

NORFOLK



ISLAND

## **THE GOVERNMENT OF NORFOLK ISLAND**

### **MEDIA RELEASE**

#### **Public sector reform and major changes to revenue system**

Minister for Finance Ron Nobbs made a major statement about the economic future of Norfolk Island at the sitting of the Legislative Assembly on 20<sup>th</sup> April. He said that it was time to take strong measures to deal with a range of critical issues threatening the Norfolk way of life, including:

- Coping with the ramifications of an ageing population and subsequent provision of future health, welfare, aged care and pension services;
- Replacement of depreciated public infrastructure such as roads, buildings and communication networks and of badly depleted equipment assets;
- Reduction in the numbers of tourists coming to Norfolk Island, and in the amounts of money they spend while on the island: and
- Deficits in the Revenue Fund budget, which this year may well amount to over \$2 million.

The Minister said that a range of decisions and actions had been taken to restore Administration and Government financial stability and to stimulate future economic growth.

He detailed a programme of review and reform within the Norfolk Island public sector on five main fronts:

- A thorough review of all expenditure, which had already resulted in substantial savings;
- A productivity working group to report by May on measures to improve efficiency in the public sector;
- Moving toward commercialisation of government business enterprises and functional units;
- A complete review of the structure, organisation and functioning of the public sector; and
- A programme of management training aimed at improving the skills and performance of managers and developing managers for the future.

Mr Nobbs also announced a major change to Government revenue measures, aimed at removing some inefficient taxes and charges and generating sufficient funds to deliver essential health, education, welfare and community services and upgrading infrastructure. He said that before the end of 2005, the Government would remove customs duties on commercial imports and also abolish the Financial Institutions Levy, Airport Departure Fees and the cold bed tax on accommodation houses.

The most significant planned change is the introduction during 2005 of the Norfolk Sustainability Levy, a broad-based scheme designed to apply to both tourists and residents alike, which will collect a levy on the sale of all goods and services provided on the Island.

While operational details of the levy are being finalised, the Minister said there would be ongoing consultation with the community to ensure that the transition to the new scheme is smooth and effective.

The full text of the Minister's statement of 20th April is attached.

21<sup>st</sup> April 2005

## **Statement by the Minister for Finance**

At recent sittings of the Legislative Assembly, I have highlighted some critical issues threatening the very future of Norfolk Island as we know it. I fear that for many years we have failed to properly address the financial and economic crises building in our midst and to put in place measures to ensure that we can protect and sustain the heritage of this magnificent island and our way of life.

The time has come for us to recognise the critical issues and to deal with them. As I have said before, those pressing issues include:

- Dealing with the ramifications of an ageing population and subsequent provision of future health, welfare, aged care and pension services;
- Replacement of depreciated public infrastructure such as roads, buildings and communication networks and of badly depleted equipment assets;
- Reduction in the numbers of tourists coming to Norfolk Island, and in the amounts of money they spend while on the island: and
- Deficits in the Revenue Fund budget, which this year may well amount to over \$2 million.

I am pleased to say that the government does take these issues very seriously indeed, and today I can inform the Assembly and the public of some significant decisions which will help to restore the stability of Government and Administration finances, return the Revenue Fund Budget to surplus and allow us to plan in a measured way for the replacement and improvement of vital public infrastructure of Norfolk Island.

At the same time, I have launched a thorough review of all areas of the Administration with a view to improving productivity, raising efficiency and identifying expenditure savings.

I have previously informed the Assembly that I intended to conduct a rigorous and wide-ranging review of all aspects of the Norfolk Island public sector with a five-pronged approach. I can now report some progress on those five initiatives:

- I initiated a complete review of all expenditure in 2004-05, including a freeze on new public sector employment and a rigorous examination of all planned capital expenditure. This has significantly reduced the projected budget deficit, as well as releasing an additional \$150,000 for much-needed tourism promotion.
- A separate group comprised of senior executives and representatives of the Public Service Association has met weekly since February to identify productivity measures and ways of achieving efficiency savings in the way the public service operates. I expect to receive the group's final report next month, and will make its findings available to members of the Assembly shortly after that.
- A small working group was asked to explore the option of corporatisation of government business enterprises, with a view to ensuring that they operated more on business lines than at present. Members will recall that the Grants Commission Report in 1997 had suggested that this concept should be explored.

The working group has made two recommendations that have been accepted in full by the government. The first is that as an initial step we should move to commercialisation of government business enterprises. This will allow each entity to remain wholly government owned and operated, but to function on commercial lines, with proper

business plans, utilising a user pays principle, a cost recovery regime with included profit margin and a better customer-focused approach. Entities will still be able to access centrally supplied support services on the basis of a service level agreement.

The working group has also identified operational inefficiencies across all GBEs and functional units, which are resulting in waste of resources including both time and money.

I have agreed to implement the working group's second recommendation for a full review of GBEs and functional units of the Administration.

- We have also commenced a complete review of the overall structure, classification levels, career paths, and functions of the public sector, including all of the Administration's government business enterprises and functional units, with a view to mapping the individual duties of all individuals and positions and to restructuring the public sector into a dynamic organisation, able to better support the Government of the day, to provide career opportunities for staff and to meet the service delivery challenges of the future.
- Finally, I have arranged for the preparation and implementation of a programme of management training in the public sector. This programme is directed at improving the skills and performance of managers and potential managers, in effect all those who wish to reach management level. I am confident that the training programme will result in a more effective and productive public sector and better delivery of services to the community.

Despite the efficiencies and savings which will be produced from this comprehensive programme of reform, we still face a significant gap between the revenue received and the community's expectations of the services, which the Government and Administration will provide.

For many years successive Norfolk Island Governments have talked of the need to broaden the base of our revenue collections and to ensure that the cost of providing essential services was shared fairly across our community. Various reviews in the past have also supported this need, but very little has been done to change the situation.

Consequently, we are now facing a substantial budget deficit this financial year, which will be further exacerbated in future years unless we do something immediately.

*In part, our current dilemma relates to the fact that we have been experiencing a very large leakage of revenue over past years, due to the ever-increasing number of people and businesses finding more and more creative ways of avoiding the payment of Government fees and levies. This has subsequently resulted in an inequitable situation where some people on the Island are carrying an ever-increasing tax burden, while others are getting away without paying their fair share.*

In an attempt to repair this imbalance, we have considered a very wide range of revenue measures to deal with the situation. Earlier this week I provided Members with a list of 21 possible new charges, taxes and levies that had been suggested from time to time over the years, and which have now been considered in detail by a revenue review working group.

Without repeating the entire list, major items considered for introduction included various forms of income taxes; an activities tax on services such as tours and restaurant meals; an annual bus seat levy; payroll taxes; land taxes; rental property taxes; charges for local phone calls; value added taxes; a capital gains tax and many more.

The working group has completed its work and has reported its recommendations to me.

**I am pleased to announce today that the government has decided to change the manner in which it will raise its future revenues, by implementing changes to its duties, levies and charges, which will turn around our financial situation.**

**The most significant change will be the introduction during 2005 of the Norfolk Sustainability Levy, a broad-based scheme designed to apply to both tourists and residents alike, which will collect a levy on the sale of all goods and services provided on the Island.**

**As it is only in the past few days that Members have agreed to the levy, there remains now the task of refining how the scheme will be fully implemented. Whilst considerable work has been done, it was considered the proposal was at a stage where Members could provide their views prior to proceeding to finalisation and the community be advised accordingly.**

**A small team of senior personnel are currently finalising the operational details. It is my intention then to have workshops conducted within the community to explain how the levy will operate and to provide answers to questions people will have regarding its possible effect on them.**

**The Norfolk Sustainability Levy will also be designed to replace a number of existing charges which are not fully effective or which impact unreasonably on one sector of the community. In particular, we will abolish the Financial Institutions Levy, airline passenger departure fees and the accommodation house cold bed tax. We will also abolish customs duty on all business imports.**

**Our current financial situation is dire but we can recover and I am confident that the measures I have announced today will restore our economic base, assist in addressing our longer-term issues and put us firmly on the path toward a brighter and sustainable future.**

**I will be announcing more detail of these plans as soon as possible, but rest assured that these changes must, and will, happen well before the end of 2005.**

As you all know, I was brought up on Norfolk Island and have seen our community unite in times of challenge to achieve great things and to safeguard this Island's unique qualities. Again we are faced with a large challenge to address - we can, and must, do it again.

With the help of Members of the Assembly and the entire community, I am sure we will.

20 April 2005

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