

Chapter 7

Norfolk Island

7.1 At an early stage in the inquiry, the committee took the view that Norfolk Island (Norfolk) fell within its terms of reference as an external territory. While mindful of the significant attention that Norfolk has received from Parliamentary and other committees over the years since self government was instituted in 1979,¹ revisiting Norfolk Island's internal financial situation, as well as its fiscal relations with the Commonwealth, was deemed appropriate and necessary.

7.2 The committee heard from the Honourable Grant Tambling, the Administrator of Norfolk Island from 2003 to 2007, who submitted to the committee that:

...Norfolk Island is in urgent need of governance reform, federal financial support, and the associated necessary regularisation of State (Territory) and Commonwealth financial arrangements.²

7.3 Another witness who gave evidence in relation to Norfolk was an official representing the Attorney-General's Department, which has administrative responsibility for Australia's relations with Norfolk. Ms Karen Stewart, Acting Assistant Secretary of the Territories East Branch, summarised the more recent findings of the Joint Standing Committee on National Capital and External Territories regarding Norfolk Island:

...the joint standing committee expressed a view that the Norfolk Island government was not delivering services—for instance, health, welfare and the maintenance of infrastructure—to a standard that would be acceptable to the Australian mainland. The report that the department commissioned at the end of 2005 from Acumen Alliance, which was publicly released, had the view that, based on Norfolk Island's financial circumstances at that time, the Norfolk Island government was at risk of becoming insolvent.³

7.4 The committee was told that the governance model established was and is premised on the island community of around 2000 people being solely responsible for the delivery of state and local government services and for most federal government services and responsibilities. For this reason, the Australian Government devolved a range of legislative and executive powers to the Norfolk Island Government to allow it to deliver and fund those responsibilities. The expectation was that Norfolk Island would also be self sufficient and raise its own funds from within the Norfolk community to pay for its delivery of government services and programmes on-island,

1 *Norfolk Island Act 1979* (Cth)

2 Hon. Grant Tambling, *Submission 43*, former Administrator of Norfolk Island, p. 3.

3 Ms Karen Stewart, Acting Assistant Secretary, Territories East Branch, Attorney-General's Department, *Committee Hansard*, 25 July 2008, p. 55.

using 'federal' customs, postal, revenue and taxing powers devolved to it by the Australian Government. Norfolk Island was therefore excluded from federal fiscal and taxation arrangements and from the application of many federal laws and the programmes and services provided under such laws. This has resulted in expensive and sub-standard healthcare and other important services. Mr Tambling submitted that demographics are making a bad situation worse:

Because no Australian income tax applies on Norfolk Island, the offset is that there are a number of other services, such as medical and welfare services, that do not come anywhere near the Australian average. So the vulnerable groups are the elderly, the infirm and many low-income earners. The population numbers are of concern in that, whilst they are small—as I said, under 2000 people—they are decreasing. This is generally in the lower age groups, where people are seeking to make family contributions in education needs elsewhere in Australia. So the community is ageing, and that in turn is imposing costs on their budget.⁴

7.5 The Australian Government has had to provide a significant amount of financial and non-financial assistance to the Norfolk Island Government and community. Mr Tambling submitted that economic pressures, inadequate local government and inefficient public administration have brought the long term sustainability of the current governance model into question.⁵

7.6 The committee heard from Ms Stewart that the Norfolk Island Government discloses only some of their financial details to the Commonwealth, specifically those relating to general government revenue and spending. Records relating to government business enterprises are not disclosed, making an accurate overall assessment of the island's financial position difficult.⁶ The committee makes a recommendation in chapter 8 (Recommendation 13) to make improvements in this regard.

7.7 Supplementary information provided by the Attorney-General's Department paints a somewhat bleak picture of Norfolk Island's finances. Cash reserves at 30 June 2007 are contained in Table 7.1.

4 Hon. Grant Tambling, former Administrator of Norfolk Island, *Committee Hansard*, 17 July 2008, p. 31.

5 Hon. Grant Tambling, former Administrator of Norfolk Island, *Submission 43*, p. 4.

6 Ms Karen Stewart, Acting Assistant Secretary, Territories East Branch, Attorney-General's Department, *Committee Hansard*, 25 July 2008, pp 55–56.

Table 7.1—Norfolk Island's cash reserves, 2003–2007

	30 June 2003	30 June 2004	30 June 2005	30 June 2006⁷	30 June 2007
Cash at Bank	\$10,183,173	\$10,938,068	\$11,841,767	\$19,091,478	\$11,228,718

Attorney-General's Department, additional information, received 13 August 2008, p. 1.

7.8 These reserves are made up of cash held in both the Norfolk Island Government revenue fund, cash held by the government business enterprises and cash held in trust for a variety of purposes, such as a legal aid fund and environmental matters.

7.9 The Department also provided the committee with details of the Norfolk Island Government liabilities across the same time series, which are reproduced in Table 7.2.

Table 7.2—Norfolk Island's total liabilities, 2003–2007

	30 June 2003	30 June 2004	30 June 2005	30 June 2006	30 June 2007
Total liabilities	\$5,034,651	\$5,019,511	\$6,747,241	\$25,892,084	\$19,359,394

Attorney-General's Department, additional information, received 13 August 2008, p. 1.

7.10 The increase in liabilities at 30 June 2006 relates to the recognition of the \$12 million loan from the Commonwealth for the airport runway resurfacing project and the establishment of Norfolk Air as a government owned entity in 2006–07, where future ticket sales are recorded as liabilities (\$2.5 million at 30 June 2007).

7.11 Similar to the cash reserves, these liabilities relate to the Norfolk Island Government's revenue fund as well as their government business enterprises. These liabilities do not, however, include accumulated depreciation on assets, which at 30 June 2007 sat at \$31.5 million.⁸

7.12 Mr Tambling suggested that it was time for Norfolk Island to be more closely aligned with Australia within the construct of fiscal federalism, so that economic pressures might be alleviated. This would involve the redefinition of Australia's relationship to Norfolk Island so as to allow access by Norfolk Island residents to some of the Commonwealth resources accessed by the states and territories. However, it is clear that islanders are highly protective of their perceived independence, and that

7 The apparent spike in cash reserves held by the Norfolk Island Government at 30 June 2006 relates to cash received in that year for the subsequent projects to resurface the Norfolk Island Airport runway (\$5.7m) and to refurbish the Kingston Pier (\$3.4m). These projects were funded by a Commonwealth interest-free loan and grant respectively.

8 Attorney-General's Department, additional information, received 13 August 2008, p. 1.

the prospect of being subject to income tax would not attract the support of Norfolk's small cache of very wealthy residents, who wield much of the political power.⁹

7.13 This was confirmed by Ms Stewart, who submitted that:

There were two proposals being considered by the Australian government during 2006. One was to extend all Commonwealth legislation and programs, and the second part of that was to establish Norfolk Island as a local government kind of model similar to the Indian Ocean territories arrangements. The second approach was to set up a sort of modified self-government model, where they would have the powers and responsibilities of another self-governing state or territory but with greater powers of Commonwealth intervention. During that year, the Norfolk Island government expressly resisted, essentially, either proposal—and the extension of Commonwealth legislation and programs.¹⁰

7.14 Rather dramatically, the Norfolk Island Finance Minister expressed the view that an extension of Commonwealth taxes to the island would be highly detrimental:

One of the things that we worry about in Norfolk Island is that, if all of the Commonwealth taxes and legislation is extended to Norfolk, it will probably cripple the economy that we have now and probably collapse it and has the ability to turn Norfolk Island into a community that is likely to be dependent on welfare. That is not something that we really want for Norfolk Island.¹¹

7.15 Possible opposition notwithstanding, the committee was interested to read a series of recommendations generated by Mr Tambling at the end of his tenure as Administrator which were submitted to the former government, and re-submitted to the current one. These recommendations, a compilation of which forms Appendix 7, aim to address some of the most significant challenges facing Norfolk Island. These largely include improvement to and regulation of governance arrangements, but also go to the establishment of mechanisms to regulate corruption, corporate, financial and trade activity, and the inclusion of all Norfolk Islanders on the Australian electoral roll.¹²

7.16 Mr Tambling was forthright in his submission that change is needed, and in putting his fears for the Island should that change not take place:

9 The Hon Grant Tambling, former Administrator of Norfolk Island, *Committee Hansard*, 17 July 2008, p. 31.

10 Ms Karen Stewart, Acting Assistant Secretary, Territories East Branch, Attorney-General's Department, *Committee Hansard*, 25 July 2008, p. 59.

11 Hon. Neville Christian MLA, Minister for Finance, Norfolk Island Government, *Committee Hansard*, 1 September 2008, pp 41–42.

12 The Hon Grant Tambling, former Administrator of Norfolk Island, *Submission 43*, Attachment F.

I would argue that the arrangements that were set in place in 1979 were probably appropriate at that particular time. But it is now 30 years later and there have been significant, particularly governance, changes right round Australia and significant changes in advantages to people, wherever they live in Australia, through the grants commission formulas. It is a matter of how much you accept you can transfer to the future generations. As I think I said earlier, maintaining infrastructure and ignoring capital requirements are points that really worry me about the reliance on who is going to call the tune in the future—unless Norfolk Island participates in the more routine financial arrangements which...would work totally to the advantage of the Norfolk Island community and the economy.¹³

Evidence from the Government of Norfolk Island

7.17 The Norfolk Island Government made a submission to and representatives appeared before the committee relatively close to its reporting date. In addition to submitting two *Econtech* reports for the committee's information, the Government made clear its objection to much of the evidence put by other submitters, particularly Mr Tambling.¹⁴

7.18 The Government's submission cited education, healthcare and social welfare as areas in which the conditions on Norfolk Island had been 'ignored or misrepresented' by witnesses.¹⁵ When analysed alongside 'remote Australian communities of similar size', the submission argued that services on Norfolk Island compared favourably.¹⁶ While acknowledging the funding assistance provided by the Commonwealth, the submission argued that most funding was used 'to employ Commonwealth public servants to deliver programmes of national significance.'¹⁷

7.19 The submission went on to criticise restrictions on borrowing imposed by the Commonwealth, and suggested that the extent of Commonwealth support for infrastructure projects was inadequate:

The Commonwealth has indicated on many occasions its unwillingness to invest in major infrastructure projects or social programmes in Norfolk Island, and has never agreed (as required by the Norfolk Island Act) to any borrowings by the Norfolk Island Government, other than from the Commonwealth itself. Faced with this situation, the Norfolk Island Government has risen to the challenge of maintaining sustainability and

13 Hon. Grant Tambling, former Administrator of Norfolk Island, *Committee Hansard*, 17 July 2008, p. 41.

14 Government of Norfolk Island, *Submission 45*, pp 1–7.

15 Government of Norfolk Island, *Submission 45*, p. 3.

16 Government of Norfolk Island, *Submission 45*, p. 3.

17 Government of Norfolk Island, *Submission 45*, p. 6.

growing the economy through the use of innovative methods to ensure service delivery to the people of the Island community.¹⁸

7.20 In responding to criticism on the Norfolk Island Government's level of expenditure on infrastructure, the Minister for Finance, the Hon. Neville Christian MLA, elaborated to the committee:

... in 2008-09, 31 per cent of all of our expenditure will be on infrastructure and capital items. Some of the analysis provided to your committee has totally missed this point by focusing only on capital expenditure in the revenue fund. That fund is essentially the clearing house through which we fund our major service delivery areas of education, social welfare, health and tourism promotion. The majority of the infrastructure and capital expenditure occurs in the government's business enterprises. In summary... budgeted expenditure for this year includes the following: infrastructure maintenance, \$3.2 million, which is 10.7 per cent of total expenditure; new infrastructure, \$3.25 million, which is 11 per cent of total expenditure; and capital expenditure, \$2.7 million, which is nine per cent of total expenditure.¹⁹

7.21 The Government submitted two reports it commissioned by economic modelling firm *Econtech*, in an attempt to demonstrate Norfolk's financial sustainability. The first of these reported in September 2006, and the second in February 2008. The second report noted that there had been a 'significant improvement' in net operating cashflow since it was identified as a problem in 2006. This was that 'new policies and initiatives [were] heading in the right direction'. However, it went on to say that cashflow 'still falls short of likely ongoing investment needs (with an average budget hole of around \$0.4 million estimated over the three years to 2010-11).²⁰

7.22 Of the Government's response to the report and cashflow shortfall, the Finance Minister of Norfolk Island informed the committee:

We reformed our taxation system, abolished some of our regressive taxes and replaced them with a broad based consumption tax. Econtech gave us a number of options on how we could fix the administration's income and we, if you like, hybridised it. We took a slightly lower rate of GST than they had identified and combined that with achievable increases in tourism to deliver the overall financial result that we needed for Norfolk Island. Econtech's most recent review of the situation on Norfolk Island, which, as I have said, was conducted in February 2008, tells me that we need to put aside about \$3.7 million a year, going forwards—this is until about the end of financial year 2011. Currently, we are putting away about \$3.3 million.

18 Government of Norfolk Island, *Submission 45*, p. 6.

19 Hon. Neville Christian MLA, Minister for Finance, Norfolk Island Government, *Committee Hansard*, 1 September 2008, p. 2.

20 Econtech Pty Ltd, *The Norfolk Island Government Financial Position – One Year Later*, p. i, forming attachment B to Government of Norfolk Island, *Submission 45*.

That is our net operating cash flow. So, on a yearly average, going forwards I am only \$400,000 a year short of meeting the economic target set for us by the Econtech modelling.²¹

Conclusion

7.23 While the committee notes the responses put forward by the Government of Norfolk Island, a number of concerns remain largely unaddressed. The most notable of these include the longstanding and widely acknowledged shortcomings in relation to governance arrangements, which have a direct effect on service provision. The committee is concerned that the level, and in particular the accessibility, of service provision on Norfolk may not be adequate.

7.24 While the Government's submission used the Econtech reports to demonstrate financial sustainability, the committee remains unconvinced. As outlined above, even after the Government acted to remedy the situation, Econtech took the view that investment on Norfolk was inadequate.²² This augurs poorly for Norfolk's sustainability under existing arrangements, and raises doubts about the ability of the Government to provide services at their current level, let alone improve them.

7.25 The committee understands that Cabinet considered a raft of significant reforms relating to Norfolk Island in 2006, but that matters did not proceed beyond that point. The committee therefore recommends in chapter 8 (Recommendation 12) that the recommendations at Appendix 5 be read together with the findings of the relevant 2003 and 2005 reports of the Joint Standing Committee on the National Capital and External Territories²³ and that this form the basis of a Commonwealth Government initiative aimed at assisting the Norfolk Island Government to redress some of the major challenges that face Norfolk Island.

7.26 Whilst the committee has made related recommendations, it feels somewhat constrained by the fact that it has not been able to visit Norfolk Island.

21 Hon. Neville Christian MLA, Minister for Finance, Norfolk Island Government, *Committee Hansard*, 1 September 2008, p.8.

22 Econtech Pty Ltd, *The Norfolk Island Government Financial Position – One Year Later*, p. i, forming attachment B to Government of Norfolk Island, *Submission 45*.

23 *Quis custodiet ipsos custodes?; Inquiry into Governance on Norfolk Island*, Joint Standing Committee on the National Capital and External Territories, December 2003; and *Norfolk Island Financial Sustainability: The Challenge: Sink or Swim*, Joint Standing Committee on the National Capital and External Territories, November 2005.

