



## **THE GOVERNMENT OF NORFOLK ISLAND**

### **MEDIA RELEASE**

#### **Norfolk Island submission to the Grants Commission**

The Norfolk Island Government has made public its submission to the Commonwealth Grants Commission inquiry into the financial capacity of Norfolk Island. The Chief Minister of Norfolk Island, the Hon Geoff Gardner MLA, said today that the submission consists of a 14-page document responding to the Commission's draft terms of reference, together with almost 300 pages of attachments.

He said that the entire package includes the Assembly Priorities Plan 2004-2007 and the Administration Management Plan 2005-2006, which together provide a large amount of detail about the policies and programmes of the Government and Administration and plans for future service delivery. The full submission with attachments is available at [www.gov.nf](http://www.gov.nf) and [www.ni.net.nf](http://www.ni.net.nf). Following is a brief summary of the main points of the Norfolk Island submission.

The Government draws attention to the inadequate and incomplete terms of reference for the inquiry, which exclude consideration of central government services and revenues. The submission states that the terms of reference "...are too narrow and can only lead to a conclusion by the CGC that Norfolk Island does not have the capacity to fund the wide range of services it now provides through traditional state and local taxes and revenue measures".

"In light of the fact that Norfolk Island administers three tiers of government (equivalent to local, state and Commonwealth in the mainland context) it is inevitable that there is an overlap between its equivalents of state and local taxes with Commonwealth-type taxes. In the circumstances, the CGC will be unable to make an adequate assessment if the terms of reference remain limited to consideration of the '...capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments'. A full assessment would require proper consideration of the whole role of NIG, including the revenue and expenditure to administer Commonwealth-type responsibilities".

The Grants Commission inquiry is required to consider "the circumstances of the island", and the Government submission details a range of special circumstances relevant to assessing Norfolk Island's financial capacity. These include:

- Culture and traditions
- Population and immigration
- Geography and ecology
- Tourism and related services
- Air services
- Freight costs

The submission states that "...NIG regards the range and standard of services provided in Norfolk Island as appropriate in terms of equivalent Commonwealth, state and local government services having regard to Norfolk Island's demographic, social and cultural characteristics. As in other jurisdictions, current economic conditions are also a major factor in determining levels of service provision. The NIG is concerned that the level and standard of services provided in Norfolk Island will be assessed by the CGC against "comparable Australian average levels". The NIG contends that there is no comparable Australian community".

The government submission also addresses the provision of appropriate and community based services: "...under the internal self-government model in place since 1979, NIG has developed a wide range of programmes to deliver services appropriate to the special needs and circumstances of the Island community. These include education, health, social welfare, aged care, environment, police and law enforcement, workers compensation, culture and arts, among many others. Most of these services are delivered at costs to the community well below mainland levels and in a manner that is appropriate for the special circumstances of the Island".

Following a review of the current situation regarding revenue, expenditure and infrastructure, the Government submission comments directly on the draft terms of reference as follows:

- (i) *"what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island government operates at the same level of efficiency as State and local governments.*

NIG has indicated above why it rejects the concept of "average levels of service" as being appropriate for the special circumstances of the Norfolk Island community. It contends that the levels of State-type services provided are in most circumstances superior to those in similar mainland communities. NIG bases its recurrent and capital expenditure budgets on provision of services at the level expected by the Norfolk Island community and respectfully suggests to CGC that these should form the basis of its assessment of the appropriate costs for its report.

It is conceded that in the past NIG budgets have not allowed sufficient allocations for depreciation and/or asset replacement. This is being addressed as part of current planning for asset management and will from 2006-07 be fully incorporated into NIG budgets and forward planning for both revenue and capital expenditure.

- (ii) *the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.*

As indicated above, Norfolk Island's economy is heavily dependent on the tourism industry, with the majority of tourists falling into age and income demographic sectors that are extremely price-sensitive. The Island's principal markets are Australia and New Zealand, meaning that it is competing against domestic destinations currently served by discount airlines with airfares at far lower levels than are achievable on sectors to Norfolk Island. Within the South Pacific, most competing destinations have extremely low wage structures.

Norfolk Island's main competitive advantage is that it imposes low levels of taxes on tourist operators, retailers and accommodation houses. Imposition of taxes of the types levied by State and local governments in Australia would be likely to severely damage the competitiveness of the Norfolk Island tourist industry, resulting in a severe downturn in tourism and the probable collapse of the Island's economy.

In relation to the taxes detailed in the CGC Issues Paper, NIG is strongly opposed to direct taxes on employment provision, and is of the view that a payroll tax would severely reduce employment opportunities in the Norfolk Island community. Land taxes and land rates would need careful examination to determine the effects which would occur to the unique pattern of traditional land tenure and the likely negative impacts on Norfolk Island cultural, family, religious and inheritance values.

- (iii) *the amount of financial assistance needed from the Australian Government to allow the Island to meet the cost of providing the services mentioned above (including the actual cost of servicing its existing loan agreements) having regard to the Island's capacity to raise revenue also mentioned above.*

NIG is of the view that it already has the capacity to raise sufficient revenue to provide services at an appropriate level. It appreciates the assistance of the Commonwealth in providing interest-free loans for some capital works, and is servicing those loans in accordance with the loan agreements. While there might be a need for further such loans for future major projects, NIG notes that the Commonwealth places strict restrictions on its ability to borrow to fund important public infrastructure. This precludes NIG from raising capital within its own community through the issue of infrastructure bonds or other government-guaranteed securities, thus greatly reducing the potential to raise substantial local revenue.

- (iv) *how much local government funding the Australian Government might provide to Norfolk Island on a basis consistent with local government funding applying in the rest of Australia.*

NIG believes that the revenue-sharing arrangements with Australia should be based on the levels of taxes now generated by the Commonwealth from Norfolk Island residents and business operations, and the cost of services provided to Commonwealth entities by the Administration of Norfolk Island. Since the full range of Australian taxes do not apply in Norfolk Island, and collection of those, which do apply, is in a different form from mainland procedures, NIG does not seek full access to Commonwealth revenue-sharing arrangements.

It is respectfully suggested that CGC should undertake assessment or estimate of the Commonwealth taxes collected from Norfolk Island individuals and businesses and of the cost to NIG of providing services to the Commonwealth as a basis for its response to draft term of reference (iv)".

The Chief Minister said that the Norfolk Island Government expects to have further discussions with Grants Commission officers during their forthcoming visit.

Geoff Gardner  
**Chief Minister**

21<sup>st</sup> April 2006