



THE GOVERNMENT OF NORFOLK ISLAND

SUBMISSION TO THE SENATE SELECT COMMITTEE ON STATE GOVERNMENT FINANCIAL MANAGEMENT – INQUIRY INTO STATE AND TERRITORY GOVERNMENT FINANCIAL MANAGEMENT

AUGUST 2008

Introduction

By letter dated 26 May 2008, the Chair of the Select Committee on State Government Financial Management invited the Norfolk Island Government to make a submission to its inquiry. The Norfolk Island Government advised Committee staff that it would make a brief submission, on the basis that it is less than two years since the Commonwealth undertook almost a full year of comprehensive inquiries into Norfolk Island finances in 2006, culminating in a Cabinet decision that no Commonwealth action was warranted.

The Committee may wish to look into the substantive 2006 report of the independent consultants Econtech Pty Ltd, which was a major factor in the decision of Federal Cabinet that the Norfolk Island Government was financially sustainable. A copy of that report is appended at Attachment A. Econtech produced modelling showing that some relatively modest adjustments to public policy settings in relation to revenue reform and tourism promotion would ensure ongoing sustainability. Those policy changes were made, with significant success, as shown by a second modelling study conducted a year later. A copy of the second Econtech report is also appended (Attachment B) for the Committee's information. Econtech provided a briefing on its 2006 report for the then Minister for Territories and a detailed presentation for Ministerial staff and officers from Treasury, Finance and other Departments. It has indicated its availability to provide similar briefings if required on its more recent report.

It may also be significant that the Commonwealth Government declined to release a report it commissioned from the Centre for International Economics (CIE) into the impacts of possible changes to the governance model which would have removed some self-government responsibilities from Norfolk Island and extended most Commonwealth legislation to this jurisdiction. However, in Ministerial meetings, the Commonwealth indicated orally that the CIE report showed that the governance changes which it was considering would cause substantial economic detriment to Norfolk Island. In light of the Econtech and CIE reports and all other information presented to it, Federal Cabinet decided in late 2006 that no changes would be made to Norfolk Island self-governance.

Previous external inquiries and reports

It is a major concern to the Norfolk Island Government that it is constantly subject to review by external committees and consultants funded by the Commonwealth, frequently looking into the same subject matter concerning Norfolk Island's financial sustainability. These reviews oblige Norfolk Island to divert scarce human and financial resources into responding on issues which have previously been dealt with on numerous occasions. Despite the 2006 Cabinet decision, the then responsible Federal Minister indicated that he would continue to monitor the performance of Norfolk Island and would not rule out revisiting the governance issues.

The Commonwealth Government has seldom acted on the recommendations made in these numerous reports and has almost never accepted recommendations that could lead to improved economic or social outcomes for Norfolk Islanders. By contrast, the Norfolk Island Government takes these reports seriously and has since self-government taken action to implement recommendations or to institute appropriate policies and programmes in reaction to almost all external reports. The relevant improvements in areas including health care, education, social welfare, transparency, accountability and community services are incorporated in the programmes detailed below.

There have been many recommendations in these reports not implemented by the Commonwealth. As well, little substantive Commonwealth action resulted from the most comprehensive study of government services and governance in Norfolk Island produced by

the Commonwealth Grants Commission in 1997. By contrast, successive Norfolk Island Governments took action to improve programmes and services in all areas identified by the Commission as in need of attention. Norfolk Island has also continued since that time to provide the many services identified by the Commission as superior to those found in other Australian jurisdictions, including school education, hospital services and police. The table at Attachment C lists a relatively small but representative sample of recommendations in external reports which could have benefited Norfolk islanders but which have not been accepted or actioned by the Commonwealth. Many more examples could be offered if the Committee feels that to be necessary.

Norfolk Island sustainability and service delivery

It is important to recognise that the sustainable and self-supporting Norfolk Island government and economic structures are unique and are based on very different principles from those of Australian jurisdictions. Norfolk Island has remained sustainable due to a careful public policy mix of low taxes, low regulation and relatively low wage costs. As well, the Norfolk Island Government generates substantial revenue from business activities to underwrite health, education and welfare services. This formula has enabled Norfolk Island to retain as its major industry a competitive tourism sector, revenue from which in turn is a major factor in funding social programmes and welfare services equivalent to those on the mainland, and in most cases substantially better than those in comparable remote Australian communities.

It is disturbing to note that this fact has been ignored or misrepresented by witnesses to the Committee and even by Committee members, who have erroneously claimed that standards of health and welfare services in Norfolk Island would not be acceptable or “normal in Australia”. These opinions are strongly refuted by the Norfolk Island Government, and are at odds with the independent findings of the Commonwealth Grants Commission. We draw to the Committee’s attention just a few examples of the unique Norfolk Island programmes which provide appropriate services to our community at levels which are equivalent or better than mainland standards.

Education

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

Social Welfare

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

Single - Age – Invalid - Widows	\$578.70
Married - Age - Invalid	\$482.90
Orphans	\$106.70
Handicapped Children	\$139.10
Supplementary Children	\$ 82.20

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

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

Health care

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

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

All infants, pre-schoolers and school-aged children, together with pregnant women, receive dental care free of charge. This is provided at a fully-equipped and staffed dental clinic in close proximity to the hospital.

The Hospital Board has established two working groups which have made substantial progress on projects to replace the existing hospital buildings and to improve aged care facilities, within the resources of the Norfolk Island Government and community and without external assistance. These plans will involve the phased replacement of buildings in modular form, with first priority being given to aged care facilities. Representatives of Uniting Care will again be visiting the Island in the near future to progress their plans for the purchase and operation of independent living units for aged members of the community to complement the existing hostel and high dependency care provided at the hospital.

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

Comparable communities

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

- Four free-to-air television channels and four radio frequencies relayed by Norfolk Telecom plus local AM/FM radio and one television channel
- A fully funded comprehensive local workers compensation scheme
- All public service superannuation fully funded with funds held in trust
- Community ownership of a profitable international airline, Norfolk Air
- Over 90% of public roads sealed and maintained
- Mortuary, undertaking, funeral and cemetery services provided free of charge
- A range of immunisations and vaccinations provided free of charge or at subsidised rates, with higher take-up rates than in comparable Australian communities
- Community ownership and operation of the public library, postal service, electricity supply, telecommunications, international airport, visitor information centre and many others.

Population

Unlike the situation in many comparable small remote communities, the ordinarily resident population of Norfolk Island has remained remarkably stable in the last 20 years, when comparisons are made on valid long-term trends. (Those “ordinarily resident” include Residents and holders of General Entry Permits and Temporary Entry Permits. Tourists and other short-term visitors are excluded.) Numbers measured weekly show considerable volatility due to a range of factors including the availability of airline special fares over restricted periods, special community events on-island (such as Bounty Day) and the absence of large delegations for events such as the Commonwealth Games or the Festival of Pacific Arts. There can also be seasonal variations due to fluctuations in the tourist trade with consequent effects on the number of temporary workers in Norfolk Island.

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

1986	1977
1991	1912
1996	1772
2001	2037
2006	1863

The ordinarily resident population as at 8 August 2008 was 1866. The above figures show a 20-year average of just over 1900 persons ordinarily resident in Norfolk Island, but are distorted by the much higher figure in 2001, when Norfolk Island was serviced by two private sector airlines operating from Australia. Subsequently, one of these organisations withdrew and the other went into liquidation. Tourist numbers in 2001 (and thus the numbers of temporary workers) were artificially high due to unsustainable price competition between two airlines. It should also be noted that in 2001, Norfolk Island hosted the South Pacific Mini Games, a single event which brought more than 1,000 extra visitors to the Island.

Like many small and remote communities, Norfolk Island sees some drift to the cities of younger persons seeking greater educational and employment opportunities. However, unlike comparable communities in Australia, Norfolk Island is able to balance this outflow with a continual number of persons, including Residents, who return or relocate here for employment or lifestyle reasons. The Norfolk Island Government has not in the past proactively promoted

business-based immigration, but is in the process of finalising a population policy which is likely to include positive initiatives to encourage private sector investment, economic diversification and population growth.

Commonwealth expenditure in Norfolk Island

The Norfolk Island Government acknowledges that the Commonwealth does make available to Norfolk Island some limited access to national programmes. We are grateful for funding to the private and community sectors under the former Regional Partnerships Programme and the Natural Heritage Trust. Norfolk Island Administration has also received some assistance with environment and waste management programmes, and did receive substantial funding for telecommunications from Networking the Nation.

In addition, the Commonwealth has foregone interest on two loans related to stabilisation of the Cascade Cliff and the resurfacing of the Norfolk Island Airport tarmac. These loans comprise the total of all Norfolk Island Government debt amounting to \$12.62m. The outstanding balance of around \$622,000 for the Cascade Cliff project will be paid from royalties received on crushed rock products in six-monthly instalments. The loan of \$12m for Airport runways is due for repayment over ten years, with the first six-monthly repayment of \$600,000 due in December 2009. These repayments will be made from Airport revenues, especially passenger movement charges.

The vast majority of Commonwealth expenditure in Norfolk Island is to service Commonwealth assets and to employ Commonwealth public servants to deliver programmes of national significance. Evidence to the Committee has already suggested that this total expenditure is of the order of \$3m per annum to cover the Bureau of Meteorology, National Park, Administrator's Office/Government House and the Kingston and Arthurs Vale Historic Area. None of this funding goes to the Government or Administration of Norfolk Island.

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 growing the economy through the use of innovative methods to ensure service delivery to the people of the Island community. Two examples can illustrate this.

In 2005, when the privately owned Norfolk Jet Express airline ceased to operate, the Commonwealth declined any financial assistance on the basis that Norfolk Island still had regular air services from New Zealand. Faced with the imminent collapse of the tourism industry, the Norfolk Island Government used some of the reserves generated from airport operations to establish air charter services in partnership with three significant private sector companies, including Qantas. The Norfolk Island Government honoured presold tickets to the value of approximately \$1.5m and has continued to provide air services for the past three years. In that time, Norfolk Air has been established and services have been increased to cover five Australian destinations (instead of the previous two) and tourist arrival numbers have increased by 25%. The Commonwealth contributed almost \$50,000 to a consultancy in 2005 to establish the fare structure for the air service. This was approximately 1.25% of the total Norfolk Island Government financial commitment to air services, most of which has since been recovered by airline profits and growth in revenues from passenger movement charges, airport fees and other taxes. Norfolk Air has been consistently profitable over the past two years and forward bookings continue to increase. Profit and loss statements for Norfolk Air are tabled monthly in the Legislative Assembly, with its full annual accounts

tabled as part of the Administration's consolidated financial statements (as audited by independent external auditors).

More recently, the Norfolk Island Government has had to turn to sources outside the Commonwealth to ensure the maintenance of community services and to protect Norfolk Island's competitive position against other South Pacific tourism and investment destinations. The Commonwealth has consistently declined to assist Norfolk Island to obtain access to high speed broadband, and a direct approach to Telstra for access to its fibre optic cables (which pass close to the Island) was unsuccessful. In order to secure high speed broadband access, the Norfolk Island Government has now signed a letter of intent to join the South Pacific Island Network (SPIN), which is subsidised by the French Government. SPIN is creating a fibre optic network to link New Caledonia and Tahiti to world fibre optic networks, with a cross-Pacific cable allowing links to Fiji, Samoa, Tonga, Niue and Cook Islands, among others. Norfolk Island will now join SPIN for an annual subscription fee within the resources of Norfolk Telecom and will have full high speed broadband and other modern telecommunications links in 2010. This decision was taken to enable us to offer services to our community and to encourage investment and economic activity, but was also necessary to ensure that we do not lose business reliant on high technology to neighbouring South Pacific states.

Summary

Norfolk Island has viable, successful and sustainable economic and political structures. Public finances and financial reserves are sound, as verified by independent expert analysis and by internal and external audit. The Norfolk Island Government remains committed to continuous improvement in service delivery, efficiency and effectiveness, as demonstrated in its Strategic Plan 2007-09. The first phase of that plan has been largely completed, and currently in progress is a complete review of the Plan to assess achievements so far and to update objectives and strategies for the remainder of the term of the 12th Legislative Assembly.

In submitting that there is room for recognising Norfolk Island's efforts to maintain an island economy through many initiatives and despite multiple Commonwealth restrictions, Norfolk Island Government proposes that the existing financial and governance structures are most appropriate to maintain and improve levels of service for all who reside in Norfolk Island.

We respectfully suggest that the Committee should affirm the Commonwealth's decision in 2006 not to make governance or taxing changes on the basis that a move toward the high taxing, high welfare dependency, high regulation model of the Commonwealth would irreparably damage the unique economic balance of Norfolk Island. We further submit that the Committee could affirm its support for those beneficial recommendations of previous reports, including those summarised in Attachment C. Implementation of such recommendations should ensure that the Commonwealth and Norfolk Island Governments could work together in cooperative partnership to achieve a better future for the people of Norfolk Island. This would not only ensure sustainability, but also provide some long term certainty for individuals, groups and organisations who want to invest in the Island's economy.