**Mr L Johnson**—I think the issue relates to the constitutional arrangement as well. Certainly, I have always found the Commonwealth staff members that I have dealt with—and I have dealt with Treasury and DOTARS a lot—to be very helpful and accommodating. For example, Mr Colmer, who was here earlier, came to Norfolk Island a couple of times to work on issues while I was there. But the issue really is the magnitude of what is being attempted—for example, how

much should Treasury help. I guess it would be great if they would send a few people over there full-time to work on it, but it is probably not going to happen because it is a different jurisdiction. It is quite a task to develop a broad based consumption tax, for example, to endeavour to build some equity into it and to be doing that in a remote and isolated location with all the things that arise from that.

**Senator CROSSIN**—But how accommodating do you think the Norfolk Island government would be if the Commonwealth government actually said, ‘We don’t think it’s sustainable—don’t do it; let’s sit down at the table and work out a long-term sustainable plan’? Do you think they would respond to that?

**Mr L Johnson**—I do not know, and I do not want to try and second-guess the Norfolk Island government; perhaps you could ask them. I just do not want to speak for the Norfolk Island government, sorry.

**Senator CROSSIN**—In some respects you have highlighted what we know. In your submission you talked about the small number of high-income earners who would resist any sort of change compared to the majority of people on the island from low- or middle-income families. That is the crux of the problem, isn’t it? You have a couple of people at the top of the tree who do not want to see major restructure and want to protect their lifestyles.

**Mr L Johnson**—In fairness, I do not think it is as simple as that. Norfolk Island has evolved to where it is now over a long period. As I said, in my view overall it has done a remarkable job on the very broad range of things it is responsible for and the services and infrastructure it provides. The issues around the regressive nature of the revenue regime and the obvious issues that are associated with such far-reaching decisions comprehensively impact on people’s lives on Norfolk Island—sure, it is a small population, but the decisions get made. Accordingly, to me that suggests that you would be looking to apply the best that local, state and federal government have to offer in terms of the way they manage those issues and come up with a model that would apply to Norfolk Island.

**Senator CROSSIN**—Why should they continue to be treated differently to people who live in Tasmania, for example?

**Mr L Johnson**—Norfolk Island has a unique history, its own language and its own culture—

**Senator CROSSIN**—So does Milingimbi in the Northern Territory. I am perhaps asking you a question that is a bit hard for you to answer, but I am amazed that somehow they continue to be protected under the guise that they are unique or different. I know the Norfolk Island Act limits any real progress. I am slowly coming to the view that it is time to radically change the Norfolk Island Act and start to treat these people like people who live on other islands around this country. Why do people continually seek to hide behind this guise that they are different and unique?

**Mr L Johnson**—Having lived there for a while, I believe it is a very special place. That is just my personal view; I think it is a special place. I can understand what you are saying and why you would be asking that question. I am an optimist and that is why I recommend that some model

be developed with a family impact statement for discussion with the Norfolk Island government. At the end of the day, it is about a balance. They are decisions for governments.

**Senator CROSSIN**—Your submission also states that you believe there is potential for avoidance when the sustainability levy is introduced. Why do you believe that will be the case?

**Mr L Johnson**—Bear in mind that I have not been there while it has been developed so I do not know the detail of what has been proposed. I anticipate that there would be potential for people to move certain expenditures offshore to avoid it. It depends how it is being proposed and what the interaction is with the customs duty. There may be answers that have already been thought about and built into the model—I simply do not know. I raise it as an issue that I believe is important.

**Senator CROSSIN**—The levy is due to be introduced towards the end of this year. Someone has to give. In order to develop a model, the Commonwealth either has to say, ‘We’re going to do it’, or the Norfolk Island government has to say, ‘We’re going to put this in place, but we know it’s not sustainable so go to the Commonwealth and say, “Let’s do it.”’ I get the view that neither side is prepared to step over the line and negotiate this.

**Mr L Johnson**—I cannot answer that question, but that is why I believe it is important to build some sort of time frame into the discussions and perhaps some additional assistance to ascertain how viable the Norfolk sustainability levy is, together with a time frame to form a view on that, and possibly further discussions with the Norfolk Island government after that. I believe the financial situation is such that it would not be wise to wait too long.

**Senator CROSSIN**—Does the Norfolk Island government recognise that, though?

**Mr L Johnson**—I believe they obviously recognise that the financial situation needs to be addressed because they are developing the sustainability levy and they have a view about its potential success. I have a different view.

**Senator CROSSIN**—The Commonwealth grants submission has suggested that an additional income of \$8 million is needed. This levy will be a long way short of that, won’t it?

**Mr L Johnson**—That will not be known until they better assess what is happening in the economy. Because there is no income taxation and so on at the moment there is a real absence of data about what is happening in the economy. The \$8 million figure mentioned in the Commonwealth Grants Commission report of 1997 had a lot of detail behind it, some of which would make that \$8 million figure not relevant any more and the figure may be less. Having said that, that was a while ago and there are probably other things that have come along since then that would build it up again. There is not a clear figure—that I am aware of—of how much needs to be raised to address the sustainability issues.

**Senator CROSSIN**—While you were there, was there ever an approach by the Commonwealth to say to the Norfolk Island government, ‘Let’s form a working party that will look at this and come to an outcome that is mutually acceptable to both of us.’

**Mr L Johnson**—In terms of the big picture?

**Senator CROSSIN**—Yes, financial sustainability 50 years hence.

**Mr L Johnson**—That is probably more a question for the Norfolk Island government.

**Senator CROSSIN**—You are not aware that those approaches were made when you were there?

**Mr L Johnson**—There were a number of approaches from the government, but I was not always party to them so I am a bit uncomfortable answering that question.

**Senator HOGG**—I want to follow on from Senator Crossin's point. You may have been in the room when I was talking to the previous witnesses about the information supplied by DOTARS this morning when they said that the Commonwealth government put in \$60 million to \$70 million for the Indian Ocean territories to sustain 1,200 people on Christmas Island and 500 people on Cocos (Keeling) Islands. I think you would agree that they are as remote or more remote than Norfolk Island and are quite similar in nature. That \$60 million to \$70 million supports infrastructure such as roads, hospitals and ports. Local government taxes are raised as well, which would contribute to some of these things. The people on those islands get the benefit of mainland social security—Medicare, Centrelink and other things—right?

**Mr L Johnson**—The Pharmaceutical Benefits Scheme.

**Senator HOGG**—Yes, I would imagine they have access to the Pharmaceutical Benefits Scheme—everything. That is the input by the Commonwealth to the Indian Ocean Territories. Yet the Norfolk Island government, in the latest figure I have, raised \$22 million to fund not only infrastructure, social welfare and other things but everything on the island. You would not need to be a student beyond economics 101 to work out that there is something horribly astray in the economic planning on Norfolk Island—they are trying to sustain around about the same population.

**Mr L Johnson**—It cuts in the core of the issue. In the Australian taxation system horizontal fiscal balances are important. People in remote areas have at least something more appropriate than they would have otherwise by tapping into funds from major population centres through the taxation system.

**Senator HOGG**—Going back to Senator Crossin's earlier question, why should the people on Norfolk Island be therefore treated as second-rate citizens when people in the Indian Ocean territories have access to the same benefits as mainland Australians? Can you find a reason?

**Mr L Johnson**—I am certainly not here to criticise Norfolk Island or the Norfolk Island government—

**Senator HOGG**—It is not a criticism of them—let me put it to you clearly.

**Mr L Johnson**—I believe that addressing those sorts of imbalances is important to people's lives. To me, this is about more than a government arrangement or a constitutional arrangement. At the end of the day, it is about mums and dads and the sorts of services they have and the sorts

of support mechanisms there are for their children. Norfolk Island currently raises—it might be a bit more—around \$22 million.

**Senator HOGG**—Let's say \$25 million—I don't care; what is \$3 million between friends?

**Mr L Johnson**—Yes, it is not material to the scope of the problem. I believe that is a remarkable effort for such a small jurisdiction with such complex responsibilities. Fundamentally the point you raise is one of the reasons I have come down here to have a chat. I believe it needs to be addressed. I do not believe it is appropriate for it to stay like that.

**Senator HOGG**—No-one is denying, Mr Johnson, that it is not a remarkable effort. I think that is conceded. The point is that Australian citizens are being treated disadvantageously alongside others in comparable circumstances on the other side of the continent. Can you see the equity in that?

**Mr L Johnson**—I agree with what you say 100 per cent.

**Senator HOGG**—I cannot see the equity in it. This raises the other issue, then, when we get to the new sustainable levy. It begs the question as to what one per cent—or whatever percentage they finally strike—is going to achieve. If it is going to achieve some sort of equity with even those people in the Indian Ocean territories environment, that is going to have a severe impact on the taxation rate. If it is not, it raises the question: what will it do to the wellbeing of the local citizenry on Norfolk Island?

**Mr L Johnson**—I would expect it would have a severe impact on the less well-off residents of Norfolk Island. It may raise some more funds, but I cannot see it doing anything to bring the sorts of services that are provided to the Indian Ocean territories, for example, to Norfolk Island because it still leaves Norfolk Island outside the taxation loop, wherein lies the fiscal imbalance. With those fiscal imbalances, obviously, remote location and isolation are all important factors.

**Senator HOGG**—I put it to you that neither the NSL nor any other steps by the Norfolk Island government that may be in the wind are going to solve their problems. Is that reasonable?

**Mr L Johnson**—I do not believe they will solve the problems, no.

**Senator HOGG**—So, if they are not addressed, what we are seeing is a short-term buffer being put in place by the Norfolk Island government. The Australian government and the Norfolk Island government may well in the future—and I do not know how far into the future—be faced with addressing the long-term sustainability of the island. Is that a reasonable assumption?

**Mr L Johnson**—Yes. This is probably an important point: when this issue arises from time to time—for example, when the joint standing committee released its first report—there is a broad range of views amongst people on Norfolk Island about what that means. What does it mean? That is why it is important that something be enunciated and some sort of impact statement be provided for the mums and dads of Norfolk Island so that they know exactly what is being talked about, what they would pay, what they would get and also what it would mean in terms of Norfolk Island's constitutional aspirations.

**Senator HOGG**—You referred earlier to the budgets that are put together by the Norfolk Island government. There are a couple of facets of the consideration and passage of their budget that, given the scale of the issues they consider, are not similar to the mainland states. Firstly, there is no true opposition party in the legislative council on Norfolk Island which would press the issue of challenging it. There is a collective of nine, five of which I think are members of the executive council. Is that reasonable?

**Mr L Johnson**—Certainly it is common knowledge that on Norfolk Island the party political system does not operate. Because it does not operate there, that has an impact—

**Senator HOGG**—There is not the same robustness, in terms of an opposition in the political sense, as would operate even in some of the local councils. Is that reasonable?

**Mr L Johnson**—I would not like to go too far down the path of discussing my impression of meetings I had with the government when I was there. That is probably more a question for the government. I hope you will accept that.

**Senator HOGG**—I am not going to press you. There is no estimates process, is there?

**Mr L Johnson**—There is. The managers all put in estimates.

**Senator HOGG**—No, I am talking about estimates where the ministers of the government are queried about the expenditure of the government. We have a process here where the minister and public servants appear and they are questioned not only over the budget of the government but also over the programs of the government, the annual report of the government and so on. In other words, there is close scrutiny. No such thing exists on Norfolk Island.

**Mr L Johnson**—I would not agree with that. There is a fair bit of scrutiny. It is probably different from the way the scrutiny happens here—

**Senator HOGG**—But it is internal scrutiny—it is not open, external scrutiny as in the estimates process here.

**Mr L Johnson**—They are probably questions for the government. I suggest you put that question to the government and they will provide you with details of how it all comes together.

**Senator HOGG**—I think I have a fair handle on how their system operates. It just appears to me that there is not the scrutiny that you would find even in my own state of Queensland, where there is an estimates process where the opposition members sit down with the minister at the table and pick apart the implications of the expenditure items in the budget. I am not saying there is not some form of scrutiny, but there is not that level of scrutiny. There is not the level of scrutiny offered by the independent Audit Office that we have in Australia.

**Mr L Johnson**—In responding, what I could say is that scrutiny is certainly applied. I am simply not familiar with the level of scrutiny that applies. I cannot compare it.

**Senator HOGG**—All right. You spoke of a lack of tertiary educated personnel and a lack of professional development for people on the island. In your experience as CEO, was there a fair turnover of those people who might have been recruited from off the island?

**Mr L Johnson**—Yes, a very high turnover.

**Senator HOGG**—There was a high turnover?

**Mr L Johnson**—Yes.

**Senator HOGG**—And would there be the personnel on the island to run and operate a sophisticated taxation system—people with the skill levels, in your view?

**Mr L Johnson**—No.

**Senator HOGG**—What size was the administration when you were there?

**Mr L Johnson**—About 200.

**Senator HOGG**—How many of those would have been graduates of tertiary education. Just roughly—this is not a trick question, I am just trying to get some sort of a profile.

**Mr L Johnson**—A very small percentage—certainly smaller than the number in local government, where I am now. There were some. I am not quite giving you a number though, am I? The majority of tertiary educated staff members were the ones recruited from offshore.

**Senator HOGG**—Roughly, were there five, 10 or 20?

**Mr L Johnson**—Probably around five.

**Senator HOGG**—So there were, roughly, five out of 200?

**Mr L Johnson**—That would be excluding the people from offshore.

**Senator HOGG**—And offshore?

**Mr L Johnson**—There were six or seven.

**Senator HOGG**—So let us at the outset be fairly generous and say, if there are 15 people with tertiary qualifications in the Norfolk Island administration, you would be lucky?

**Mr L Johnson**—If you are talking about people with a university education, yes.

**Senator HOGG**—Yes, I am talking about a tertiary education.

**Mr L Johnson**—Yes.

**Senator HOGG**—Who was responsible for the revenue collection that did take place on Norfolk Island? Was it you, as the CEO?

**Mr L Johnson**—Ultimately, as the CEO. But the finance area has a finance manager who reports to the director of corporate services—and then through to the chief executive officer.

**Senator HOGG**—Right. How many people are there in the finance sector—the management sector?

**Mr L Johnson**—I really would not like to answer that.

**Senator HOGG**—All right. I just thought you might have a recollection about how many were there. Could you see the existing corporate structure implementing even the Norfolk sustainability levy and having the capacity—the hardware and the software?

**Mr L Johnson**—Not effectively, no.

**Senator HOGG**—Thank you.

**CHAIRMAN**—Thank you for your time and your answers thus far, Mr Johnson. I have just a couple of questions. Given your experience in local government, do you have an opinion about whether Norfolk Island would be better served by a local government designated to a state in eastern Australia or do you think that the method of self government it has needs to be reviewed to extract the best possible outcome for the people of Norfolk Island?

**Mr L Johnson**—I would prefer the second of those two options. I think that simply making Norfolk Island a local government area of New South Wales would be too far away from the aspirations of the people of Norfolk Island and would probably cause a lot of angst that is not necessary. A more positive outcome could be arrived at through negotiating the arrangements and coming up with something that is closer to a mutually acceptable solution.

**CHAIRMAN**—You are saying we should leave the unicameral system of government there with the nine current members. You do not believe, for example, that the Chief Minister should be directly elected?

**Mr L Johnson**—I really do not wish to comment on those aspects of government. I just do not feel that it is appropriate for me to be making comments about that.

**CHAIRMAN**—All right. What is the lowest minimum legal wage on Norfolk Island?

**Mr L Johnson**—I do not know. There is a minimum wage but I am not sure what it is.

**CHAIRMAN**—You have no idea what it is?

**Mr L Johnson**—No.

**CHAIRMAN**—It would not be the \$450 which is the minimum legal mature age wage in Australia, would it?

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**Mr L Johnson**—That would be unlikely.

**CHAIRMAN**—Yes. I thought it would be very unlikely too. What of the Norfolk Island government's involvement in all aspects of Norfolk Island life? I refer particularly to the government owned communications—television, wireless, telephones—and the lack of competition and the lack of hand-held cell phones on Norfolk Island. Do have any comment on that?

**Mr L Johnson**—Yes, I do. Obviously the telecommunications authority plays an important part of revenue raising for the government because it pays a dividend which is important for balancing the budget. Having said that, telecommunications is a complex and quickly changing environment. Obviously it is going to be very difficult to, first, keep pace with those changes and, second, to provide the best possible service to the community without an injection of competition. However, with an injection of competition will come a reduction in funds and those funds are very important to Norfolk Island for maintaining public infrastructure. It really comes back to the issues Senator Hogg raised earlier in terms of trying to raise sufficient money from such a small number of people.

**CHAIRMAN**—Does that mean you are in favour of the government retaining those monopolies, that you are opposed to monopolies or you are opposed to monopolies and the NIG involvement with those monopolies?

**Mr L Johnson**—Speaking from a personal perspective, I do not favour monopolies. I think that balanced competition is a good thing. However, in a remote location sometimes monopolies are important to a government to make sure that essential infrastructure is provided at an acceptable level. It needs to be tied in with that sustainability issue as well. I think the issues you raise are very important issues that will form part of the discussion that I believe needs to take place with the Norfolk Island government.

**CHAIRMAN**—What of the unusual situation with respect to the Road Traffic Act in Norfolk Island. Indisputably, in other developed parts of the world, wearing of seatbelts has saved countless lives. Do you think the wearing of seat belts should apply to Norfolk Island?

**Mr L Johnson**—Without any question whatsoever.

**CHAIRMAN**—My last question is to do with road traffic. There is an unusual practice where cattle have the right of way —unique, in my experience, apart from places I have been to in India. That is a kind of cute and I think the tourists may think it is cute too—it may in fact be one of the memorable items that one recalls on Norfolk Island. Having been there on several occasions, though, I think it is probably time the cattle be fenced off. Is that an issue on Norfolk Island?

**Mr L Johnson**—I am not aware of it being debated much. However, in relation to it being cute and nice, if there are no compulsory seatbelt laws and someone hits one of those cows, it would be something else altogether.

**CHAIRMAN**—Yes; it is interrelated.

**Mr L Johnson**—It is a matter of responsibility and consideration of the implications.

**CHAIRMAN**—The last part of my question refers to the zebra crossings. There seems to be a distinct lack of zebra crossings; motor cars seem to rule supreme.

**Mr L Johnson**—I recall that some analysis and testing was done on it. Where crossings go is a bit of a science in terms of doing measurements of how many cars go past, how fast they are going and what the sight distance is. Perhaps this could be better answered by the administration, but my understanding was that there was not an appropriate place to put a crossing in the main street.

**Senator HOGG**—In respect of the resealing of the airport, the Norfolk Island government have a \$12 million interest-free loan—

**Senator CROSSIN**—It will take them 100 years to pay it back, probably.

**Senator HOGG**—which really masks the whole financial problems on the island, doesn't it? When a government wants to run its own affairs and has to seek out a \$12 million loan from the mainland government which is interest free, it really does show how badly the economy there is performing.

**Mr L Johnson**—With any essential infrastructure—and it is certainly true in local government—it is very important to assess the financial needs into the future in terms of renewal and to put that money aside each year to make sure that when that need arises the money is there, or a significant amount of it is. On top of that, it is also important to maintain a very healthy balance of working funds, so when fluctuations happen—for example, on Norfolk Island if the number of tourists drops—there needs to be a buffer there against that so it is not immediately felt in terms of infrastructure and services. The issue of the runway and funds needed to renew it, in my view, would certainly be part of the general debate about the infrastructure needs and the financial pressures facing the island.

**Senator HOGG**—But you just cannot walk from a \$12 million loan—I wish someone would give me \$12 million interest free. I do not know the term of the loan. It really masks the problem that does exist there. They can talk about the NSL; they can talk about whatever sustainability mechanisms they like in terms of taxation.

**Mr L Johnson**—Yes.

**Senator HOGG**—It really hides the problem. Interestingly, you mentioned the family impact statement. Do you know whether the Norfolk Island government issued a family impact statement in conjunction with their NSL?

**Mr L Johnson**—I do not know, but I believe it would be fundamentally important to issue one. My view as an individual would be that it should also be issued at the same time as the other to show the comparisons and the clear implications.

**Senator HOGG**—Should the family impact statement have been issued—and let us just take the options that were prepared by Treasury; there may well be others that one might like to consider—before any of those option were either ruled in or ruled out? Is that your view?

**Mr L Johnson**—Possibly a slightly shortened version of a family impact statement, given that you would be looking at six options, for example, from the Treasury paper; but an informed community debate about the issue would be essential.

**Senator HOGG**—It seems to me that issuing it post the fact is too late.

**Mr L Johnson**—It is indeed. I was referring to an impact statement to accompany a preliminary revised constitutional model for Norfolk Island. But if a family impact statement were to be released now in relation to the Norfolk Island sustainability levy—it would appear that the decision has already been made—

**Senator HOGG**—Going back to the point Senator Crossin made, in your mind is it too late to stop the Norfolk sustainability levy from proceeding at this stage?

**Mr L Johnson**—I do not really know, because I have not been there for the last six months—

**Senator HOGG**—I accept that.

**Mr L Johnson**—but in my view there would certainly be an opportunity for a bit of a discussion about the Norfolk sustainability levy and possible variations to the constitutional arrangements, and how families would be impacted by either of those options. In my view, there would be time to consider that and make an informed—

**Senator HOGG**—Who should the results of such a family impact statement be made available to?

**Mr L Johnson**—I think it is very important that everyone on Norfolk Island—

**Senator HOGG**—I mean the results of it—the outcome of the inquiries that were made as a result of the family impact statement being pursued. Should it be just the province of the Norfolk Island government, or should it be made available to the Australian government? I think the Australian government has a real interest in this. It really needs to make a decision as well, but it cannot make a decision in a vacuum.

**Mr L Johnson**—I agree with that. In a genuine open discussion about these things, all the information is out there for everyone to have a look at. That is how the best result will be attained.

**Senator HOGG**—Who would you see designing it and who would you see funding it?

**Mr L Johnson**—In my own mind, I envisaged the Commonwealth providing assistance for that to happen because it would be a fairly complex exercise which would need to take into account the sorts of social supports that apply under the mainland Australian system in terms of pharmaceutical benefits and the broad range of support that is there foe people.

**Senator CROSSIN**—You are suggesting that ordinary residents on the island should get a copy of it as well, aren't you—that everyone on the island should have a copy of the impact statement?

**Mr L Johnson**—Yes.

**Senator HOGG**—So you are saying the ordinary residents are not aware?

**Mr L Johnson**—I am saying there is a range of views. To me, there is very clearly a broad range of views about what it would mean to have some form of integration with the Australian taxation system. That is not surprising—it is pretty complex. I do not think anyone has held that information back at all. It is a complex issue. It is a very important issue, and to me it seems like a unique opportunity to put that family impact statement concept on the table and see it work really well. I think it would work very well.

**Senator HOGG**—I took your suggestion very well—and I must congratulate you; I think it is a very good idea indeed—but I do not know about the preparedness and willingness of others to go along with such a good idea.

**CHAIRMAN**—Mr Johnson, I thank you for your appearance here today. A copy of your evidence will be sent to you and you may make editorial corrections to it. On behalf of the committee, I thank all the witnesses who appeared before it today. I thank the secretariat and I thank Hansard for their usual first-class contribution.

Resolved (on motion by **Senator Crossin**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 12.19 pm**