MODELLING THE NORFOLK ISLAND GOVERNMENT'S FINANCIAL POSITION

This report was prepared for
the Norfolk Island Government
by Econtech Pty Ltd.

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CANBERRA HEAD OFFICE

Econtech
P.O. Box 4129
Kingston ACT 2604
Phone: (02) 6295-0527
Fax: (02) 6295-8513
E-mail:office@econtech.com.au

SYDNEY OFFICE

Econtech
Suite 304, 66 Berry Street
North Sydney NSW 2060
Phone: (02) 9929-4700
Fax: (02) 9929-4793
E-mail: sydney@econtech.com.au

Web-site: www.econtech.com.au

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Executive Summary

Econtech was commissioned by the Norfolk Island Government (NIG) to examine its current and future financial position, in light of concerns raised by a number of recent studies.

Of particular concern was the results presented in the 2005 Acumen Alliance report (commissioned by the Department of Transport and Regional Services) which reviewed the financial position of the NIG. This report suggested that the NIG could become insolvent within the next two years.

The Acumen report used a partial indicators approach in its modelling. This type of approach:

- focuses on direct impacts;
- does not fully capture the indirect or supply chain impacts; and
- has a high risk of inconsistencies arising because separate drivers are applied across income and revenue streams.

In contrast, this study extends the Acumen analysis by:

- providing the first comprehensive picture of the Island's economy;
- estimating Gross Territory Product (GTP) from both the industry and expenditure sides of the economy;
- capturing both direct and indirect impacts of policies;
- using an economy-wide model integrated with budget model; not budget model driven by indicators that are not forecast in a consistent manner
- providing results in "real" 2004/05 prices (avoids Acumen problem of allowing for price inflation in some places but not others); and
- factoring in the new NSL.

Baseline Results (under current policies)

The Baseline Scenario estimates the size of the Island's economy and the NIG budget under the current policy arrangements. Specifically, the Baseline scenario:

- incorporates the new 1 per cent (compounding) NSL;
- includes tourist numbers of 33,700 in 2004/05, falling to 28,200 in 2005/06, and then recovering to reach around 35,100 in 2008/09; and
- assumes real spend per tourist grows at 2 per cent per year, in line with rising living standards.

The modelling estimates that under the current Norfolk Island policies, the NIG will have a net operating cash flow of $2.4 million in 2008/09. This includes a contribution of $1.6 million from the new 1 per cent NSL.

This net operating cash flow falls short of likely ongoing investment needs. Investment needs to cover:

- depreciation (around $2.0 million),
- economic growth; and
- address the need to renew some infrastructure.

Taking these three needs into account means that a realistic annual figure to cover ongoing investment needs would be around $4 million. So it is estimated that there is a budget shortfall of up to $1.6 million, even with the new 1 per cent NSL.

Thus, alternative policies need to target a net operating cash flow of about $4 million.

Increased Tourism Scenario

The Increased Tourism scenario estimates the size of the Island's economy and the NIG budget if tourist numbers rise.

- With the recent establishment of *Norfolk Air*, the NIG aims to increase flight capacities to boost tourist numbers to around 40,000 over the next 12 months and 45,000 in the following 12 months.
- As such, this alternative scenario examines the impact of a gradual gain in tourism building to 30 per cent (or about 10,000 additional tourists per year) by 2008/09, compared to Baseline numbers.

This increase in tourism is estimated to add 20.2 per cent to GTP in 2008/09. Industry gains, relative to the Baseline, range from 4.7 per cent for government services to 25.6 per cent for accommodation. In addition, travel exports are estimated to be up 30.0 per cent, private demand up 19.9 per cent and imports up 22.9 per cent, relative to the Baseline in 2008/09. The additional tourist spending is expected to boost the NIG's net operating cash flow in 2008/09 from $2.4 million to $4.4 million, filling the budget hole.

Higher NSL Rate Scenario

The Higher NSL Rate scenario estimates the size of the Island's economy and the NIG budget if the current 1 per cent NSL is increased.

- This alternative scenario examines the impact of increasing the NSL from its current level of 1 per cent, to 2 per cent in 2007/08 and 3 per cent in 2008/09 and onwards.
- Note: this is separate from the higher tourist scenario. That is, this scenario uses the same tourist assumptions as the Baseline scenario.

With a higher NSL, GTP is estimated to be 4.9 per cent below the Baseline level, as the spending power of residents is reduced. This flows through to lower private final demand (10.9 per cent below the Baseline) and imports (5.2 per cent below the Baseline). However, the higher NSL rate boosts the NIG's net operating cash flow in 2008/09 from $2.4 million to $4.9 million, filling the budget hole.

Conclusion

The NIG is expected to achieve a net positive cash flow position in each year over the next five years. However, this net cash flow is not expected to be high enough to cover Norfolk Island's ongoing investment needs. It is estimated that, with no change to policy, there will be an average annual budget hole of about $1.6 million over this period.

It is estimated that this budget hole could be filled either by:

- increasing annual tourist numbers by around 10,000 visitors (boosts economy); or
- raising the NSL rate from 1 per cent to 3 per cent (dampens economy).

These two alternative policies have the same result in terms of filling the budget hole. However, they have significantly different impacts on the level of economic activity on the Island. An increase in the number of tourists boosts activity across the economy. In contrast, an increase in the NSL rate dampens activity across the economy.

The results in this report extend previous reports in this area, by providing a more complete picture of the NIG's net cash flow position. In comparison, the budget hole estimated in the Acumen study is highly misleading, by assuming that most expenditures rise with inflation but most revenues do not. If the Acumen methodology were applied to the Australian Government's budget it would also (unrealistically) project a Federal budget deficit.

1. Introduction

In February 2006, an Inquiry into the government funding arrangements of Norfolk Island was announced by the Minister for Local Government, Territories and Roads. The Inquiry is being undertaken by the Commonwealth Grants Commission (CGC) and seeks to review the financial capacity of Norfolk Island.

In November 2005, Acumen Alliance released a report for the Department of Transport and Regional Services which reviewed the financial position of the Norfolk Island Government (NIG). This report has raised concerns over the future viability of the NIG by suggesting that the NIG could become insolvent within the next two years. This conclusion has been a major factor in the CGC undertaking the current inquiry into Norfolk Island's State and local government service provision and revenue raising capacity.

Econtech has been commissioned by the NIG to examine the current and future financial position of the NIG. The report begins by examining the findings of the Acumen report. It then undertakes its own analysis of the NIG's current and future financial position, assuming there is no change to current policy. The report then looks at alternative strategies for the NIG, which allow it to achieve its service and infrastructure objectives while remaining viable. The current and alternative policy arrangements are then compared.

This report is structured as follows.

- Section 2 outlines the background to the report, including details of the past and current CGC inquiry into the NIG's financial capacity.
- Section 3 examines the findings of previous studies into the sustainability of the Island.
- Section 4 discusses the data sources and methodology used to estimate the current and future financial capacity of the NIG under alternative scenarios.
- Section 5 presents the current and future financial capacity of the NIG if there were no changes to the current policy arrangements.
- Section 6 presents the current and future financial capacity of the NIG under an alternative set of policy arrangements.
- Section 7 compares the results of the current and alternative policy arrangements.

While all care, skill and consideration has been used in the preparation of this report, the findings refer to the terms of reference of the NIG and are designed to be used only for the specific purpose set out below. If you believe that your terms of reference are different from those set out below, or you wish to use this work or information contained within it for another purpose, please contact us.

The specific purpose of this report is to examine the current and future financial position of the NIG.

The findings in this report are subject to unavoidable statistical variation. While all care has been taken to ensure that the statistical variation is kept to a minimum, care should be used whenever using this information. This report only takes into account information available to Econtech up to the date of this report and so its findings may be affected by new information. Should you require clarification of any material, please contact us.

2. Background

From 1856 until 1897, Norfolk Island was a separate British Crown colony administered by its own Governor, who was also the Governor of New South Wales. In 1897, the island was transferred to the administration of the New South Wales Governor. The *Norfolk Island Act 1913* then formalised Norfolk Island's status as a Territory under the authority of the Commonwealth of Australia. This Act was amended in 1935 and then repealed and replaced by the *Norfolk Island Act 1957*.

Following a 1975 Royal Commission into the future status of Norfolk Island and its constitutional relationship to Australia, the Australian Government established the *Norfolk Island Act 1979*. The intention of the 1979 Act (as stated in the preamble) was for Norfolk Island to achieve, over a period of time, internal self government as a Territory under the authority of the Commonwealth. Norfolk Island elects its own government and is responsible for raising its own revenue. The NIG consists of a nine member Legislative Assembly, elected for three year terms.

The powers of the NIG are broad. The self governing status of the NIG is similar to that of the Northern Territory and the Australian Capital Territory. However, the NIG has greater legislative and executive powers. For example, the NIG is responsible for its own immigration, customs and quarantine legislation.

The economy of Norfolk Island is largely dependent on tourism. Over the past six years, an average of 35,000 tourists have visited Norfolk Island each year – mostly from mainland Australia. However, this number can vary quite significantly from year to year. For example, in 2000/01 tourist arrivals peaked at around 40,000. In contrast, with recent airline constraints, tourist numbers were low in 2005/06 at around 28,000. However, with the new *Norfolk Air* service providing flights between Sydney/Brisbane and Norfolk, tourist numbers have increased significantly over the last few months.

A recent survey by the Australian Bureau of Statistics (ABS) confirms that tourism is a dominant industry on the Island. According to the survey data, tourism-related businesses (i.e. retail, accommodation, restaurants, travel and tour operators, clubs, pubs and taverns) represent around 70 per cent of both business income and private sector employment.[1]

In addition to the impact on private sector activity, tourism levels also affect the NIG's revenue base. Taxes on tourist related activity, in terms of the bed tax and departure tax, have directly contributed to around 19 per cent of NIG's revenue over the past three years.[2] Tourists also indirectly contribute to the NIG's revenue stream through consumption of imported goods which have attracted Customs Duty. Further, from July 2006, all consumption (including by Tourists) will attract the new 1 per cent Norfolk Sustainability Levy (NSL). In addition to contributing to taxation revenue, tourists contribute to the NIG revenue stream through their consumption of goods and services provided by government business enterprises (GBEs) – such as liquor supply services.

Therefore, the Norfolk Island economy and the NIG's revenue stream are both impacted by external influences that affect tourism. For example, tourist confidence fell after the US

[1] ABS, *Norfolk Island Business Statistics*, Catalogue no. 8139.0
[2] Norfolk Island Government statistics

terrorist attacks in 2001, which may have been a factor in the fall in the number tourist arrivals to Norfolk Island of around 16.5 per cent (in 2001/02).[3] In the same year, NIG's income from customs duty fell by around 9 per cent.[4]

Income derived by residents from sources within Norfolk Island is generally exempt from federal income tax. Federal taxes such as the Goods and Services Tax (GST) do not apply to the island.

The NIG recently passed a bill to introduce the Norfolk Sustainability Levy (NSL). The NSL is applied to the sale price of goods and services. It is currently set at 1 per cent of the sale price. Business owners pass the NSL on to the NIG each month. The NSL was introduced to broaden the Island's revenue base. Subject to a review, the NSL may replace some existing fees and charges such as Customs Duty (on goods intended for re-sale) and the Financial Institutions Levy.[5]

In recent years there have been several studies undertaken to analyse the financial viability of Norfolk Island. These studies have been commissioned by government departments and undertaken as government inquiries.

As discussed in the Introduction, Acumen Alliance produced a report in 2005 on the financial position of the NIG for the Department of Transport and Regional Services. The concerns raised in this report regarding the future viability of the NIG has been a major factor in the new inquiry into Norfolk Island's State and local government service provision and revenue raising capacity, that is currently in progress.

In early 2006, the Minister for Local Government, Territories and Roads announced that this new inquiry would be undertaken by the CGC. The CGC Inquiry seeks to provide advice on the financial capacity of Norfolk Island to "provide State and local government services comparable to the services available in comparable communities in the States and Territories [of mainland Australia]."[6] The CGC Inquiry has released its preliminary findings and is due to report on its final results in late 2006.

The following section discusses some of the previous work that has been undertaken with relation to the Norfolk Island Economy. In particular, this section examines both the current CGC Inquiry and the Acumen report. The discussion focuses on a broad examination of the methodology and main findings in each study.

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[3] Norfolk Island Tourism, Inbound Passenger Statistics, June 2006.

[4] Norfolk Island Government statistics

[5] *Norfolk Sustainability Levy Bill 2005, Explanatory Memorandum and Impact of Legislation*, August 2005.

[6] Commonwealth Grants Commission, *Review of the Financial Capacity of Norfolk Island 2006*, Issues Paper CGC 2006/1, March 2006, page 1.

3. Literature Review

In 1997, the CGC conducted a detailed inquiry into Norfolk Island. This inquiry examined Norfolk Island in detail. The resulting report analysed the physical, constitutional and economic characteristics of the island; its future prospects; the Government finances, services and infrastructure; taxing and charging; and the Government's financial capacity to provide services.

This inquiry concluded that the NIG had the capacity (without any general revenue assistance from the Australian Government) to provide a mainland standard of service and infrastructure, if it made revenue raising efforts at mainland levels. It also found that the NIG had the capacity to take over additional services, if it increased its revenue raising effort. However, since the release of the CGC's 1997 analysis, a number of reports have now been released which raise concerns over the financial viability of the Island.

Following a projected budget deficit of $1.1 million for the 2001/02 financial year,[7,8] the Norfolk Focus Group undertook their own analysis into the Island's sustainability. In particular, the Focus 2002 analysis identified potential areas of cost saving. However, it was acknowledged that these savings would not transform the NIG's budget situation. This meant that, in addition to cost savings, the Island needed to also look at potential revenue raising areas.

The Norfolk Island Financial Sustainability report[9] provided an overview of three internal revenue options. These include:

- proposals to achieve greater economic self-sufficiency for Norfolk Island;
- proposals to introduce a broad-based consumption tax; and
- proposals to tax land, personal income and capital gains.

Each of these options is discussed in the report. However, the report recommends that "the only sustainable alternative left for people of Norfolk Island is the adoption of the taxation and welfare system of the Commonwealth of Australia."[10]

Following these studies, the Department of Transport and Regional Services Department of commissioned the Acumen Alliance Financial Advisory report on the NIG (2005). This report assessed the Norfolk Island's current and future financial viability. The report found that Norfolk Island's current policies and financial strategies were unsustainable.

Further, the Commonwealth Grants Commission is now in the process of undertaking a second inquiry into the State and local government funding arrangements for Norfolk Island. The Commission has recently provided a preliminary report, with the final report due to be released at the end of September 2006.

The 2006 CGC inquiry and the 2005 Acumen Alliance report are each now discussed in the following sub-sections.

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7 Focus Report, 2002.
8 The actual budget deficit for the 2001/02 financial year was around 60% of this projection, at $0.6 million.
9 Joint Standing Committee on the National Capital and External Territories, *Norfolk Island Financial Sustainability: The Challenge – Sink or Swim*, November 2005.
10 ibid, page 56.

3.1 CGC Inquiry on the Norfolk Island Economy

The CGC is currently undertaking an inquiry into the financial capacity of Norfolk Island to provide services at the State and local government level. This study is designed to assess the level of revenue that might be raised by applying State and local taxes that are currently levied on comparable Australian communities. This revenue is then compared to an estimate of the expenditure required to provide a comparable level of services on Norfolk Island as is provided by State and local governments in comparable Australian communities.

The preliminary results of this inquiry were released in July 2006. These results showed that, in 2004/05 the Island would have required the following additional assistance.

- At the State level – about $5.8 million in State equivalent assistance and $0.8 million per annum for 15 years to service existing loans.
- At the local level – $3.2 million under Indian Ocean Territory funding model or about $0.15 million under ACT funding model.

The CGC results show an estimate of the additional funding that would have been required in addition to revenue from the comparable State and local taxes. The CGC study is limited to examining the financial capacity of the Island under a typical Australian State and local tax and services regime. It does not attempt to analyse alternative models. Given the unique nature of the current NIG structure, it is important to also examine models that retain some of the current NIG traits.

The CGC are also careful to acknowledge that the revenue estimates in their analysis assume current levels of wages, prices and economic activity (as required by their terms of reference). As such, the CGC results provide a starting point for discussion. Further analysis would need to also assess the impact of any structural change on activity within the Norfolk Island economy.

As part of their analysis, the CGC inquiry also attempts to measure the size of the Norfolk Island Economy. This is based on an estimate of the Gross Territory Product (GTP) for the Island using the income method. The Econtech modelling for this report also estimates GTP for the Island using both the expenditure and industry methods.

Care should be used in comparing the CGC estimates of GTP with those contained in this report. Following the Australian National Accounts definition of GTP shows that there are some errors in the GCG's preliminary estimates, including the following.

- The CGC uses business profit instead of gross operating surplus. The business profit figure is net of interest and depreciation costs. These costs were estimated at around $3.4 million in 2004/05.
- The CGC estimate uses business wages and salaries, but excludes other compensation of employees by business ($0.3 million).

Econtech estimates that the CGC's calculation may be underestimating GTP by around $5.6 million. Thus, this report extends the CGC analysis of the Norfolk Island GTP by adjusting the CGC's estimate in line with National Account definitions.

3.2 Acumen Alliance Report on Norfolk Island

In 2005, the Department of Transport and Regional Services commissioned Acumen Alliance to undertake a review of the financial position of the NIG on behalf of the Australian Government. This analysis examined the current and future financial position of the NIG.

The study also looked at the relationship between tourist numbers and NIG revenues, based on the past five years. As part of their analysis, Acumen examined three alternative tourism scenarios:

- tourist numbers restricted to 27,400;
- tourist numbers increasing to 31,000; and
- the number of tourists required to achieve self sustainability

The Acumen study was designed as a detailed analysis of the current and future levels of the NIG's revenue and expenditure streams. These were separated into revenue and expenditure items under the Revenue Fund and each of the separate GBE accounts. Each revenue and expenditure item under each of the separate accounts was then individually forecast, based on an assessment of the main economic drivers for that item.

The detailed analysis used a "dynamic financial model" to estimate the financial position of the NIG over the next five years. This model uses a partial indicators approach rather than an economy-wide modelling approach. A partial indicators approach:

- focuses on direct impacts;
- does not fully capture the indirect or supply chain impacts; and
- has a high risk of inconsistencies arising because separate drivers are applied across income and revenue streams.

Acumen found that the NIG was not currently insolvent. However, they forecast that the current financial position of the NIG may deteriorate considerably within two years. Under the Acumen modeling, it was estimated that the NIG could become insolvent within the next two years.

The Acumen results will be sensitive to the drivers that are chosen for each revenue and income stream. A broad examination of the drivers used in the Acumen modelling reveals that most of the NIG expenditure items are expected to rise with inflation but most of the revenue items do not. Thus, in general, the Acumen results show the NIG's revenue remaining relatively steady (with growth at a modest 2 per cent between 2005/06 and 2009/10 under scenario 1), while expenditure is expected to grow more rapidly (by around 11.5 per cent over the same period). As discussed above, this type of inconsistency is a risk in using a partial indicators approach.

The Econtech analysis in this report extends the Acumen results by applying an economy-wide modelling approach. This type of approach requires a consistent methodology. For example, it ensures that there is a consistent application of inflation across both expenditures and revenues. The Econtech modelling is now described in the following section.

4. Econtech Modelling

This section provides details of the methodology used in this report to estimate the current and future financial position of the NIG. In undertaking this analysis, this report provides the first comprehensive picture of the Island's economy.

This analysis extends both the Acumen Alliance Financial Advisory report and the 2006 CGC Inquiry in a number of important ways.

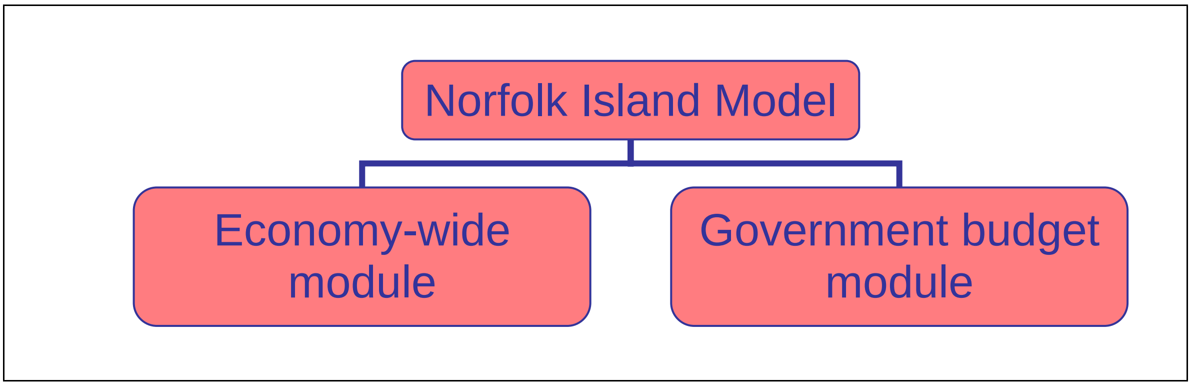
- It estimates GTP from both the industry and expenditure sides of the economy.
- It captures both the direct and indirect impacts of policies; and
- It uses an economy-wide approach which requires a consistent methodology (e.g. this ensures a consistent application of inflation across both expenditures and revenues)

This section is structured as follows. Section 4.1 discusses the main features of the economic model (NI model) that is used to estimate the NIG's current and future financial position. Section 4.2 outlines the scenarios that are simulated using the NI model to quantify possible impacts of alternative policies on Norfolk Island's economic activity and the NIG's financial position.

4.1 The Norfolk Island Model

To estimate the current and future financial position of the NIG, Econtech constructed an economy-wide model of the Norfolk Island economy. The Norfolk Island (NI) Model is made up of two modules: the economy-wide module and the government budget module (as shown in Figure 4.1).

Figure 4.1
Structure of the Norfolk Island Model



As shown in the figure above, the NI model is an economy-wide model integrated with a budget model. This is distinct from a budget (or partial indicators) model that is driven by indicators that are not forecast in a consistent manner.

The results from the NI model are also provided in "real" 2004/05 prices. In this way the modelling in this report avoids the Acumen problem of allowing for price inflation in some places but not others.

The two modules are each now discussed in turn.

4.1.1 Economy-wide Module

The NI model's economy-wide module uses an input-output model framework. It distinguishes the following 11 industries, which are largely based on the industry classifications used by the ABS in their Norfolk Island business survey.[11]

- Agriculture, forestry & fishing
- Mining, manufacturing & construction
- Retail trade
- Accommodation
- Cafés, restaurants & takeaway food services
- Clubs (hospitality), pubs, taverns & bars
- Travel agency & tourist arrangement services
- Government
- Government Business
- Ownership of Dwellings
- All other industries

In addition to industry detail, the NI model's economy-wide module also separately identifies 8 taxes, including the new NSL:

- Customs Duty
- Accommodation Levy
- Norfolk Sustainability Levy (NSL)
- Vehicle Registrations and Licenses
- Departure Fees
- Financial Institutions Levy
- Fuel Levy
- Land Title Fees

The NI model's economy-wide module is demand driven. This means that activity across the economy depends on residents, tourists and government demand. This is reasonable for this model for two reasons.

1. The Island can expand labour supply through temporary residents. It is understood that Norfolk Island currently has the ability to meet labour demand through its Temporary Entry Permits (TEPs) scheme.
2. The tourism industry has spare capacity. Norfolk Island has five hotels, one large guest lodge plus many apartments or motels. While tourist numbers have recently ranged between 25,000 and 35,000, in the past (2000/01) the Island has successfully accommodated over 40,000 tourists.

The economy-wide model provides a picture of the Norfolk Island economy under a Baseline (or current policy) scenario from 2004/05 to 2010/11. This picture is in terms of GTP by both industry (separated into the 11 industries outlined above), and by four

[11] ABS, *Norfolk Island Business Statistics*, Catalogue no. 8139.0

expenditure categories (private final demand, NIG final demand, Australian Government final demand and net exports). It also provides data to the NI model's budget module.

4.1.2 Budget Module

The NI model's budget module is used to estimate the current and future financial position of the NIG. To do this, the budget module draws on data from the economy-wide module. This data is then allocated across revenue and expenditure items either directly or based on existing relativities.

The budget module provides estimates of the current and future financial position of the NIG under the Baseline (or current policy) scenario from 2004/05 to 2010/11. It is also used to estimate the impact of alternative scenarios on government revenue and expenditure.

For a complete picture of the implications of the current policy and alternative policies on the NIG, the budget module includes estimates relating to both General Government (Revenue Fund) and Government Business Enterprises (GBEs).

4.2 Model Scenarios

To examine the current and future financial position of the NIG under alternative policy scenarios, the following three illustrative scenarios were modelled.

- **Baseline** scenario estimates the size of the Island's economy and the NIG budget under the current policy arrangements. Specifically, the Baseline scenario:
  - incorporates the new 1 per cent (compounding) NSL;
  - includes tourist numbers of 33,700 in 2004/05, falling to 28,200 in 2005/06, and then recovering to reach around 35,100 in 2008/09; and
  - assumes real spend per tourist grows at 2 per cent per year, in line with rising living standards.
- **Increased Tourism** scenario estimates the size of the Island's economy and the NIG budget if tourist numbers rise.
  - Currently, the NIG is working towards a target increase in tourist numbers to reach around 40,000 visitors over the next 12 months and 45,000 visitors in the following 12 months.
  - As such, this alternative scenario examines the impact of a gradual gain in tourism building to 30 per cent (or about 10,000 additional tourists per year) by 2008/09, compared to Baseline numbers.
- **Higher NSL Rate** scenario estimates the size of the Island's economy and the NIG budget if the current 1 per cent NSL is increased.
  - This alternative scenario examines the impact of increasing the NSL to 2 per cent in 2007/08 and 3 per cent in 2008/09 and onwards.
  - Note: this is separate from the higher tourist scenario. That is, this scenario uses the same tourist assumptions as the Baseline scenario.

- It is assumed that tourists spend the same amount as under the Baseline. Thus, some of the tourist dollars are being diverted away from consumption and into NSL revenue.

The differences in economic and budget outcomes between the Baseline scenario and the two alternative scenarios are calculated to determine the impacts of the alternative scenarios.

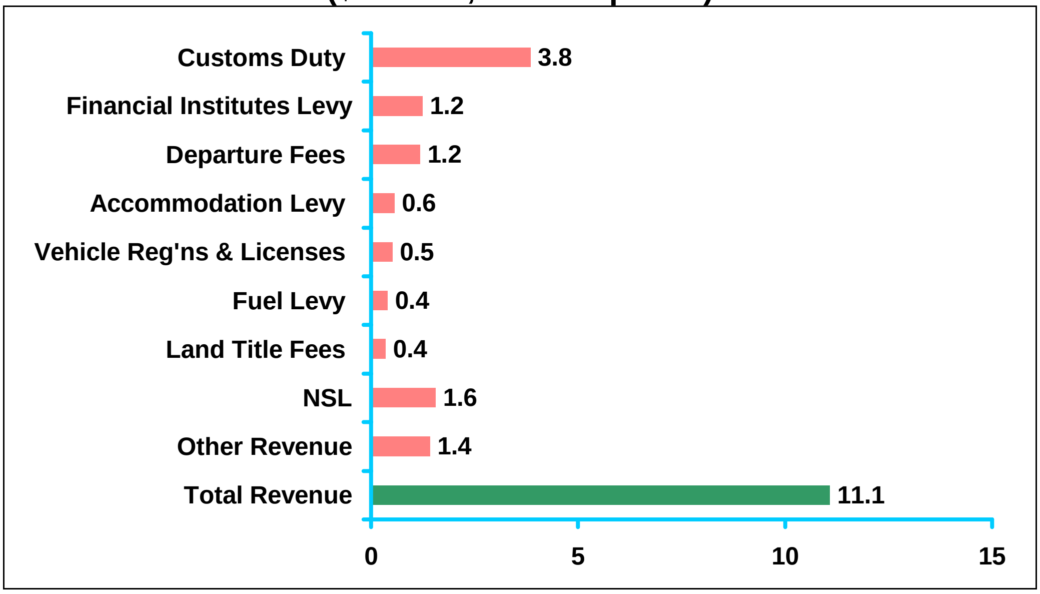
5. The Financial Capacity of the NIG under Current Policy Arrangements

This section examines the current and future financial capacity of the NIG under the Baseline (or current policy) scenario. More detailed results are contained in Attachment A. In comparison to previous studies, this analysis:

- **extends the analysis by Acumen**
  - by including the new 1 per cent NSL;
  - by capturing both the direct and indirect impact of policies; and
  - by removing the risk of inconsistencies arising from the partial indicators approach.
- **It also extends the CGC study**
  - by estimating GTP from both the industry and expenditure sides; and
  - by examining alternative options under the current NIG structure, rather than examining a move to a completely different government model.

Chart 5.1 shows the Island's estimated General Government revenue under the current policy arrangements.

Chart 5.1
General Government Revenue under Current Policy Arrangements in 2008/09
($ million, 2004/05 prices)

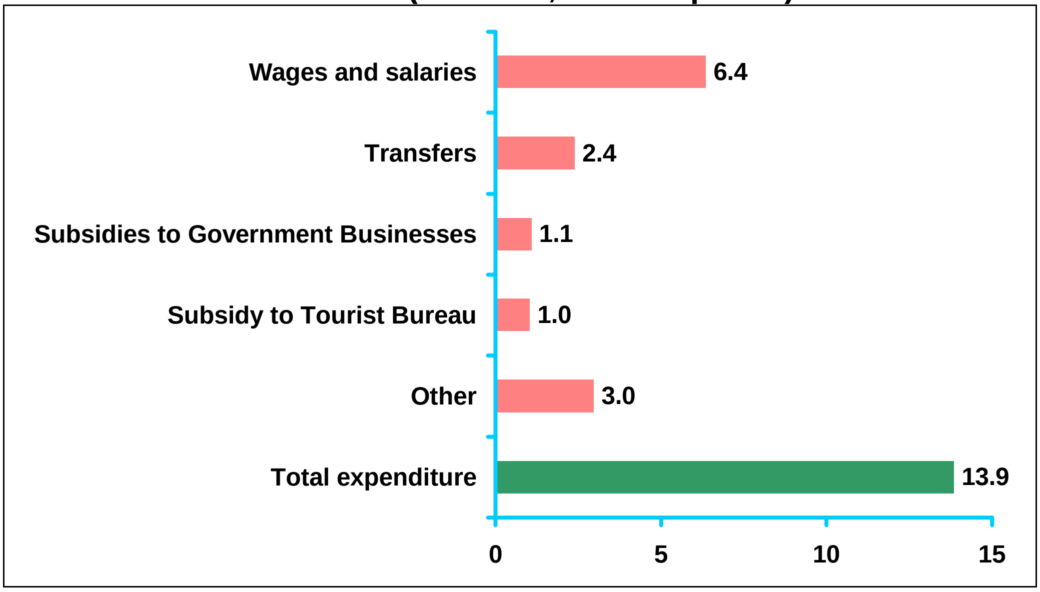


Source: NI model

The chart shows that, in 2008/09, the Island's General Government revenue is expected to be dominated by Customs Duty collections, estimated at around $3.8 million. The new NSL levy is expected to contribute an additional $1.6 million to the NIG budget. Further, the Financial Institutions Levy (FIL) and Departure Fees should also be significant revenue raisers, providing around $1.2 million each. In 2008/09, total General Government revenue for the NIG is estimated at around $11 million.

Chart 5.2 shows the Island's estimated General Government expenditure under the current policy arrangements.

Chart 5.2
General Government Expenditure under Current Policy Arrangements in 2008/09 ($ million, 2004/05 prices)

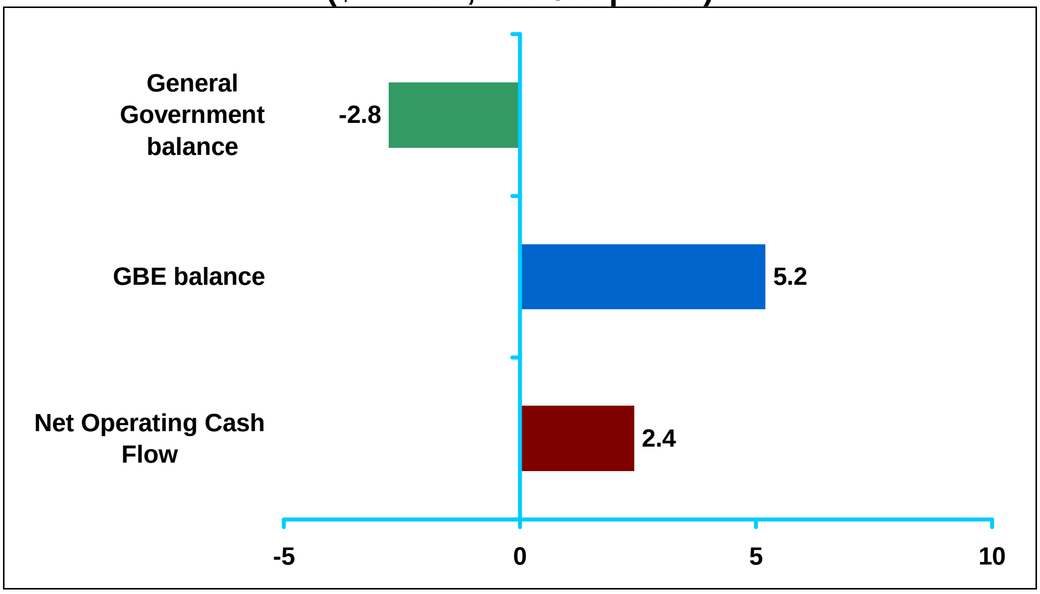


Source: NI model

The chart shows that almost half of the General Government expenditure in 2008/09 is expected to be for wages and salaries, estimated at around $6.4 million. The remaining costs are largely in terms of transfers and subsidies to GBE's and statutory bodies.

Chart 5.3 shows the NIG's Net Cash Flow position. This position includes the contribution by GBEs.

Chart 5.3
The NIG's Net Cash Flow under Current Policy Arrangements in 2008/09 ($ million, 2004/05 prices)



Source: NI model

Chart 5.3 shows that, under the current policy, the NIG is expected to have a net operating cash flow of $2.4 million in 2008/09. General Government activity is expected to contribute a net deficit of $2.8 million (with the $11.1 million in revenue being more than offset by the $13.9 million in General Government recurrent expenditure). The remaining $5.2 million is expected to come from GBEs.

The net cash flow will be used to cover the costs of likely ongoing investment. As such, it is not enough for the NIG to simply be in a neutral or positive net cash flow position. The net cash flow must also be significant enough to cover these likely investment needs.

Norfolk Island's annual depreciation charge is currently running at around $2 million.[12] At the minimum, the cash flow surplus would need to at least cover this depreciation charge. Based on this level of annual depreciation and an average depreciation rate of 8 per cent, Norfolk Island capital stock can be estimated at around $25 million.

In addition, the cash flow surplus would also need to allow additional infrastructure to cater for economic growth. Using a normal growth rate of 3 per cent, this gives additional annual infrastructure investment requirements of around $750 thousand.

Further, there is considerable discussion about the need for Norfolk Island to renew some of its current infrastructure. For example, the Asset Management Plan (AMP) estimates that there is around $33 million in Norfolk Island infrastructure backlog costs – with almost $32.5 million of this relating to roads. While there is considerable debate over the figures in the AMP, it is acknowledged that there is a need, as with all communities, to allocate funds for renewal of infrastructure. An annual allowance equivalent to 5 per cent of current capital stocks does not seem unreasonable. This is equivalent to around $1.25 million.

Thus, Econtech estimates that a realistic annual investment figure for Norfolk Island would be around $4 million ($2.0 million + $0.75 million + $1.25 million). This would cover the depreciation of current capital, and make allowance for new capital – to cater for both economic growth and the renewal of old infrastructure.

Therefore, the estimated cash flow position under the current policy (of $2.4 million in 2008/09) falls short of likely ongoing investment needs in Norfolk Island (estimated at around $4 million in 2008/09). There is a budget shortfall of up to $1.6 million, even with the new 1 per cent NSL. Alternative policies should be designed with a target net operating cash flow of about $4 million in mind. The following section looks at two alternative policies that are expected to cover this current policy budget shortfall.

[12] *The Administration Of Norfolk Island Financial Statements*, Year Ended 30 June 2005.

6. The Financial Capacity of the NIG under Alternative Scenarios

The previous section showed that, under the current policy, there is likely to be a budget shortfall by 2008/09 of around $1.6 million. This section looks at two different ways to avoid this shortfall, and the different effects that these have on the Norfolk Island economy.

Table 6.1 highlights the different assumptions under each of the two alternative scenarios compared to the Baseline. These alternative assumptions were introduced in Section 4.2.

Table 6.1
Baseline and Alternative Scenario Assumptions in 2008/09

	Tourist Numbers	NSL Rate
Baseline scenario	35,085	1%
Higher Tourism scenario	**45,610**	1%
Higher NSL scenario	35,085	**3%**

The results under each alternative scenario are now discussed in the following sub-sections. The first sub-section looks at the impact of increased tourist numbers on the Norfolk Island economy and the NIG budget. The second sub-section looks at the impact of a higher NSL rate on the same areas.

6.1 Increased Tourism

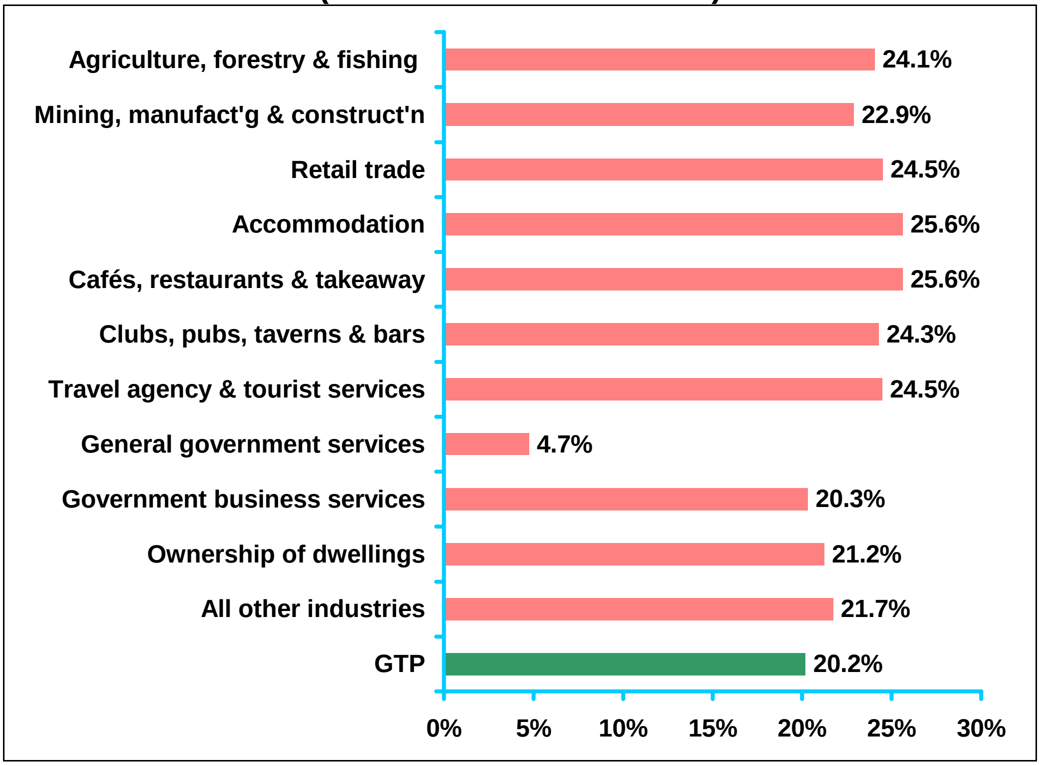
As discussed in Section 2, the economy of Norfolk Island is largely dependent on tourism. Following a fall in tourist numbers in 2004/05, the NIG has set its sights on boosting tourism to the region. With the recent establishment of the Norfolk Island’s Government funded *Norfolk Air* service, the NIG aims to increase flight capacities to boost tourist numbers to around 40,000 over the next 12 months and 45,000 in the following 12 months.

This alternative scenario examines the impact on the Norfolk Island economy and the NIG's budget if these target tourist numbers are reached. That is, the modelling examines the impact of a recovery in tourist numbers in 2006/07 (to 2004/05 levels), followed by a gradual gain building to 30 per cent (or about 10,000 additional tourists per year) by 2008/09, compared to Baseline numbers. This means that, under this alternative scenario, tourist numbers are estimated to reach around 45,000 by 2008/09 compared to around 35,000 visitors for the same year under the Baseline scenario.

The main results are presented in this sub-section. More detailed results can be found in Attachment A.

Chart 6.1 shows the expected impact of additional tourist activity on industry activity in the Norfolk Island economy.

Chart 6.1
Change in Industry Activity with Additional Tourism in 2008/09
(Deviations from Baseline)



Source: NI model

Chart 6.1 shows that additional tourists are expected to add 20.2 per cent to GTP in 2008/09. This effect includes both the direct and indirect impact of the increase in tourist numbers.

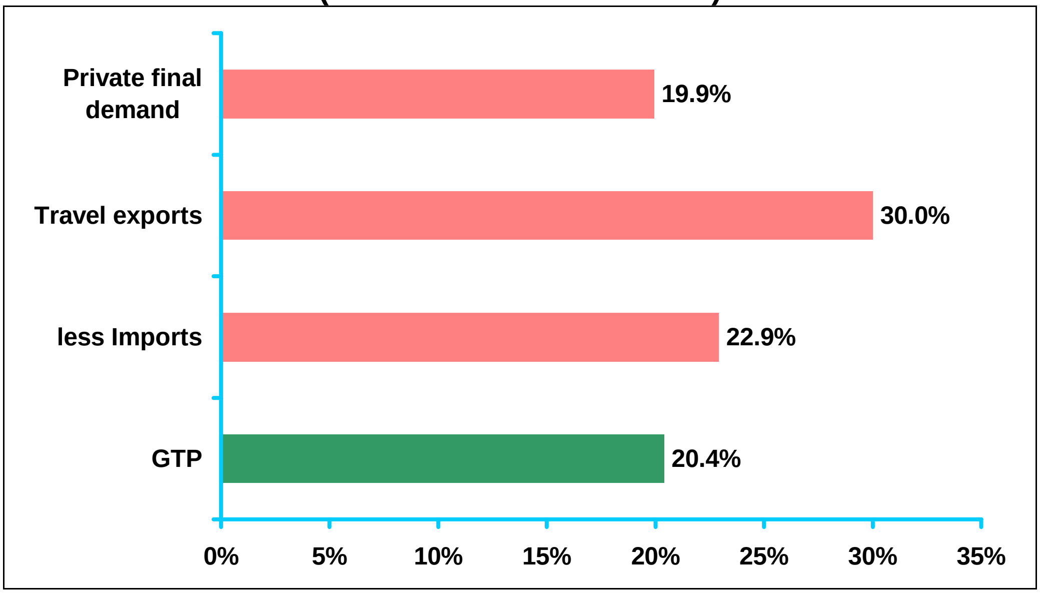
The direct impact arises because extra tourists will demand extra goods and services such as accommodation services and restaurant meals. The chart above shows activity in the tourist related service industries (such as the Accommodation industry, the Café's, restaurants and takeaway services industry; the Clubs, pubs, taverns and bars industry, and the Travel agency and tourist services industry) is all expected to be around 25 per cent higher with additional tourism, compared to the Baseline.

This in turn will flow through to additional demand by the tourist related industries for the goods and services that they use in producing their output. For example, in servicing more tourists, the restaurants industry is likely to demand more ingredients. This means that there is more demand for, and consequently more activity in the food manufacturing industry. This, in turn, will flow through to increased demand by the food manufacturer for the goods and services that are used in the production of those restaurant ingredients. All of these flow-on (or indirect) impacts are captured in an economy-wide model such as the NI model.

Chart 6.1 shows that the industry gains (relative to the Baseline) range from 4.7 per cent for government services to 25.6 per cent for the Accommodation industry.

As discussed above, the boost to industry activity is driven by a boost in demand for industry output. Chart 6.2 shows the expected impact of additional tourist activity on demand in the Norfolk Island economy.

Chart 6.2
Change in Expenditure with Additional Tourism in 2008/09
(Deviations from Baseline)

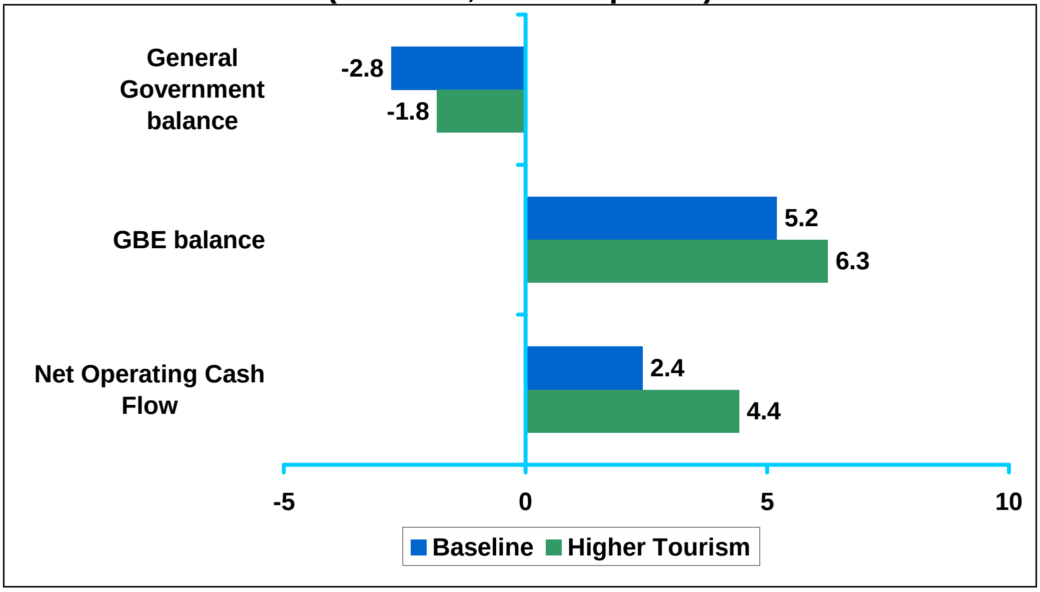


Source: NI model

Chart 6.2 shows that additional tourists flow through to an increase in travel exports of around 30 per cent. With additional tourist spending across the economy, the boost in economic activity leads to an increase in private disposable income. With more money to spend, consumption by Norfolk Islanders (private final demand) is expected to be almost 20 per cent higher than under the Baseline. Additional demand will lead to an increase in both local production and imports, with Chart 6.2 showing imports are expected to be around 22.9 per cent higher, relative to the Baseline.

The increase in tourist spending and economic activity across the Norfolk Island economy is expected to flow through to an increase in the NIG's net cash flow. Chart 6.3 shows the NIG's cash flow position if there are additional tourists in 2008/09 compared to the cash flow position under the Baseline scenario.

Chart 6.3
The NIG's Net Cash Flow with Additional Tourist Activity in 2008/09
($ million, 2004/05 prices)



Source: NI model

An increase in tourist spending is expected to lead to an increase in tax collected on the goods and services that tourists use. In particular, Customs Duty and NSL collections are both expected to increase. This increase in taxation revenue will flow through to reduce the General Government's deficit.

The increase in economic activity will also flow through to an increase in demand for goods and services provided by GBEs. For example, an increase in Accommodation services is likely to lead to an increase in the use of telecommunication and electricity services, which are both provided by GBEs. The chart shows that the GBE balance is expected to increase to $6.3 million with additional tourists in 2008/09 compared to $5.2 million under the Baseline scenario.

These two effects give an overall boost in the NIG's net operating cash flow in 2008/09 from $2.4 million to $4.4 million (compared to the Baseline). This brings the NIG's net cash flow above the required $4 million discussed in the previous section. Thus, this boost to tourism is estimated to fill the Baseline budget hole in 2008/09.

6.2 Higher NSL Rate

As discussed in Section 2, the NIG have recently passed a bill to introduce the Norfolk Sustainability Levy (NSL). This new levy was introduced to broaden the Island's revenue base. The NSL is currently set at 1 per cent of the sale price of goods and services.

It was decided that input tax credits for the NSL would not be made available to businesses. That is, businesses can not claim any NSL that has been paid on goods and services that are used in that businesses production process. This means that the NSL is a compounding tax. This is in contrast to the Australian GST, which allows input tax credits.

This decision was made for simplicity. It was also made on the basis that Norfolk Island supply chains tend to be relatively short. Relatively short supply chains limit the extent of compounding that arises. In contrast, the longer supply chains evident in the Australian economy would mean that a compounding GST would cause significant distortions across the economy.

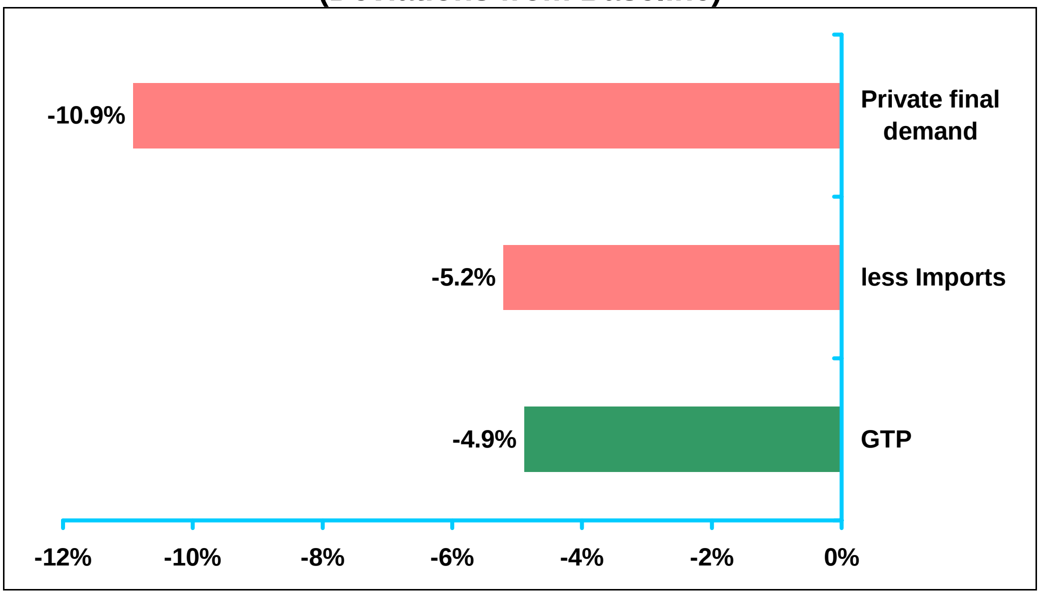
The alternative scenario modelled in this section examines the impact of increasing the current NSL rate to 3 per cent. However, it is envisaged that the NSL may replace some existing fees and charges such as Customs Duty (on goods intended for re-sale), the Financial Institutions Levy and the Accommodation Levy. An alternative scenario in Attachment A examines the size of the NSL that would be required if these three fees and charges were abolished.

This alternative scenario examines the impact on the Norfolk Island economy and the NIG's budget if the NSL rate was increased (with all other government tax rates held constant). The current level of NSL is 1 per cent (as modelled in the Baseline). This alternative scenario examines the impact of increasing the NSL to 2 per cent in 2007/08 and 3 per cent in 2008/09 and onwards.

It is important to note that this NSL scenario is separate from the higher tourist scenario presented in the previous section. That is, this alternative scenario uses the same tourist assumptions as the Baseline scenario.

The main results are presented in this sub-section. More detailed results can be found in Attachment A.

Chart 6.4
Change in Expenditure with a Higher NSL in 2008/09
(Deviations from Baseline)

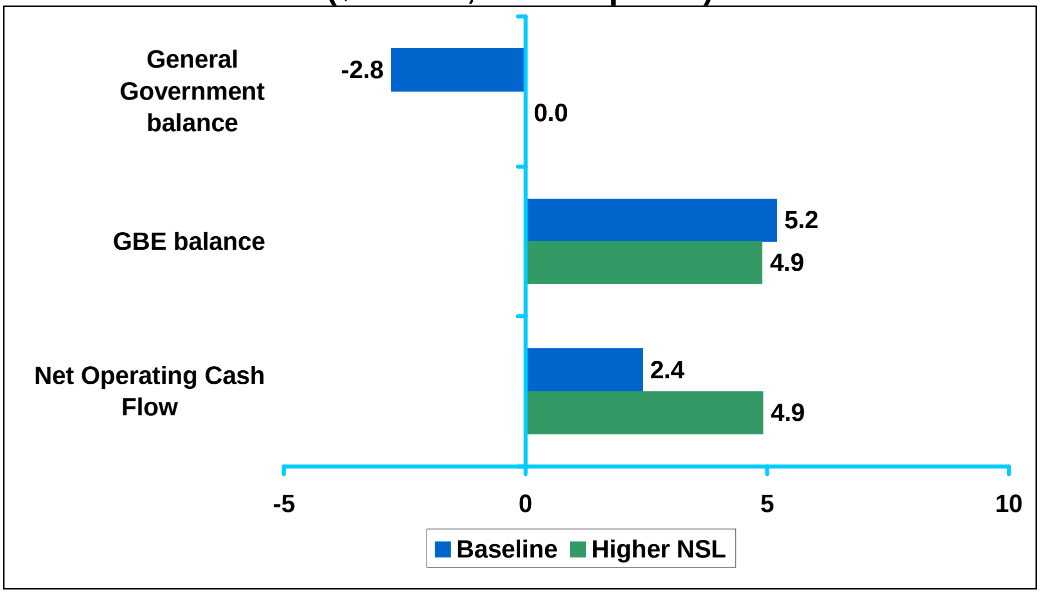


Source: NI model

A higher NSL will reduce spending power of residents, which will lead to a reduction in private final demand. Chart 6.4 shows private final demand almost 11 per cent below the Baseline level. Imports are also lower, at about 5 per cent below the Baseline. Lower

consumer demand flows through to lower GTP. Chart 6.4 shows GTP is estimated to be almost 5 per cent lower under a 3 per cent NSL compared to under the Baseline (1 per cent NSL).
However, despite a reduction in economic activity, the higher NSL rate is still expected to boost the NIG's net operating cash flow in 2008/09. Chart 6.5 shows the NIG's cash flow position with a higher NSL rate in 2008/09, compared to the cash flow position under the Baseline scenario.

Chart 6.5
The NIG's Net Cash Flow with a Higher NSL in 2008/09
($ million, 2004/05 prices)



Source: NI model

A higher NSL is expected to lead to an increase in NSL tax collected on the goods and services purchased in the economy. The reduction in activity across the economy is expected to lead to a slight reduction in other tax collections, compared to the Baseline. However, the increase in NSL collections is expected to more than offset this fall in other taxes.

The fall in economic activity will flow through to a reduction in demand for goods and services provided by GBEs. Chart 6.5 shows that the GBE balance is expected to fall to $4.9 million with a higher NSL in 2008/09 compared to $5.2 million under the Baseline scenario.

However, the additional NSL collections more than offset the reduction in other tax and GBE revenues. This gives an overall boost in the NIG's net operating cash flow in 2008/09 from $2.4 million to $4.9 million (compare to the Baseline). This brings the NIG's net cash flow above the required $4 million discussed in the previous section. Thus, similar to the increased tourism scenario, a 3 per cent NSL is also estimated to fill the Baseline budget hole in 2008/09.

7. Conclusion

The NIG is expected to achieve a net positive cash flow position in each year over the next five years. However, this net cash flow is not expected to be high enough to cover Norfolk Island's ongoing investment needs. It is estimated that, with no change to policy, there will be an average annual budget hole of about $1.6 million over this period.

It is estimated that this budget hole could be filled either by:

- increasing annual tourist numbers by around 10,000 visitors (boosts economy); or
- raising the NSL rate from 1 per cent to 3 per cent (dampens economy).

These two alternative policies have the same result in terms of filling the budget hole. However, they have significantly different impacts on the level of economic activity on the Island. An increase in the number of tourists boosts spending in the economy, which in turn boosts incomes and activity across the economy. In contrast, an increase in the NSL rate reduces the spending power of residents, which dampens spending in the economy. This, in turn, dampens activity across the economy.

The results in this report extend previous reports in this area by providing a more complete picture of the NIG's net cash flow position. In comparison, the budget hole estimated in the Acumen study is highly misleading, by assuming that most expenditures rise with inflation but most revenues do not. If the Acumen methodology were applied to the Australian Government's budget it would also (unrealistically) project a Federal budget deficit.

Attachment A – Detailed Results

A1. Baseline Scenario

Table A1.1
Baseline Scenario: Modelling Assumptions for 2008/09

	$'000, 2004/05 prices	percent
Travel exports	45,547	
NIG final demand	9,454	
Australian Government final demand	6,060	
Taxation assumptions		
NSL rate		1.0%
Adjustment to Customs Duty		100%
Adjustment to Accommodation Levy		100%
Adjustment to Financial Institutions Levy		100%

Table A1.2
Baseline Scenario: Industry Activity in 2008/09

	levels ($'000, 2004/05 prices)
Agriculture, forestry & fishing	1,179
Mining, manufacturing & construction	4,941
Retail trade	9,771
Accommodation	8,197
Cafés, restaurants & takeaway food services	3,779
Clubs (hospitality), pubs, taverns & bars	1,313
Travel agency & tourist arrangement services	2,523
General government services	11,363
Government business services	9,899
Ownership of dwellings	8,057
All other industries (includes stat boards)	9,227
GTP by industry	74,095

Table A1.3
Baseline Scenario: Norfolk Island Expenditure in 2008/09

	levels ($'000, 2004/05 prices)
Private final demand	51,607
NIG final demand	9,454
Australian Government final demand	6,060
Travel exports	45,547
less Imports	-38,513

Table A1.4
Baseline Scenario: The NIG's Net Cash Flow Position in 2008/09

	levels ($'000, 2004/05 prices)
General Government (Revenue Fund)	
Revenue	
General Customs Duty	*3,845*
General Financial Institutions Levy	*1,239*
General Departure Fees	*1,179*
General Accommodation Levy	*564*
General Vehicle Registrations and Licenses	*516*
General Fuel Levy	*401*
General Land Title Fees	*353*
NSL	*1,555*
Other Revenue	*1,425*
Total Revenue	11,075
Expenditure	
Wages and salaries	*6,361*
Transfers	*2,390*
Subsidies to Government Businesses	*1,086*
Subsidy to Tourist Bureau	*1,040*
Other	*2,975*
Total expenditure	13,853
Balances	
General Government balance	-2,778
GBE balance	5,201
Net Operating Cash Flow	2,423

A2. Higher Tourism Scenario

Table A2.1
Higher Tourism Scenario: Modelling Assumptions for 2008/09

	$'000, 2004/05 prices	percent
Travel exports	59,211	
NIG final demand	9,454	
Australian Government final demand	6,060	
Taxation assumptions		
NSL rate		1.0%
Adjustment to Customs Duty		100%
Adjustment to Accommodation Levy		100%
Adjustment to Financial Institutions Levy		100%

Table A2.2
Higher Tourism Scenario: Industry Activity in 2008/09

	levels ($'000, 2004/05 prices)	deviations from Baseline (%)
Agriculture, forestry & fishing	1,463	24.1%
Mining, manufacturing & construction	6,072	22.9%
Retail trade	12,165	24.5%
Accommodation	10,297	25.6%
Cafés, restaurants & takeaway food services	4,748	25.6%
Clubs (hospitality), pubs, taverns & bars	1,632	24.3%
Travel agency & tourist arrangement services	3,141	24.5%
General government services	11,902	4.7%
Government business services	11,912	20.3%
Ownership of dwellings	9,768	21.2%
All other industries (includes stat boards)	11,232	21.7%
GTP by industry	89,059	20.2%

Table A2.3
Higher Tourism Scenario: Norfolk Island Expenditure in 2008/09

	levels ($'000, 2004/05 prices)	deviations from Baseline (%)
Private final demand	61,891	19.9%
NIG final demand	9,454	0.0%
Australian Government final demand	6,060	0.0%
Travel exports	59,211	30.0%
less Imports	-47,335	22.9%

Table A2.4
Higher Tourism Scenario: The NIG's Net Cash Flow Position in 2008/09

	levels ($'000, 2004/05 prices)	deviations from Baseline (%)
General Government (Revenue Fund)		
Revenue		
General Customs Duty	*4,726*	*22.9%*
General Financial Institutions Levy	*1,508*	*21.7%*
General Departure Fees	*1,419*	*20.3%*
General Accommodation Levy	*572*	*1.5%*
General Vehicle Registrations and Licenses	*620*	*20.2%*
General Fuel Levy	*492*	*22.9%*
General Land Title Fees	*428*	*21.2%*
NSL	*1,923*	*23.7%*
Other Revenue	*1,712*	*20.2%*
Total Revenue	13,400	21.0%
Expenditure		
Wages and salaries	*6,663*	*4.7%*
Transfers	*2,873*	*20.2%*
Subsidies to Government Businesses	*1,322*	*21.7%*
Subsidy to Tourist Bureau	*1,267*	*21.7%*
Other	*3,117*	*4.7%*
Total expenditure	15,241	10.0%
Balances		
General Government balance	-1,841	-33.7%
GBE balance	6,259	20.3%
Net Operating Cash Flow	4,417	82.3%

A3. Higher NSL Scenario

Table A2.1
Higher NSL Rate Scenario: Modelling Assumptions for 2008/09

	$'000, 2004/05 prices	percent
Travel exports	45,547	
NIG final demand	9,454	
Australian Government final demand	6,060	
Taxation assumptions		
NSL rate		3.0%
Adjustment to Customs Duty		100%
Adjustment to Accommodation Levy		100%
Adjustment to Financial Institutions Levy		100%

Table A2.2
Higher NSL Rate Scenario: Industry Activity in 2008/09

	levels ($'000, 2004/05 prices)	deviations from baseline (%)
Agriculture, forestry & fishing	1,124	-4.7%
Mining, manufacturing & construction	4,683	-5.2%
Retail trade	9,220	-5.6%
Accommodation	8,007	-2.3%
Cafés, restaurants & takeaway food services	3,613	-4.4%
Clubs (hospitality), pubs, taverns & bars	1,236	-5.9%
Travel agency & tourist arrangement services	2,472	-2.0%
General government services	11,102	-2.3%
Government business services	9,325	-5.8%
Ownership of dwellings	7,294	-9.5%
All other industries (includes stat boards)	8,761	-5.1%
GTP by industry	70,481	-4.9%

Table A2.3
Higher NSL Rate Scenario: Norfolk Island Expenditure in 2008/09

	levels ($'000, 2004/05 prices)	deviations from baseline (%)
Private final demand	45,971	-10.9%
NIG final demand	9,454	0.0%
Australian Government final demand	6,060	0.0%
Travel exports	45,547	0.0%
less Imports	-36,505	-5.2%

Table A2.4
Higher NSL Rate Scenario: The NIG's Net Cash Flow Position in 2008/09

	levels ($'000, 2004/05 prices)	deviations from baseline (%)
General Government (Revenue Fund)		
Revenue		
General Customs Duty	*3,645*	*-5.2%*
General Financial Institutions Levy	*1,176*	*-5.1%*
General Departure Fees	*1,111*	*-5.8%*
General Accommodation Levy	*563*	*-0.1%*
General Vehicle Registrations and Licenses	*491*	*-4.9%*
General Fuel Levy	*380*	*-5.2%*
General Land Title Fees	*319*	*-9.5%*
NSL	*4,393*	*182.5%*
Other Revenue	*1,355*	*-4.9%*
Total Revenue	13,432	21.3%
Expenditure		
Wages and salaries	*6,215*	*-2.3%*
Transfers	*2,274*	*-4.9%*
Subsidies to Government Businesses	*1,031*	*-5.1%*
Subsidy to Tourist Bureau	*988*	*-5.1%*
Other	*2,907*	*-2.3%*
Total expenditure	13,415	-3.2%
Balances		
General Government balance	17	-100.6%
GBE balance	4,899	-5.8%
Net Operating Cash Flow	4,917	102.9%

A4. Additional Scenarios

Table A4.1
Results of Additional Scenarios, 2008/09

	units	baseline scenario (incl. 1% NSL)	higher tourism scenario (45,000)	Higher NSL	3.7% GST & no NSL	6.2% NSL, no Customs Duty, Accom. Levy or FIL	10.5% GST, no Customs Duty, Accom. Levy or FIL	approx. 50,000 tourism scenario
Economy								
Gross Territory Product	deviation from baseline		20.2%	-4.9%	-2.9%	-3.2%	-3.2%	30.3%
Private final demand	deviation from baseline		19.9%	-10.9%	-6.6%	-7.1%	-7.2%	29.9%
imports	deviation from baseline		22.9%	-5.2%	-3.2%	-3.4%	-3.4%	34.4%
Budget								
General Government (Revenue Fund)								
Revenue								
General Customs Duty	$'000, 2004/05 prices	3,845	4,726	3,645	3,724	0	0	5,166
General Financial Institutions Levy	$'000, 2004/05 prices	1,239	1,508	1,176	1,201	0	0	1,642
General Departure Fees	$'000, 2004/05 prices	1,179	1,419	1,111	1,138	1,135	1,134	1,539
General Accommodation Levy	$'000, 2004/05 prices	564	572	563	563	0	0	576
General Vehicle Registrations and Licenses	$'000, 2004/05 prices	516	620	491	501	499	499	672
General Fuel Levy	$'000, 2004/05 prices	401	492	380	388	387	387	538
General Land Title Fees	$'000, 2004/05 prices	353	428	319	332	331	331	465
NSL	$'000, 2004/05 prices	1,555	1,923	4,393	0	8,882	0	2,107
GST	$'000, 2004/05 prices	0	0	0	3,271	0	8,889	0
Other Revenue	$'000, 2004/05 prices	1,425	1,712	1,355	1,383	1,379	1,379	1,856
Total Revenue	$'000, 2004/05 prices	11,075	13,400	13,432	12,500	12,613	12,620	14,562

	units	baseline scenario (incl. 1% NSL)	higher tourism scenario (45,000)	Higher NSL	3.7% GST & no NSL	6.2% NSL, no Customs Duty, Accom. Levy or FIL	10.5% GST, no Customs Duty, Accom. Levy or FIL	approx. 50,000 tourism scenario
Expenditure								
Wages and salaries	$'000, 2004/05 prices	6,361	6,663	6,215	6,273	6,266	6,265	6,814
Transfers	$'000, 2004/05 prices	2,390	2,873	2,274	2,320	2,314	2,314	3,114
Subsidies to Government Businesses	$'000, 2004/05 prices	1,086	1,322	1,031	1,053	1,050	1,050	1,440
Subsidy to Tourist Bureau	$'000, 2004/05 prices	1,040	1,267	988	1,009	1,006	1,006	1,380
Other	$'000, 2004/05 prices	2,975	3,117	2,907	2,934	2,931	2,931	3,187
Total expenditure	$'000, 2004/05 prices	13,853	15,241	13,415	13,588	13,567	13,566	15,935
Balances								
General Government balance	$'000, 2004/05 prices	-2,778	-1,841	17	-1,088	-954	-946	-1,373
GBE balance	$'000, 2004/05 prices	5,201	6,259	4,899	5,019	5,004	5,003	6,787
Net Operating Cash Flow	$'000, 2004/05 prices	2,423	4,417	4,917	3,930	4,050	4,057	5,415

Notes:
1. The Baseline Scenario contains the current 1 per cent compounding NSL.
2. The higher tourism scenario (45,000) has approximately 45,600 tourists in 2008/09 (compared to approximately 35,100 under the Baseline).
3. The Higher NSL Scenario has a 3 per cent compounding NSL in 2008/09.
4. The 3.7% GST Scenario includes a 3.7 per cent non-compounding consumption tax in 2008/09, and abolishes the current compounding NSL.
5. The 6.2% NSL Scenario includes a 6.2 per cent compounding NSL in 2008/09, and abolishes the current Customs Duty, Accommodation Levy and Financial Institutions Levy.
6. The 10.5% GST Scenario includes a 10.5 per cent non-compounding consumption tax in 2008/09, and abolishes the current Customs Duty, Accommodation Levy and Financial Institutions Levy.
7. The approx. 50,000 tourism scenario has around 49,900 tourists in 2008/09. This is modelled as a 45 per cent increase in tourist demand in 2008/09, compared to the Baseline.