

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.01 EVENT BRIEF – Kingston and Arthur’s Vale Historic Area (KAVHA) tour

Date and Time:	12 November 2018, 3.00 pm
Location:	Meet at Pier Store Museum
Meeting with:	Tour of Kingston and Arthur’s Vale Historic Area (KAVHA) and meeting with the local representatives of the Advisory Committee
Attendees:	Eric Hutchinson, Administrator Duncan Evans, KAVHA Advisory Committee member Dids Evans, KAVHA Advisory Committee member Museum Curator

Outcomes Sought:

- The visit will provide an opportunity for the Minister to understand KAVHA’s economic potential, future investment needs to meet Australia’s international obligations and how the community values and uses the site.

Key Issues:

KAVHA’s potential

- KAVHA is a World Heritage site showcasing Polynesian, convict and Pitcairn Islander history. It is one of eleven sites that make up the Australian Convict Sites World Heritage Property, and is recognised as being among the best surviving examples of large-scale convict transportation and the colonial expansion of European powers.
- KAVHA is a significant drawcard for tourists. It attracts visitors from the mainland and internationally. A 2017 Economic Feasibility Study conducted by the Centre for International Economics (CIE report) shows that more than 78 per cent of people visiting Norfolk Island went to KAVHA and 38 per cent of tourists reported that KAVHA was their main reason for visiting.
- KAVHA is a traditional focal point for many Norfolk Island community activities. It is a working site, as home to one of the island’s two major piers for receiving freight and passengers. Norfolk Island Regional Council (NIRC), the Golf Club, Lions Club, sports fields, cemetery and the popular swimming beach at Emily Bay are located within KAVHA.
- KAVHA has significant potential to generate revenue and contribute to the Norfolk Island economy while providing improved recognition of the site’s cultural and traditional significance to the Norfolk Island community.

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Community Engagement

- The KAVHA Advisory Committee provides expert and community input to the Department of Infrastructure, Regional Development and Cities (the Department) to guide management of KAVHA. The Advisory Committee comprises two community members (Mr Duncan Evans and Mr David Evans), two independent heritage experts (Mr Kevin Sumption, Director and CEO of the Australian National Maritime Museum, and Ms Kristal Buckley, Senior Lecturer in Cultural Heritage Management at Deakin University). The Committee is chaired by the Administrator of Norfolk Island.
- Following a call for expressions of interest, the KAVHA Advisory Committee expert and community members were appointed in November 2015 for an initial two-year term by the then Administrator of Norfolk Island, the Hon Gary Hardgrave.
- Expert and community members were subsequently re-appointed by the General Manager, Norfolk Island Branch, for a further two years to 30 November 2019.
- Mr Eric Hutchison will Chair the Advisory Committee for the term of his appointment as Administrator of Norfolk Island, which expires 31 March 2019.
- The Department and the KAVHA Advisory Committee have recognised the need for a more concerted effort to keep the community informed of activities at KAVHA and facilitate greater community involvement in the site. A regular radio update, more regular updates in The Norfolk Islander newspaper and Norfolk Online, and greater engagement with the Norfolk Island Regional Council (NIRC) and its advisory committees are part of this effort. In addition, establishment of a formal Community Advisory Group is underway, with terms of reference in development.

Constraints on KAVHA

- The current KAVHA governance arrangements are inadequate and do not provide the Australian Government with the ability to meet its world heritage obligations to protect, conserve, present and transmit the values of KAVHA.
- Key governance constraints include a lack of visibility and control over activities on site, an inability to generate, retain and reinvest revenue and an inability to employ specialist staff.
- The CIE report found that the current level of funding for KAVHA's site maintenance and conservation was insufficient. Interpretation of the site was also considered below the standard of other Australian Convict Sites and less than required to meet the Australian Government's obligations for 'presenting' the World Heritage values.
- The CIE report noted KAVHA's potential to contribute to Norfolk Island's economic development, and identified governance reform as the single biggest impediment.
- The Department is seeking to identify a suitable governance model for KAVHA and planning to bring this forward as part of the 2019-20 Budget submission.

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- AECOM has been engaged to develop a Strategic Asset Management Plan for the Australian Government's assets on Norfolk Island, with KAVHA identified as the first priority site for review.
- AECOM is expected to provide a report on KAVHA's asset management requirements before the end of 2018. This will support development of a site maintenance and conservation program which includes identified priorities and scoped projects. Funding for this program of works is to be considered by the Australian Government in the context of the 2019 Budget.

Safety

- The KAVHA site has a number of inherent safety hazards which require management to mitigate risks to the public, including visitors, workers and residents. The hazards and risks are consistent with the nature, age and condition of the buildings and other infrastructure on the site.
- GML Heritage recently completed a safety hazards scoping study of the KAVHA site which identified possible solutions to improve public accessibility and safety while preserving KAVHA's unique character.
- Additional funding secured in the 2018 Budget will improve the conservation and presentation of the site and contribute to addressing visitor safety.
- Thirteen very high risk hazards were identified that may have very serious consequences. These hazards primarily relate to potential structural failure of buildings, retaining walls and bridges; fire safety, including inadequate fire egress from multi-storey buildings and other infrastructure failure.
- A further 55 hazards were rated as high risk. Other hazards include slip, trip and fall hazards, health hazards, hazards from extreme weather events and hazards arising from the interaction of pedestrians and vehicles.
- The range of risks will be addressed through a combination of the site maintenance program, access changes, major capital works projects and further technical investigations.
- AECOM have recommended engineering solutions for the five highest priority structural issues at the site. This advice is being peer reviewed by heritage experts to ensure that the solutions are compatible with the heritage nature of the site.
- Addressing the identified hazards is well beyond the capacity of the current financial resources available for KAVHA. The Safety Hazards Scoping Study and AECOM Strategic Asset Management Plan will be important in underpinning future budget submissions.

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- Some proposed mitigation strategies that will impact the way the community accesses and uses the site such as controlled parking, pedestrian and vehicle movement, water quality and vegetation management are closely linked to the KAVHA Cultural Landscape Management Plan (CLMP). Community consultation on key safety mitigation strategies is proposed to occur in tandem with the public review of the CLMP.

Cultural Landscape Management Plan (CLMP)

- In 2017-18 GML Heritage and Context has also developed a CLMP for KAVHA. This plan will provide a valuable tool to guide future management of KAVHA to conserve its significant heritage values, improve the experiences for visitors, and ensure it remains an integral part of the local community.
- The plan considers a range of practical issues including strategies to guide the management of priority issues such as vehicle and pedestrian access, livestock, vegetation, site drainage and water quality.
- Public review of the draft CLMP will occur in late 2018 and early 2019 to confirm priorities for improving site access and presentation. The projects to be implemented from this plan are likely to include improving vehicle and pedestrian access, managing livestock within the site, resolving water quality issues and managing vegetation to protect historical vistas.

Site Interpretation

- The Australian Government has responded to the feedback frequently provided by visitors that site information needs to be improved. A comprehensive site interpretation plan is currently being written to develop stories of each of the site's settlement periods and identify engaging and innovative ways to present information while preserving the site's unique character.

Background:

- The Department has overall responsibility for the management of KAVHA, guided by the statutory KAVHA Heritage Management Plan (2016). A specialised heritage position is located on island, supported by staff based in Canberra. The Commonwealth Heritage Manager position is vacant following the departure at short notice of the previous incumbent in July 2018. Recruitment to fill the position is well progressed.
- Many Australians are unaware of KAVHA's significance to Australia's convict history. This presents both a challenge and opportunity for expanding Norfolk Island's tourism appeal. The Australian Government is committed to promoting KAVHA as a place of outstanding heritage value and one of 11 sites making up the Australian Convict Sites World Heritage Property. As an active member of the Australian Convict Sites Steering Committee, the Australian Government will continue to encourage all 11 Australian Convict Sites to work together to promote visitation to every site and increase opportunities for Australians to experience the full story of our convict past.

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- There is no specific legislation which provides for Commonwealth control over the day-to-day management of the site, such as events approvals, public access, fees and charges. Development and use of the site is subject to the *Environment, Protection and Biodiversity Conservation Act (1999)* and Norfolk Island planning laws, administered by NIRC, with limited Commonwealth oversight.
 - These complex planning arrangements hinder development and use of the site. For example, development approval to erect new entry signage to the site is currently the subject of an Administrative Appeals Tribunal review.
- NIRC provides services at the site under an agreement with the Australian Government, including building and grounds maintenance and the management of Australian Government owned museum collections.

Sensitivities:

- Local Advisory Committee members have expressed some frustration at the slow pace of governance reform and the lack of on-ground resources to deliver priority conservation, maintenance and interpretation projects. The 2018 Budget has provided additional funding to improve maintenance standards, however this funding has not been provided on an ongoing basis.

Attachments: Nil



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1.02 EVENT BRIEF – Meeting with the Mayor, Norfolk Island Regional Council

Date and Time:	Monday 12 November 2018, 4.30 pm 5.00 pm
Location:	Administrator's Office
Attendees:	Eric Hutchinson, Administrator Mayor Robin Adams

Outcomes Sought:

- Explore opportunities to work Cooperative, Collaborative and in Partnership with the Norfolk Island Regional Council (NIRC) and the Norfolk Island community.
- Discuss priorities for Norfolk Island and the NIRC, including
 - New health facility;
 - Norfolk Island Airport runways resealing;
 - Undersea cable; and
 - Monitoring the economy.

Key Issues:

- During the former Minister for Regional Development, Territories and Local Government, the Hon Dr John McVeigh MP visit to Norfolk Island the Mayor, Ms Robin Adams' emphasised 'Cooperation, Collaboration, and Partnership' as the best approach to moving forward and for the Commonwealth and NIRC to work together.

New Health Facility

- The 2018-19 Budget included a commitment of \$1.2 million for the preparation of a business case for a new Multipurpose Health Service Facility (MPS). Dr McVeigh announced this funding during his visit in July 2018.
- The Mayor recently wrote to you outlining the Council's proposal for Norfolk Island to be 'A Centre for Health and Wellbeing in the Pacific'. The proposal suggests building a 'state of the art New Age Hospital' on the island, including a modern operating theatre, maternity services, surgeons and anaesthetists. These services are not provided under an MPS model and it is highly unlikely they will be provided in the new facility. Community consultation will commence in December with expectation management being a critical element of the consultation. (Also refer to Event Brief 1.06 and Key Issues Briefs 2.06 and 2.09)
- In addition, the Mayor has written to you about the Nuka model of care. The Nuka model of care is focused on listening to patients rather than being told by a medical professional and involves strong community involvement in preventive and supportive health care.

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Two officers from the Norfolk Island Health and Residential Aged Care Services (NIHRACS) attended a recent Nuke model of care conference in New Zealand. The Nuka model of care could be accommodated in the MPS model.

- You may wish to explore the Nuke model of care with the Mayor.

New Health Facility

- As you are aware, NIRC has sought funding from the Australian Government to reseal the Norfolk Island runways. The matter is to be considered by the Expenditure Review Committee on 12 November 2018.
- Using the approach of ‘Cooperation, Collaboration, and Partnership’ the Department of Infrastructure, Regional Development and Cities is assisting NIRC in their project planning. The Department will continue to work with NIRC in the delivery of this significant project.

Undersea Cable

- After writing to Dr McVeigh in August 2018, the Mayor raised the connection of Norfolk Island to the Coral Sea Cable System in the 20 October 2018 edition of the Norfolk Islander.
- In his response to the Mayor, Dr McVeigh advised that connection to a cable is a commercial decision for investors and that the undersea cables to PNG and Solomon Islands is being funded through the Australian Government’s Official Development Assistance program. This remains the Australian Government’s position in regards to building and extending undersea cables. (Also refer to Key Issue Brief 2.12).

Monitoring the Economy

- The Mayor may also raise with you the monitoring of the Norfolk Island economy. The Mayor wrote to Dr McVeigh requesting a Productivity Commission review of the Island’s economy. In accordance with Dr McVeigh’s response to the Mayor the Department has met with Dr Chris Nobbs and the Department of Small Jobs and Business. These meetings identified the following as possible economic and social measures:
 - Annual Visitor Arrival Numbers
 - Consumer / Retail Price Index
 - Incoming Freight Amounts
 - 2016 Census data by the Australian Bureau of Statistics
- You may wish to explore other measures with the Mayor.

Background:

- Ms Robin Adams has been the Mayor of Norfolk Island Regional Council (NIRC) since July 2016.
- Ms Adams is Australian born and educated, and a direct descendent of Fletcher Christian of HMAV Bounty.

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- Ms Adams' previous roles include:
 - 1984 to 2010: Clerk to the Norfolk Island Parliament
 - 2010 to 2013: Speaker of the Norfolk Island Parliament
 - 2013 to 2015: Minister for Cultural Heritage and Community Services in the Norfolk Island Government

Sensitivities: Nil

Attachments: Nil



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1.03 EVENT BRIEF – Social paddle in a Waka (outrigger canoe) (Norfolk Island Outrigger Club and NOC the Rock)

Date and Time:	Tuesday 13 November 2018, 8.00 am – 9.00 am
Location:	Emily Bay
Meeting with:	Damien Snell
Attendees:	Ada Nebauer Cameron Christian Jonny Sheridan Two adult outrigger club members TBA

Outcomes Sought:

- Experience Emily Bay and gain some insight into cultural connection to the water

Key Issues:

- Promotion of the:
 - international sport of outriggering and participation of Norfolk Island; and
 - Norfolk Ocean Challenge – NOC the Rock – a significant international sporting event that brings competitors and visitors to the island

Background:

- The Norfolk Island Wa'a Outrigger Club has a growing membership and members compete at International events in both junior and senior events. Norfolk Island has done well in major competitions, most notably in the junior divisions.
- The Club also works with the Norfolk Island Travel Centre to bring together the 'NOC the Rock' ocean challenge to Norfolk Island each year in January – March. It is currently in its fourth year with competitor team numbers increasing and coming from as far as Hawaii to compete. This event brings competitors and visitors to the island and promotes tourism more broadly.

Sensitivities: Nil

Attachments: Nil



1.04 Meeting with stakeholders re biosecurity

Date and Time:	Tuesday 13 November 2018, 10.00 am – 11.30 am (includes morning tea)
Location:	Hilli Goat Farm
Meeting with:	Biosecurity Stakeholders
Attendees:	Eric Hutchinson, Administrator PJ Wilson Dean & Megan Fitzpatrick Pat Anderson Emily Ryves Martin Cross Candice Nobbs Matt & Suzie Bigg Merv & Claire Buffett

Key Issues

- The Australian Government, through the Department of Agriculture and Water Resources (DAWR), became responsible for regulating biosecurity on Norfolk Island from 1 July 2016.
- Many local agriculture producers consider the relatively disease-free status of Norfolk Island is a testament to the practices implemented by the former government on the Island. DAWR considers the Island is fortunate to have retained its relatively disease-free status based on past practices, which were not necessarily science-based risk management measures.
- The recent application of restrictions on the import of live ruminants and the uncertainty and high costs associated with the import of genetic materials are key concerns for the Norfolk Island community.
- Several Norfolk Island agri-businesses have imported genetic material in an attempt to sustain the genetic diversity of their small cattle herds and goat flocks. Farmers have reported that the remoteness of Norfolk Island means that specialised facilities and advice are not easily accessible, flights are infrequent and freight services are not fully reliable, leading to increased costs and reduced success rates.
- Other local biosecurity issues include the processes for import of stockfeed and other agricultural supplies, the recent relaxation of restrictions on fruit and vegetable imports from the mainland, high freight costs and the potential for queen bee exports from Norfolk Island.
- The former Minister with responsibility for Territories, the Hon Dr John McVeigh MP, visited affected agri-businesses during his visit to Norfolk Island in July 2018. Dr McVeigh heard about the Island's key biosecurity concerns and indicated to farmers that he would take the matters up with the appropriate people on his return to Canberra.

Imports of Live Ruminants and Genetic Materials

- Livestock producers are concerned that the current biosecurity measures are overly restrictive and present a barrier to economic development. The local veterinarian, Dr Candace Nobbs, considers the almost total ban on live ruminant imports imposed by the Government is restricting the introduction of new genetic material and the viability of local

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herds, which comprise approximately 1,300 head of cattle, one small goat herd and one small sheep herd (less than 20).

- The experience of Ms Emily Ryves, a local goat producer who runs Hilli Goat Farm, highlights difficulties for importing genetic material to Norfolk Island. A package containing goat semen was off-loaded from a passenger aircraft because a dog was transported on the same flight. This resulted in decreased viability of the semen and the specialised veterinarian, who had travelled specifically for the purpose of insemination, having a wasted trip at the expense of the small business.
- Although the Department of Infrastructure, Regional Development and Cities (the Department) underwrites air services between the mainland and Norfolk Island, it does not control the airline's cargo protocols. Specific requirements for freight deliveries of high value animal products to Norfolk Island are established between the client's freight forwarder and the airline.
- Work undertaken by the DAWR and the Department has identified five options for the importation of live ruminants and reproductive material into Norfolk Island. The options include:
 1. Importing ruminant reproductive material (semen and embryos)
 2. Importing live ruminants into Norfolk Island and establishing a quarantine station on the island or ruminants undertaking a period of quarantine on the Australian mainland
 3. Importing live ruminants from Australia from properties that have a lower disease risk status with little to no quarantine period
 4. Importing live ruminants from New Zealand
 5. Amending the Biosecurity Act 2015 to treat Norfolk Island ruminant health status the same as the Australian mainland.
- Each of these options carry different levels of biosecurity risk and vary in cost and logistics. **Attachment A** provides an option paper for importing live ruminants and reproductive material into Norfolk Island developed by DAWR.

Imports of Live Horses

- Dr Nobbs is concerned that DAWR has not adequately considered the risk for new pest incursions when setting import conditions for live horses, including pests such as bot fly and paralysis tick, and diseases such as strangles. Dr Nobbs does not believe these diseases are on Island.
- Following a meeting with Dr Nobbs, DAWR has amended the permit requirements for live horse imports from the mainland to Norfolk Island. DAWR has also agreed to work with the Administrator of Norfolk Island and Dr Nobbs to determine state-type agriculture services that may assist the community to balance the need to protect their disease-free status against the need to develop new industry on the Island.

Imports of Stockfeed

- Some primary producers on Norfolk Island are concerned about the biosecurity conditions and permits required for imports of stockfeed. Ms Megan Fitzpatrick of Fitzy's Farm wrote

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to you about the challenges she has faced in importing stockfeed from New Zealand to feed her pasture-raised chickens.

- In Ms Fitzpatrick's case, the formula for one imported stockfeed product (the Chick Grower ration) had changed since the initial risk assessment of the product, and the necessary certification for the product was absent. Following further assessment, DAWR released the goods from biosecurity control on 27 September 2018 and approved Ms Fitzpatrick's new import permit application to import the new Chick Grower formula on 5 October 2018.

Imports of Bare Root Stock, Fruit and Vegetables

- There are divided opinions on Norfolk Island about whether bare root stock should be imported. Those in favour argue that it will increase fruit production, and that there is a low biosecurity risk as there is no soil attached and plant stock is usually quarantined for up to 12 months on Island before being released. Those not in favour argue that diseases are often carried in the plant stem, that they may not be identified until after the plant has died, and that there is a risk of infecting soil around the plant.
- Fruit and vegetable producers have expressed concern that recent decisions made by DAWR to allow fruit and vegetable imports to Norfolk Island present an unacceptable risk to local growers from the introduction of mainland pests, such as Queensland fruit fly. Producers also have concerns over the local economic impacts associated with permitting imported produce.
- In determining and maintaining the appropriate level of protection for Norfolk Island, the Government's scientific risk assessment process cannot take into account the potential economic impact or the effect on market competition caused by importing goods, as this would not be consistent with Australia's international trade obligations.
- Imported produce must also overcome a more than \$4 per kilogram price disadvantage compared to local produce due to increased freight and handling costs.

Queen Bee Exports

- An emerging opportunity is the potential for queen bee exports to become a viable export business for Norfolk Island, particularly through efforts for the Island to be recognised as the world's third 'bee sanctuary'.
- This would require: specific treatment of imported honey to eliminate any threats of imported pests and diseases (such as gamma radiation); testing of Argentine ants for a known disease that impacts bee colonies; inspection of all vessels entering ports; and, a review of current import restrictions of queen bees to mainland Australia.
- DAWR are currently consulting the community on changes to the import conditions for bee products to Norfolk Island, including the importation of honey.

Biosecurity Handling Facilities

- The Norfolk Island Regional Council (NIRC) may request financial support from the Government to provide a new biosecurity inspection facility.

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- DAWR has advised NIRC that, as the owner of the first point of entry to Norfolk Island (the airport), NIRC is responsible for providing appropriate facilities for biosecurity inspection services. NIRC has agreed that DAWR may continue to use NIRC's current (temporary) biosecurity inspection clearing facility until new facilities can be found.
- NIRC have recently advised Air New Zealand, the Government's contracted carrier for scheduled passenger flights, that in the near future, NIRC will not be able to accept biosecurity waste from planes. This waste includes catering and other on-board waste. Air New Zealand are unable to transport this waste back to the mainland and so are investigating options to establish their own waste management facility on Island, while continuing to negotiate with NIRC about continuing acceptance of waste.

Background

- The agricultural industry on Norfolk Island is small, inter-connected and has a history of self-sufficiency, supporting the local residents and businesses. The Island prides itself on its clean and fresh produce and this is becoming a feature of the promotion strategy for tourism, the Island's main industry.
- The biosecurity measures put in place to manage imports of plants and animals to Norfolk Island are based on scientific assessments aimed at protecting the island's unique animal and plant life from exotic pests and diseases. Prior to the removal of self-government in 2016, Norfolk Island had a biosecurity regime with locally-set conditions which were different to those set by DAWR.
- The Norfolk Island farming community does not have the support of a state agricultural department and this reduces the availability of technical advice and practical assistance, in comparison to the services that may be available to similar businesses on the mainland. Consequently, the community's reliance on Government is higher than would be the case for other regional communities.
- The Norfolk Island Quarantine Survey 2012-2014 identified that Norfolk Island is free from many serious plant and animal pests and diseases present in the rest of Australia and recommended that the quarantine barriers in place prior to 1 July 2016 be maintained or strengthened.
- DAWR has commissioned a project aimed at improving its engagement with communities in Australia's external territories on biosecurity matters, including Norfolk Island. The project will recommend strategies to increase community awareness on the need for effective biosecurity management, engage residents in biosecurity surveillance and identify opportunities to improve two-way communication to support the development of sustainable primary industries.

Sensitivities: Nil

Attachments:

A DAWR Option Paper



Paper to Inform Community Discussion on Options - Biosecurity - Livestock and Reproductive Material Imports into Norfolk Island

November 2018

In July 2018, Members of the Norfolk Island Community raised concerns about biosecurity restrictions with the former Minister, the Hon John McVeigh MP. Since that time, the Hon Sussan Ley MP (Sussan) has worked with her Ministerial colleagues to identify options that may be available to address these concerns.

Ensuring Norfolk Island's unique biosecurity status is protected, while also supporting businesses to operate and contribute to the local community is a challenge. Finding a balance is not always straight forward, as evidenced by the broad discussions at the community meeting on 7 November 2018.

Work undertaken by the Department of Agriculture and Water Resources and the Department of Infrastructure, Regional Development and Cities has identified five options for the importation of live ruminants and reproductive material into Norfolk Island. The options include:

1. Importing ruminant reproductive material (semen and embryos)
2. Importing live ruminants into Norfolk Island and establishing a quarantine station on the island or ruminants undertaking a period of quarantine on the Australian mainland
3. Importing live ruminants from Australia from properties that have a lower disease risk status with little to no quarantine period
4. Importing live ruminants from New Zealand
5. Amending the *Biosecurity Act 2015* to treat Norfolk Island ruminant health status the same as the Australian mainland.

Each of these options carry different levels of biosecurity risk and vary in cost and logistics.

The purpose of today's meeting is to discuss these options, and alternative views. This discussion will assist to identify a preferred approach moving forward.

See **Attachment A** for a list of options for discussion at this meeting.

See **Attachment B** for background about importing live ruminants and horses to Norfolk Island.

Table 1: Options for importing live ruminants and reproductive material into Norfolk Island

Option 1 Importing ruminant reproductive material (semen and embryos)	Pros	<ul style="list-style-type: none"> – This option has been assessed by the Department of Agriculture and Water Resources as the approach that provides the strongest assurances against animal disease introduction. – Biosecurity risks are assessed as managed acceptably and within the Appropriate Level of Protection (ALOP) of the <i>Biosecurity Act 2015</i>. – This approach provides herd improvement to all livestock owners, not just those with the resources to meet high costs of providing livestock animals sourced for export and low risk for disease introduction. – Developing skills on Norfolk Island could also be a successful community project involving all livestock owners to manage costs and achieve broader sustainable community benefits. – This technology is widely used particularly in the Australian dairy industry with almost all dairy cattle artificially inseminated. Heat synchronisation programs for beef cattle are well established and proven to be effective. – Lower conception rates for sheep and goats using frozen semen can be overcome by insemination using laparoscopic techniques. – Alternatively, the use of fresh goat and sheep semen may be possible if logistical barriers can be overcome. – Liquid nitrogen containers, dry shippers used for moving semen and embryo around the world have long refill intervals. International trade in frozen semen and embryo is well established. – These practises are successfully applied in developing countries with limited infrastructure. – Well conducted artificial insemination programs deliver conception rates that approach natural mating. – These techniques are regarded as routine techniques that local cattle owners with the help of local veterinarians could be trained to achieve (particularly artificial insemination).
	Cons	<ul style="list-style-type: none"> – Frozen goat and sheep semen requires laparoscopic techniques to achieve high conception rates. This requires a technical expert to be involved.
	Resource Implications	<p>Low. The equipment and veterinary drugs necessary to carry out successful artificial insemination programs are relatively inexpensive and likely to be much less than the cost of for example purchasing and importing a herd bull. Contracting of veterinarian with expertise in reproductive technologies is likely to add additional costs. It is possible that a training programs delivered to local livestock owners and island veterinarians could build the skills to reduce the reliance on external expertise to conduct such a program more sustainably. This could represent an opportunity to work with local people to build artificial reproduction skills. This could potentially be a community building activity. DIRDC may be able to provide a small grant to assist this process.</p>

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Option 2 Importing live ruminants into Norfolk Island and establishing a quarantine station on the island or ruminants undertaking a period of quarantine on the Australian mainland	Pros	<ul style="list-style-type: none"> – New live ruminants would be available, which would be seen as beneficial by some residents. – A quarantine station on Norfolk Island could provide job opportunities to local residents. – Upgrades to the first point of entry could create job opportunities.
	Cons	<ul style="list-style-type: none"> – This option is cost prohibitive i.e. very high costs to establish a first point of entry and quarantine facility on Norfolk Island or use the quarantine facility on the Australian mainland. – Use of the quarantine station on the Australian mainland has not been assessed or approved i.e. the quarantine facility may not have the required room, availability and infrastructure to house domestic ruminants for the quarantine period. There may be additional costs to upgrade the existing facility. – May not be enough volume of live ruminant trade or economic benefits to justify large-scale expenditure. – If using a quarantine facility on Norfolk Island, there may be a need to ‘fly-in’ veterinary expertise from the Australian mainland for extended period of time with costs being passed onto the user of the facility. – Would require live ruminants to remain in quarantine for a significant time period. – Would not provide assurance, in accordance with ALOP, that serious diseases would not be introduced despite lengthy quarantine period. – Would be significant costs preparing animals to meet basic biosecurity requirements and in chartering aircraft to transport live ruminant consignments. Increased risk of disease incursion (cf. germplasm imports). – Would be a need for increased disease testing of Norfolk Island ruminant population and associated costs. – Risks associated with introducing serious ruminant diseases to Norfolk Island i.e. likelihood of introduction is medium-high despite high costs associated with lengthy quarantine period. – Medium-high risk of introducing Q fever to humans given on-island slaughter practices and free roaming livestock. – Some Norfolk Island residents may have concerns their ruminants or human health may be at risk by enabling ruminant imports. – Costs are likely to be borne by the Norfolk Island livestock industry in managing new livestock diseases on-island and issues associated with diseases that can be passed onto humans. – Costs for Q fever immunisations (noting not all people may be able to or willing to receive immunisations).
	Resource Implications	Extremely high. This option is unlikely to be able to be funded by the local Norfolk Island livestock industry, businesses or receive Australian Government funding or priority. There are likely to be implications and costs associated with the introduction of new ruminant diseases that are likely to impact the Norfolk Island livestock industry.
Option 3 Importing live ruminants from Australia from properties that	Pros	<ul style="list-style-type: none"> – New live ruminants would be available on the island, which would be seen as beneficial by some residents. – Live ruminants would be imported timelier and potentially lower cost than the other live ruminant import options.
	Cons	<ul style="list-style-type: none"> – Cost prohibitive i.e. very high costs to establish a first point of entry and quarantine facility on Norfolk Island, would require a large amount of financial support from the Australian Government to establish and operate. – Risks associated with introducing serious ruminant diseases to Norfolk Island i.e. likelihood of introduction is medium-high despite high costs associated with quarantine period.

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have a lower JD risk with little to no quarantine period		<ul style="list-style-type: none"> – Use of the quarantine station on the Australian mainland has not been assessed or approved i.e. the quarantine facility may not have the required room, availability and infrastructure to house domestic ruminants for the quarantine period. There may be additional costly upgrades to the existing facility needed. – Farm herd testing in Australia to identify disease free herds from which animals for export can be sourced is not practical because of the high cost and regulatory supervision required. – Even with an intensive herd of origin testing program for the disease recognised as significant this approach will be higher risk of disease introduction compared with use of artificial breeding technology. – May not be enough volume of live ruminant trade or economic benefit to justify large-scale expenditure. – If using a quarantine facility on Norfolk Island, there would be a need to ‘fly-in’ veterinary expertise and biosecurity officers from the Australian mainland for extended period of time with costs being passed onto the user of the facility. – There would be significant costs in preparing animals to meet basic biosecurity requirements and also in chartering an aircraft to transport the live ruminants. – Would be a need for increased disease testing of Norfolk Island ruminant population and associated costs. – Medium–high risks of introducing Q fever to humans given on-island slaughter practices and free roaming livestock. – Some Norfolk Island residents may have concerns their ruminants or human health may be at risk by enabling ruminant imports. – Costs likely to be borne by the Norfolk Island livestock industry in managing new livestock diseases on-island and issues associated with diseases that can be passed onto humans – Costs for Q fever immunisations (noting not all people may be able to or willing to receive immunisations).
	Resource Implications	Very high. While the costs and timeliness associated with option 3 are lower than option 2 if quarantine period was reduced. The costs associated with option 3 are still significant and pose a medium–high biosecurity risk. There are likely to be implications and costs associated with the introduction of new ruminant diseases that would need to be borne by the Norfolk Island livestock industry.
Option 4 Importing live ruminants from New Zealand	Pros	– New live ruminants would be available on the island, which could be seen as beneficial by some residents.
	Cons	– There is no other country that would be able to satisfy all pest and disease concerns for Norfolk Island in accordance with ALOP e.g. New Zealand has Johne’s disease (JD), virulent footrot, tuberculosis and enzootic bovine leucosis.
	Resource Implications	Very high. Similar to option 2, the costs associated with option 4 are still significant and would pose a high biosecurity risk. There are likely to be implications and costs associated with the introduction of new ruminant diseases that would likely need to be borne by the Norfolk Island livestock industry.
Option 5	Pros	– New live ruminants would be available on the island, which could be seen as beneficial by some residents.
	Cons	– This option is inconsistent with existing requirements to manage biosecurity on Norfolk Island i.e. the existing approach recognises and protects the island’s unique biosecurity status. A revised policy decision would be needed from

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Amending the <i>Biosecurity Act 2015</i> to treat Norfolk Island ruminant status the same as the Australian mainland		Government to support any amendments to the legislation that socialise the island's biosecurity status with that of the mainland. – Some residents may not agree with potential risks to their ruminants or human health – public consultation on Norfolk Island and the Australian mainland would be required.
	Resource Implications	Previous costs would apply.

Background – Importing live ruminants into Norfolk Island

The Legislation and Role of the Department of Agriculture

The Department of Agriculture has a legislated responsibility to protect Norfolk Island's animal health status. Under the *Biosecurity Act 2015*, all live ruminant imports are required to have an import permit.

When a permit application is received, the Department of Agriculture undertakes scientific assessments of the biosecurity risks and, if the biosecurity risks can be managed, an import permit will be granted outlining the conditions.

The Director of Biosecurity must apply the Appropriate Level of Protection (ALOP) in conducting a risk assessment for the purpose of deciding whether to grant the permit. The ALOP for Norfolk Island includes consideration of Norfolk Island's unique ruminant health status. Norfolk Island's ALOP, as defined in the Act, is 'a high level of sanitary and phytosanitary protection aimed at reducing biosecurity risks to very low, but not to zero'.

Norfolk Island Status

Norfolk Island has been assessed as having an animal health status more favourable to most countries in the world. It is free from a number of serious diseases that affect ruminants which are present in mainland Australia.

Some of these diseases include Johne's disease (JD)¹, virulent footrot and Q fever.

Of highest concern is the potential introduction of JD which is a disease present in Australia and poses a biosecurity risk to Norfolk Island. The Department of Agriculture and Water Resources has recent evidence where animals sourced from Australian herds were identified as low risk—after rigorously applied programs—and still resulted in disease transmission following movement of livestock. Other disease/pests of more limited distribution on mainland Australia (and also not found on Norfolk Island) include cattle tick, *babesia bovis*, *babesia bigemina* and *anaplasma maginale* (cattle tick spread parasites).

The animal health status of Norfolk Island was determined in the Norfolk Island Quarantine Survey conducted by the department between 2012 and 2014, taking into account the island's current health status and historical records. The survey data indicates:

- Norfolk Island is free of a number of significant ruminant diseases, such as JD, virulent footrot and Q fever, which are present on the Australian mainland.

In addition, virulent footrot and Q fever are not nationally notifiable diseases in Australia, making it difficult to assess the disease status in each state and to verify the health status of individual herds or flocks.

The Department of Agriculture has discussed ruminant importation at length with various stakeholders on Norfolk Island, including the Norfolk Island Cattleman's Association, the Norfolk Island Mayor and members of the community that own ruminants on the island. Although views were mixed, the overall consensus of those

¹ JD is a chronic and debilitating disease with a long incubation period that is very difficult to eradicate once established in a herd. In Australia, JD has caused a decrease in production for the dairy sector, premature death of productive animals and market access implications. If this disease established in Norfolk Island, it could impact the health of local ruminants and cause economic losses for businesses across the island. Due to the nature of these diseases, there are currently no economically feasible conditions that can be applied to allow the importation of live ruminants into the island that sufficiently manages the risk of introduction of these diseases.

consulted was that the high health status of Norfolk Island ruminant population was important to them. Communication about the import conditions for live ruminants and reproductive material has been provided to Norfolk Island stakeholders in newspaper articles and emails.

Importation of Reproductive Material

The Department of Agriculture and Water Resources has developed conditions for the importation of ruminant reproductive material (semen and embryos) into Norfolk Island from Australia.

Ruminant reproductive material from the mainland that are collected according to procedures outlined by the World Organisation for Animal Health (OIE) terrestrial code represents a much lower risk for the introduction of serious ruminant diseases than live animals.

The Department of Agriculture and Water Resources has requested the Department of Infrastructure, Regional Development and Cities (DIRDC) consider funding a reproductive material solution for the island.

Importing live horses into Norfolk Island

Under the *Biosecurity Act 2015*, all live horse imports require an import permit and must meet specific biosecurity import conditions prior to arrival on the island. Import conditions are established based on results of biosecurity risk analysis.

The Department of Agriculture and Water Resources has assessed the biosecurity risk posed to Norfolk Island by horses imported from Australia and New Zealand, and has applied import conditions to reduce the risk of disease introduction.

The department's approach to horse imports is consistent with the approach to ruminant imports—the department assesses each permit application with regard to risks the import might pose to Norfolk Island's animal health status.

Horses are not ruminants, and are not affected by JD. Horse diseases present on the Australian mainland and New Zealand that could pose a risk to Norfolk Island have been assessed and determined to be minimal. Biosecurity measures can be applied to manage those risks.

1.05 EVENT BRIEF – Meeting with NI–Connect

Date and Time:	Tuesday 13 November 2018, 12.00 pm – 12.30 pm
Location:	NI Connect
Attendees:	Eric Hutchinson, Administrator

Key Points:

- NI-Connect was opened by the Hon Dr John McVeigh MP, the then Minister for Regional Development, Territories and Local Government, on 26 July 2018.
- NI-Connect is an integrated community centre that brings the spectrum of child and family wellbeing service delivery from early intervention and primary prevention, targeted services for those with more complex needs, specialist counselling services, health and general wellbeing. Staff are skilled professionals who work together to deliver services in response to community needs.
- Examples of services available at NI-Connect include:
 - a safe and child-friendly handover point for separated parents;
 - drop-in positive parenting information across life stages, from newborns, toddlers, children and teens;
 - computer literacy and accessibility support;
 - forums and education sessions for professionals and community groups;
 - counselling, child and young people wellbeing and welfare assistance;
 - access to a range of quality toys and child rearing equipment for loan;
 - arrangements for safe accommodation for victims of family and domestic violence; and
 - health and wellbeing promotion regarding healthy lifestyles.
- The Norfolk Island Child and Family Wellbeing Unit (CFW Unit) is located within NI-Connect and has been established to deliver practical services to improve the safety and support of children and families on Norfolk Island. The CFW Unit provides integrated and specialist services for referred children and families in collaboration with other agencies on the Island.
- On 30 July 2018, Key Assets commenced service provision, which included the appointment of a statutory child welfare officer (CWO) who has been delegated to act on your behalf in regards to the delivery of child protection services on Norfolk Island, including removal of children for their protection if required.

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- The CFW Unit staff are employed by Norfolk Island Health and Residential Aged Care Service (NIHRACS). The CFW Unit consists of a manager to lead service delivery, a child welfare caseworker, a specialist child and youth counsellor, a part time health promotions coordinator and an administration officer.
- The Department funds the CFW Unit staff with the exception of the child and youth counsellor, which is funded by the Central & Eastern Sydney Primary Health Network (CESPHN). Funding for this position was secured from the Commonwealth Department of Health.
- NI-Connect and the CFW Unit have partnered with the Letl Salan Toy Library to improve family access to an extensive range of toys and equipment available for loan. Letl Salan Toy Library supports families through enabling quality time spent playing with children.
- NI-Connect supports the delivery of visiting family services to create a one-stop shop for people seeking assistance. Further opportunities for co-location of services continue to be built.
- NI-Connect provide counselling and support to youth experiencing mental health issues as a result of a lack of tertiary study opportunities available on Norfolk Island following completion of their schooling. Young people have self-referred to NI-Connect and NIHRACS, in addition to other services as a result of these stressors.

Background:

- NI-Connect advertises events in the weekly Norfolk Islander Newspaper. NI-Connect has access to a permanent column in the newspaper through NIHRACS.
- Anglicare playgroup has been held at NI-Connect four times since the opening of the centre, however the group has recently relocated to a more suitable venue for playgroups.
- The NI-Connect hot desk facility is utilised by NSW and Commonwealth services and agencies. A recent visit by Centrelink staff proved to be very successful, and it was noted that a steady stream of community members dropped in to the CFW Unit to book appointments.
- The Department secured the specialist services of a Non-Government Organisation, Key Assets, to lead and direct the delivery of child protection and wellbeing services on Norfolk Island, effective from 30 July 2018. Key Assets assist with supervision and direction to the CFW Unit, in addition to delivering training, reporting, implementation of policies & procedures and building community partnerships.
- The Chief Executive Officer of Key Assets holds the role of CWO for Norfolk Island. The CWO is responsible for the provision of services directed at supporting families in relation to the care and protection of children and young people, in addition to having other powers and functions under the Norfolk Island Child Welfare Act 2009.
- The CFW Unit and Key Assets are expected to provide mandatory reporter training to agencies and services on Norfolk Island before the end of 2018 and again in early 2019.

Sensitivities: Nil

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Attachments: Nil



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1.06 EVENT BRIEF - Norfolk Island Health and Residential Aged Care Services (NIHRACS)

Date and Time:	Tuesday 13 November 2018, 1.00 pm – 2.00 pm
Location:	NIHRACS
Meeting with:	Ms Kath Boman, Manager, NIHRACS
Attendees:	Eric Hutchinson, Administrator Kath Bowman, NIHRACS Manager Mayor Robin Adams Meeting participants TBA

Outcomes Sought:

- You will be provided with a tour of the NIHRACS facility by the NIHRACS Manager, during which you will have an opportunity to discuss the changes to the facility since the reform process started.
- An open discussion will be held between the Mayor, community individuals and group representatives involved in the previous plan for a new health facility. The meeting will provide the opportunity for you to hear community views and advise on the commencement of the Norfolk Island Multipurpose Health Service Facility Project.

Key Issues:

- The 2018-19 Budget which includes \$6.3 million over four years to support improvements to the delivery of local health and community services. This funding includes a telehealth service, enhancing palliative care services through a part time palliative care nurse, greater access to mental health services and professional training for St John Ambulance volunteers.
- This funding also includes \$1.2 million for the preparation of a business case for a new Multipurpose Health Service Facility (MPS). The business case will be completed by the Department of Infrastructure, Regional Development and Cities, Territories Capital and Major Projects Team. The previous Minister announced this funding during his visit.
- The objective of the Project is to construct a replacement Multipurpose Health Service MPS, which is capable of meeting the community health, aged care and allied health service needs of Norfolk Island to a standard of other similar sized communities on the mainland. Stage one of the Project will involve engaging a provider to consult with stakeholders to update the 2015 Norfolk Island Health Services Plan (the Plan). The updated Plan will inform the design requirements of the new MPS.
- A thorough consultation process will allow a broad range of stakeholders to provide input into the future health services on the Island. These stakeholders will include community members and community based organisations, health and aged care staff from NSW Government and Norfolk Island, remote health and aged care specialists.
- It is anticipated consultation will commence in early December 2018 with an aim of having the Draft Health Services Plan completed in late January 2019 for comment.

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- Stage 2 of the project will involve the development of a detailed design for the new MPS for Government review in line with the 2020-21 Budget process. Stage 2 of the Project is expected to commence in March 2019.
- Hettae Ucklan (Here We All Are) is the primary community fundraising group for a new hospital. To date they have raised \$170,000.

Background:

- NIHRACS was established in 2016 as a multi-purpose service providing acute care including emergency services, residential aged care, as well as primary and community care services.
- There are a number of specialists that currently visit NIHRACS including a Psychiatrist, Orthopaedic surgeon, Cardiologist, Endocrinologist, Orthodontist, Urologist, Geriatrician, and Sonographer. Additional positions including a Social Worker and Diversional Therapist have been employed to strengthen the care available to Norfolk Island patients and aged care residents.
- NIHRACS is funded by the Commonwealth and works in partnership with South Eastern Sydney Local Health District to improve patient experience, increase consultation liaison services, support the delivery of outreach health services and provide training and development opportunities.
- The Norfolk Island Community and Clinical Consultative Committee includes two local community members who advise how to best work with the community to ensure decisions, investments, and innovations are person centred, efficient, locally relevant and aligned to local care experiences and expectations.
- The NIHRACS building was constructed in 1947 and has been improved and extended since that time. Today it has 24 beds and includes general medical care, as well as x-ray, pathology, dental clinic, nursing home care and seniors living.
- Numerous reports have identified the existing health facility is overdue for replacement and inadequate to deal with Norfolk Island's ageing population. It is also well below the standards required by state-level health providers to deliver contemporary community healthy and aged care services, or to recruit and retain skilled health professionals.

Sensitivities:

- Stakeholder expectations will need to be clearly managed when discussing the new MPS Project. The Mayor recently wrote to you outlining the Council's proposal for Norfolk Island to be 'A Centre for Health and Wellbeing in the Pacific'. The proposal suggests building a 'state of the art New Age Hospital' on the island, including a modern operating theatre, maternity services, surgeons and anaesthetists. These services are not provided under an MPS model and it is highly unlikely they will be provided in the new facility.
- The Mayor may push to re-establish the maternity ward (Key Issues Brief 2.11) and operating theatre. No commitment should be made to this.

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- Since 1 July 2016, the Commonwealth has invested approximately \$2.5 million in improving the NIHRACS building and standards. Even with the continuation of the capital works program the facility remains substandard compared to mainland standards.
- The recent Chris Nobbs report ‘Norfolk Island’s Major Problem is DIRDC’ (Key Issues Brief 2.04) makes reference to re-establishing NIHRACS as a hospital and re-opening the theatre.
- Part of the challenge in maintaining an operating theatre in a remote location is attracting and retaining doctors who are qualified to perform surgery and have enough opportunity to practice their skills and maintain their registration. This is a challenge in many regional and remote Australian communities.
- In 2015, the previous Norfolk Island Government decided to close the operating theatre at the then Norfolk Island Hospital Enterprise (the now NIHRACS), following an accreditation survey undertaken by The Australian Council on Healthcare Standards (ACHS) on NIHE. The accreditation survey recommended that some services, including surgery, cease immediately.
- Since the Australian Government took responsibility for delivering health services on Norfolk Island on 1 July 2016, addressing the recommendations of the accreditation survey and delivering services in accordance with modern Australian healthcare safety standards has been the highest priority.
- Norfolk Island is not alone in facing challenges with the delivery of modern health services and many remote locations rely on medical evacuations. Medical evacuations and health services on Norfolk Island are funded by the Australian Government.
- The introduction of the Norfolk Island Patients’ Travel Accommodation and Assistance Scheme (NIPTAAS) ensures Norfolk Island residents can travel to the mainland to access specialist medical or surgical treatment. NIPTAAS will cover the cost of the flight to the mainland to see a specialist and provides subsidies for accommodation and travel while seeking medical treatment.

Background:



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1.07 EVENT BRIEF – Norfolk Island Regional Council

Date and Time:	Tuesday 13 November, 11.45 am – 12.00 pm
Location:	Council Chambers, Bicentennial Centre
Meeting with:	Norfolk Island Regional Council (NIRC)
Attendees:	Mayor Robin Adams Cr John McCoy Cr Rod Buffett Cr Dave Porter Cr Lisle Snell Ms Lotta Jackson, General Manager Biographies are provided (Attachment A)

Outcomes Sought:

- To discuss ways the Australian Government and NIRC can work in collaboration, co-operation and partnership. Collaboration, co-operation and partnership was a significant theme of the NIRC during the previous Minister's visit. The Hon Dr John McVeigh MP, endorsed the three themes during his visit.

Key Issues:

- NIRC is likely to raise:
 - Concerns about the full implementation of the *Fair Work Act 2009*, including the introduction of the modern awards system (Key Issues Brief 2.01).
 - Biosecurity, including management of horse and ruminants (Event Brief 1.04).
 - The airport runway upgrade, due by 2022 at an estimated cost of \$43 million (Event Brief 1.19).
 - Provision of air services to Norfolk Island (Key Issues Brief 2.02).
 - Tourism (Event Brief 1.13).
- Other issues that may be raised by NIRC include:

Re-categorisation of Norfolk Island Regional Council

- NIRC may raise the council's classification under the NSW Local Government Remuneration Tribunal's determination. On 15 January 2018, Ms Lotta Jackson, General Manager of the NIRC, wrote to the Department of Infrastructure, Regional Development and Cities asking for NIRC to be changed from being categorised as a 'Rural' to 'Regional Rural' council in accordance with the Tribunal's determination.

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- The change requested by NIRC would allow the Councillors and Mayor of NIRC to receive a higher level of annual remuneration. The NIRC Councillors and Mayor are currently paid the maximum fees allowable for a Rural council, \$11,860 to each councillor plus an additional fee of \$25,880 to the Mayor.
- If NIRC was re-categorised as a Regional Rural council the total annual remuneration for the Councillors and Mayor could increase by approximately 75%. The maximum fee payable to Councillors would be \$19,790 with an additional fee of \$43,170 payable to the Mayor.
- Under the current governance arrangements, the Tribunal does not have jurisdiction to determine how the NIRC is categorised. At the time of NIRC's establishment, the Department determined the NIRC should be categorised as a Rural council using the Tribunal's determination as a guide.
- Councils categorised as Rural will typically have a population of less than 20,000 people, one or two significant townships and a limited range of services. Councils categorised as Regional Rural will typically have a population of more than 20,000 people, a major town, a significant urban population surrounded by smaller towns, and provide a full range of regional services.
- NIRC believes it should be in the Regional Rural category because it provides state-type services, such as electricity, telecommunications and an international airport, and has a relatively high number of visitors that inflates its population.
- In 2018, the predominant criterion used by the Tribunal to determine each council's category was population. As the population of Norfolk Island is well below 20,000 people and only partly meets some of the other criteria for Regional Rural the Department did not support the re-categorisation.

Land Transfer Ordinance 2016 – Issue of just terms and conflict of interest

- NIRC may wish to revisit its previous position that land and asset transfers completed in 2016 between the Australian Government and NIRC were not made on just terms. The Department does not support this view, noting the following:
 - The land and asset transfers were based on functional responsibility. The Commonwealth assumed ownership of assets normally owned by state governments. The Commonwealth transferred assets associated with local government functions to NIRC.
 - The value of assets exchanged was comparable. The value of the fixed assets transferred to the Commonwealth was approximately \$6.851 million. This included the former Hospital, Central School and Police Station. The Commonwealth transferred assets valued at \$5.361 million to NIRC, which included the bulk of the Commonwealth's land holdings on Norfolk Island.
 - The assets transferred to the Commonwealth were in need of critical maintenance and did not meet modern service standards or basic work health and safety requirements. The Commonwealth could not invest to address these liabilities without owning the assets.

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- It is unlikely any payments were exchanged for these same assets when Norfolk Island received self-governing status in 1979.
- The transfer has not affected the purpose of the assets as they remain exclusively to benefit the community. In contrast, NIRC can sell the land assets transferred by the Commonwealth, or earn future income from land rates.
- Over \$7 million has been invested at the school and the hospital since 1 July 2016.
- NIRC also claims the asset transfer arrangements were conflicted as they were negotiated with the Commonwealth-appointed Executive Director of Norfolk Island. The Department stands by the principles that underpinned the transfer:
 - Asset ownership should reside with the tier of government delivering the function.
 - Where possible, the land and property asset transfers should be consistent with the arrangements in place prior to Norfolk Island becoming a self-governing territory in 1979.
 - No disadvantage should accrue to NIRC because of the asset transfer process.
 - To the extent possible, the transfer of land and property between the Commonwealth and NIRC should be of comparable value.

If raised:

- NIRC may raise concerns that the descriptions of the roads included in the certificates issued under the *Norfolk Island Land Transfer Ordinance 2016* were not adequate to allow for the new titles to be registered under the *Land Titles Act 1996 (NI)*.
- NIRC has requested that the declarations and certificates be reissued with more detailed descriptions of each land parcel and in a similar format to that included in the recently concluded *Norfolk Island Land Transfer (Mulberry Lane) Ordinance 2018*.
- The Department does not share NIRC's legal concerns but has been in productive discussions with NIRC officials to facilitate the reissuing of the certificates so that the land and asset transfers completed in 2016 can be registered under the *Land Titles Act 1996 (NI)*.

Financial Assistance Grants-type payments

- NIRC has expressed disappointment that the initial increase of approximately \$1 million in Financial Assistance Grants (FAG)-type payments in 2018-19 is less than it expected.
- The Australian Government will provide NIRC with an additional \$8.3 million over four years in FAG-type payments. The payments increase each year and by 2021-22 NIRC will receive almost \$3.2 million more than it received in 2017-18.

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- FAG payments to NIRC per financial year are as follows:

Financial year	Total amount	Increase announced in 2018-2019 Budget
2017-2018	\$2.45 million	N/A
2018-2019	\$3.5 million	\$1 million
2019-2020	\$4 million	\$1.5 million
2020-2021	\$5.1 million	\$2.6 million
2021-2022	\$5.7 million	\$3.2 million

- The 2018-19 Budget was informed by a report completed by KPMG and an assessment completed by the West Australian Local Government Grants Commission (LGGC). The West Australian LGGC used the same methodology applied to calculate payments for local governments operating in the Indian Ocean Territories (IOT). KPMG provided a briefing to the Mayor and General Manager of NIRC in August.
- By the 2021-22 financial year, Norfolk Island will receive the full FAG payment amount calculated by the WA LGGC. The FAG payment provided to Norfolk Island will be approximately 20% higher than if a state cap was applied. This is because FAG payments provided to all other local governments, including the IOT, are discounted to fit within the overall state financial assistance allocation.
- You may wish to advise that:
 - The amount of FAG payments will continually increase over the next four years.
 - By including the payments in the forward estimates, the Australian Government has provided NIRC with a high level of budget certainty.

2016-17 Annual Report

- NIRC's 2016-17 Annual Report states that in the 2016-17 financial year, NIRC received approximately \$22.36 million in revenue (against expenses of approximately \$22.49 million). NIRC's revenue comprised:
 - \$1.15 million in rates and annual charges, including \$753,205 in ordinary rates and \$400,602 for waste and sewerage services.
 - \$12.24 million in user charges and fees. This includes, for example, telecom sales, electricity charges, airport fees, court fees, and planning and building regulation fees.
 - \$4.57 million from other revenue sources, including \$3.95 million in Liquor Bond sales.
 - \$4.1 million in Commonwealth funding, including \$2.1 million under the Service Delivery Agreement (SDA) with the Department and \$1.8 million in FAGs-type payments.

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Land rates

- A vocal minority of Norfolk Island landowners object to the introduction of land rates on the Island. These landowners view rates as inconsistent with their culture and believe they should not have to pay them. They also argue that land rates place a disproportionate burden on landholders due to the small population base over which the revenue burden is spread, and that the limited employment opportunities on Island equate to a limited capacity for landowners to pay rates.
- The former Norfolk Island Government intended to introduce land rates for the 2014-15 financial year, as a condition of an Australian Government grant to upgrade the Cascade Jetty. The Norfolk Island Municipal Rating Implementation Strategy 2014-15 to 2017-18 set a target income of \$250,000 from land rates in the 2014-15 financial year, increasing to a target of \$1 million in the 2017-18 financial year. Despite agreeing to introduce levy rates, the Norfolk Island Government did not do so.
- In May 2016, the Department amended the *Local Government Act 1993* (NSW) (NI) (the LGA) to require NIRC to levy land rates of at least \$500,000 for the year ending 30 June 2017, and at least \$1 million for each subsequent financial year. The phased approach was adopted to help the community adjust to the collection of rates.
- NIRC determines how rates are calculated. Rates for the 2017-18 financial year were levied on a base charge only. In the 2018-19 financial year, land rates will contain a base charge plus a component based on the valuation of the land. Landowners are able to lodge an objection if they disagree with a valuation. The rates levied depend on the applicable category of land use (e.g. residential, farmland or business). Crown land and land within the Kingston and Arthur's Vale Historic Area is exempt from rates.
- NIRC has developed a policy setting out how they will deal with hardship cases under the LGA.
- You may wish to:
 - Note that land rates are collected in all Australian communities to fund local government services.
 - Encourage NIRC to continue to collect land rates to fund local services.
 - Note that the former Norfolk Island Government agreed to the introduction of land rates from the 2014-15 financial year.
 - Note that the amount of land rates NIRC is required to raise for the 2017-18 financial year is the same amount as was previously outlined in the former Administration of Norfolk Island's Norfolk Island Municipal Rating Implementation Strategy 2014-15 to 2017-18.

Funding for state-type services provided by NIRC

- Since July 2016, NIRC has provided state-type services on Norfolk Island through an SDA with the Department.

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- In the 2017-18 financial year, the Department provided a total of \$2.6 million under the SDA, the majority of which is directed towards maintenance of KAVHA, justice-related services, ports management and emergency services.
- The Department has worked closely with NIRC to negotiate a revised SDA for 2018-19. Most of the concerns over service funding have been resolved.
- The Mid-Year Economic and Fiscal Outlook (MYEFO) process will provide an opportunity to source additional funding for demand driven services that exceed budget forecasts.
- You may wish to thank NIRC for their constructive support in the negotiations and encourage them to provide high-quality reports, which will enable the Australian Government and the community to be informed on the quality of services provided to residents.

Electricity

- NIRC has engaged Hydro Tasmania to design a more sustainable power network for Norfolk Island, drawing on lessons learned on Flinders and King Islands. Cr Adams and Ms Jackson may seek Australian Government funding to implement the recommendations from Hydro Tasmania.
- NIRC has purchased three new diesel generators which were delivered to the Island in July 2018 by the Royal Australian Air Force. The generators have been commissioned and are in service.

Telecommunications

- NIRC runs Norfolk Telecom, which provides telecommunication services including fixed-line telephones, mobile phones and internet.
- Norfolk Island's telecommunication infrastructure is obsolete and is likely to fail in the near future.
- On 13 July 2018, the Australian Government announced that it is providing \$3.45 million to NIRC for the \$4.6 million Futureproofing Telecommunications in Norfolk Island project through BBRF Round 2 (**Attachment B**). NIRC will provide the remaining \$1.15 million for this project.
- Telecommunication services are currently provided under continued Norfolk Island laws. NIRC may seek an update on when Commonwealth telecommunication laws will be extended to Norfolk Island.
- You may wish to advise that the Department of Communications and the Arts is working to resolve a number of issues before Commonwealth telecommunication laws can be extended to Norfolk Island, including:
 - whether telecommunication services are better provided by Norfolk Telecom or another service provider;

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- aligning the Norfolk Island telephone numbering system to the rest of Australia; and
- meeting Universal Service Obligations.
- During 2016, Norfolk Island was given the opportunity of connecting to a state of the art undersea trans-Pacific fibre optic telecommunications cable. The 15,000km cable being installed by the New Zealand-based consortium Hawaiki Cable, connects Australia, New Zealand, American Samoa, Hawaii, and mainland USA, and includes stubbed branching units to facilitate future connections to New Caledonia, Fiji, and Tonga.
- This has been reiterated recently in the Chris Nobbs report ‘Norfolk Island’s Major Problem is DIRDC’ (Refer Event Brief 1.23).
- The Australian Government welcomes commercially sound investments in international submarine capacity but did not fund Norfolk Island’s connection to the Hawaiki cable. NIRC, at its meeting on 28 September 2016, also agreed not to support the Hawaiki proposal using its own funds or borrowings.
- You may wish to advice that the Hawaiki Cable proposal had a significant cost – around \$15 million capital. At that price, it would deliver less than a quarter of the capacity that Sky Muster (NBN) was already providing on Norfolk Island. Increasing capacity to match Sky Muster would require a substantial amount of additional operational funding each and every year.
- Norfolk Island’s relatively small population would make it extremely difficult to recoup these costs and the Hawaiki cable would only be able to operate with a significant and ongoing subsidy from the Australian Government (Key Issue Brief 2.12).
- As at 27 September 2018, there were 730 active services connected to Sky Muster.

Waste management

- NIRC faces a number of challenges managing waste. The Norfolk Island Marine Park surrounds Norfolk Island and authorisation by Parks Australia's Director of National Parks is required for any discharge of waste into the marine park. The Norfolk Island Regional Council has applied for authorisations for discharge of certain solid waste streams to continue for defined grace periods while waste management infrastructure is purchased, installed and made operational. Sewage treatment upgrades may take several years and Council has requested a longer grace period for that waste type. Parks Australia is currently considering these requests and is hopeful of progressing a response to the authorisation requests prior to the end of 2018.
- NIRC submitted two applications to the Building Better Regions Fund (BBRF) for funding to support waste management. These were for a project to implement a composting system and another to develop a water quality and waste management strategy. Both of these applications were unsuccessful (**Attachment C**), noting that strategic planning projects do not meet the eligibility criteria.
- NIRC has moved forward with implementation of the composting system, with some major pieces of equipment delivered to the Island by ship on 25 October 2018. NIRC have also implemented a new multi-purpose baler and sort line which will allow non-organic

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

waste and recyclables to be compacted into bales for efficient export to the mainland.

- You may wish to acknowledge NIRC has made genuine progress towards meeting its target for no ocean waste disposal by 2018 set by the Director of National Parks (the Director), and encourage NIRC to cooperate fully with the Director to meet its remaining target as soon as possible.

BBRF Round Three




- The Australian Government has announced funding of \$200 million for Round Three of the BBRF.
- Grant funding is available through two funding streams:
 - The Infrastructure Projects Stream: Supports projects that involve construction of new infrastructure, or the upgrade or extension of existing infrastructure. To help regions unlock their tourism potential, a key priority for Round Three will be to help stimulate local economies by investing in the tourism sector through tourism-related infrastructure projects. The Government has ear-marked up to \$45 million for these projects.
 - The Community Investments Stream: Funds community development activities including, but not limited to, new or expanded local events, strategic regional plans, leadership and capability building activities.
- Round Three is now open to applications and closes on 15 November 2018. Applicants can access the BBRF website at www.infrastructure.gov.au/bbrf for program guidelines and other relevant information to decide whether the program might be a source of funding for a project. You have encouraged the community to make applications through your updates in the Norfolk Islander.
- In addition, the GrantConnect website at www.grants.gov.au provides details on all Australian Government grant opportunities. Information on grant programs offered by state and territory governments can be found on the Grants and Assistance finder at www.business.gov.au.

Attachments:

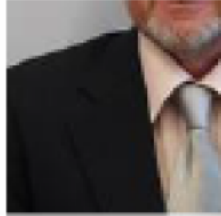


- A NIRC Councillors' Biographies
- B Project Factsheet - Futureproofing Telecommunications in Norfolk Island
- C Assessment Summary - Waste Management Solution for Norfolk Island



Biographies

<p>Mayor Robin Adams</p> <ul style="list-style-type: none"> • Ms Robin Adams has been the Mayor of Norfolk Island Regional Council (NIRC) since July 2016. • Ms Adams is Australian born and educated, and a direct descendent of Fletcher Christian of HMAV <i>Bounty</i>. • Ms Adams' previous roles include: <ul style="list-style-type: none"> ○ 1984 to 2010: Clerk to the Norfolk Island Parliament ○ 2010 to 2013: Speaker of the Norfolk Island Parliament ○ 2013 to 2015: Minister for Cultural Heritage and Community Services in the Norfolk Island Government 	
<p>Cr John McCoy</p> <ul style="list-style-type: none"> • Cr John McCoy is the Deputy Mayor of Norfolk Island. • He is a seventh generation Pitcairn descendant, born and raised on Norfolk Island. • Cr McCoy is also Chair of the Rock Feed Source, Waste Management and Public Reserves Advisory Committees. • He was a member of the tenth and eleventh Norfolk Island Legislative Assembly. 	
<p>Cr Rod Buffett</p> <ul style="list-style-type: none"> • Cr Rod Buffett is a member of NIRC's Audit Committee. • He completed high school on Norfolk Island, and established, owned and operated Norfolk Electrical for 12 years. • After some years on the mainland, Cr Buffett returned to Norfolk Island. • He has an interest in good governance, and the sustainability of Norfolk Island's culture, heritage and economy. 	

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<p>Cr Dave Porter</p> <ul style="list-style-type: none"> • Cr Dave Porter was elected to the final Norfolk Island Legislative Assembly and NIRC. • He has extensive experience in the construction industry. • Cr Porter served as a Councillor for Bundaberg City Council from 1994 to 2007, holding the position of Chair of Engineering Services. • Cr Porter and his wife moved to Norfolk Island in 2007, purchasing Aataren Villas as a retirement wind down business. 	
<p>Cr Lisle Snell</p> <ul style="list-style-type: none"> • Cr Lisle Snell is a member of the Tourism, Heritage and Culture and Public Reserves Advisory Committees of council. • He is a Pitcairn descendant. • Cr Snell has been involved in politics for over forty years, most recently as the Chief Minister of the 14th Legislative Assembly. • He served as Minister for Tourism. 	
<p>Ms Lotta Jackson</p> <ul style="list-style-type: none"> • Ms Lotta Jackson has been the General Manager of NIRC since 1 July 2016. • Ms Jackson has worked for 20 years in local government in NSW. Ms Jackson has worked across various sized councils with populations ranging from 1,800 to 150,000 in urban, coastal and rural areas. • Ms Jackson's previous roles include: <ul style="list-style-type: none"> ○ 2012 to 2016: General Manager, Tenterfield Shire Council ○ 2006 to 2012: Director of Corporate and Community Services, Glen Innes Severn Council ○ 2005 to 2006: Manager, Woollahra Municipal Council 	



Australian Government

BUILDING OUR FUTURE

Project Factsheet

Project name	Futureproofing Telecommunications in Norfolk Island
Grant Recipient	Norfolk Island Regional Council
Project funding	Total: \$4,600,000 Australian Government Funding: \$3,450,000
Federal Electorate	Canberra
State Electorate	N/A
Project status	Funding Announcement
Key dates	Project expected to commence: 24 September 2018 Project expected completion: 20 December 2019
Jobs	During delivery – as advised by the applicant: 40 Of these, how many are Indigenous: 0 Ongoing post delivery – as advised by the applicant: 40 Of these, how many are Indigenous: 0
Sensitivities:	Nil

Project funding breakdown

Funding source	Total \$
Australian Government	\$3,450,000
Norfolk Island Regional Council	\$1,150,000
Total	\$4,600,000

Key Government Messages

- The Australian Government is committed to delivering jobs, productivity improvements and economic growth to all Australians.
- The Australian Government is investing in Regional Australia to foster stronger regional communities to ensure the nation's prosperity continues in the future.

Overview of the Building Better Regions Fund

- The Australian Government is investing \$641 million over five years from 2017-18 to 2021-22 in the Building Better Regions Fund (BBRF).
- The BBRF aims to create jobs, drive economic growth, and build stronger regional communities into the future.
- The two streams of funding available under the program are:
 - The Infrastructure Projects stream supports projects which involve the construction of new infrastructure, or the upgrade or extension of existing infrastructure that provide economic and social benefits to regional and remote areas.
 - The Community Investments stream funds community building activities including, but not limited to new or expanded local events, strategic regional planning, and leadership and capability building activities.
- The BBRF is investing in projects located outside the major capital cities of Sydney, Melbourne, Brisbane, Perth, Adelaide, and Canberra.
- Details of funding rounds and programme guidelines for the BBRF are available at www.business.gov.au/bbrf.

Key project facts

- The Australian Government is committing \$3.45 million to the \$4.6 million Futureproofing Telecommunications in Norfolk Island project.
- The Norfolk Island Regional Council will provide the remaining \$1.15 million towards the project.
- It will be funded under the \$641 million Building Better Regions Fund.
- The project will install a 4G network on Norfolk Island to replace an obsolete and failing 2G network.
- The project is expected to deliver economic benefits through the provision of a current and reliable mobile telecommunication network linking the community to the mainland and the rest of the world in real time.
- The project is expected to deliver social benefits through increases in regional amenity with the installation of 4G technology on the island and enabling real time access to the mainland.
- Key design features of this project include:
 - extending the Digital Subscriber Line Access Multiplexer network to cover the black spots with installation of five new base stations;
 - upgrading the O3B Antenna and the Satellite Earth Station;
 - installation of fit for purpose Hotspot Wifi infrastructure; and
 - unlocking mobile data capacity on Norfolk Island.
- This project is expected to create 40 jobs during delivery of the project, and another 40 ongoing jobs post delivery.

Building Better Regions Fund

Infrastructure Projects Stream

Project and Assessment Summary BBRF65530

Project Details

Name of Applicant		Norfolk Island Regional Council	
Name of Project		Waste Management Solution for Norfolk Island	
Project Description		The project will create a Waste Management Solution for Norfolk Island which includes supplying and installing a composting system and associated infrastructure to manage the island's waste streams.	
If part of a larger project, description of larger project		Not applicable	
Applicant Location		New Military Barracks, Norfolk Island, NSW 2899	
Project Location		Norfolk Island, NSW	
Remoteness Classification		Very remote	
Project Commencement	01/07/2018	Project Completion	07/06/2019

Employment	Direct	Indigenous Direct	Indirect	Indigenous Indirect
During construction	4 FTE	0 FTE	40 FTE	0 FTE
Following construction	6 FTE	0 FTE	10 FTE	0 FTE

Funding Details from application

BBRF Grant Requested	\$1,278,375	Total Eligible Project Cost (excluding in-kind)	\$1,704,500
Other Commonwealth Funding	\$0		
Co-funding requirement	3:1		
Co-funding exemption applies	Not applicable		

Value of Contributions	Cash/In-kind
\$426,125	Cash
\$243,750	In-Kind
\$669,875	Total

Summary of Merit Criteria Analysis

This application was assessed by the Department as Value with Relevant Money.

Economic Benefit 15 points (Benchmark is 9)	Social Benefit 10 points (Benchmark is 6)	Value for Money 5 points (Benchmark is 3)	Project Delivery 5 points (Benchmark is 3)	Total Score 35 points
10.88	6.50	3.17	3.80	24.35

Red = below Value with Relevant Money benchmark. Green = on or above Value with Relevant Money benchmark.

Project Outputs/Outcomes (provided by applicant)
<p>The outputs for this project consist of:</p> <ul style="list-style-type: none"> An aerated composting vessel and supporting technology. A purpose built facility to undertake aerated composting operations.

- Plant and equipment including trommel, feed hopper, bin lifter, biofilters, cross feed auger and incline feed auger, shredder.
- Metal baler (primarily for vehicles, scrap metals and whitegoods).

Assessment Summary

The application for the 'Waste Management Solution for Norfolk Island' project was assessed as representing Value with Relevant Money because it exceeded the minimum benchmark for all merit criteria. The application has a final score of 24.35 out of 35.

The applicant claims the project will deliver economic benefits through job creation, creating market opportunities for new and existing tourism and agriculture sectors, use of local goods and suppliers, increase in efficiency of the service delivery system and reduce costs associated with dumping. The applicant has provided a strong link between these claims and the project outcomes. The claims are supported by adequate evidence.

The applicant claims the project will deliver social benefits through making the region more attractive to live, supporting and protecting local heritage and culture and reduce health risks to the Norfolk Island community. The applicant has provided a strong link between these claims and the project outcomes. The claims are supported by adequate evidence.

The application has demonstrated value for money. However, the application has low partnership participation and has not leveraged additional co-funding above the minimum requirement. There is one funding partner (the Applicant) who is committing contributions worth 34% of the total project cost of \$1,948,250 (including in-kind). The applicant is providing 100% of the evidenced cash contribution. All partner contributions are supported by appropriate evidence.

The applicant has demonstrated the capacity, capability and necessary resourcing to undertake the project. Project planning and sustainability documentation was provided by the applicant to support the project's viability. The applicant has the necessary experience to undertake the project. The applicant has demonstrated capacity to fund and sustain the project.

No risks were identified during the assessment.

Merit Criterion One: Economic benefit

Summary (Score = 10.88 /15)

Outcome of Assessor's Appraisal: The application exceeded the benchmark for Criterion 1 because the economic benefits have been defined and quantified, the applicant has provided a strong link between these claims and the project outcomes, and the claims are supported by adequate evidence.

Summary of employment benefits:

Total project cost	\$1,704,500 (excluding in-kind)
Grant funding requested	\$1,278,375
Direct jobs during construction	4
Indirect jobs during construction	40
Direct jobs post construction	6
Indirect jobs post construction	10
Post- construction jobs per \$ million of the total project cost	There are 4 direct, post-project jobs per \$1 million of cash project expenditure. This equates to \$213,063 of grant funds per direct, post-project job.

Summary of Cost Benefit Analysis (for grant requests over \$1m)

- The Cost Benefit Analysis summarises the benefits in two parts; non-monetary and monetary. The non-monetary benefits are categorised as environmental, social and economic. Monetary economic benefits include cost savings of \$250,000 from costs associated with Headstone burning/dumping operations being eliminated and up to \$1,000,000 in savings from illegal dumping penalties, in the first year. Revenue expected to be generated in the first year includes; \$203,000 from sales of mulch, \$95,000 from fees and \$8,000 estimated income from recyclers.

Assessment details

The applicant claims the project will contribute the following economic benefit during construction:

- The creation of 4 direct FTE jobs and 40 indirect FTE jobs.
- Use of local goods, suppliers and employment where possible.

The applicant claims the project will contribute the following economic benefits after construction:

- Creation of 6 direct FTE jobs and 10 indirect FTE jobs.
- Create market opportunities for new businesses.
- Grow existing tourism and agriculture sectors.
- Potentially reduce costs over \$1 million from costs associated from dumping and penalties.
- Increase efficiency in the service delivery system.

These claims are supported by adequate evidence that is commensurate with the size and scope of the project:

- Detailed internal Business plan, prepared by the applicant.
- Detailed internal Cost benefit analysis, prepared by the applicant.
- Adequate internal Financial results and forward estimates, prepared by the applicant.
- Comprehensive Norfolk Island community strategic plan 2016-2026, prepared by the applicant.
- Letter of support from Director of National Parks Australia.
- Comprehensive Waste management strategic plan 2015, prepared by the applicant.

The case for economic benefit and delivery to the broader region is good. If claims are achieved, the project will have a moderate impact on the local area and the region.

The application could have been improved by:

- Referencing evidence for the claimed economic benefits.
- Providing an independent cost benefit analysis.
- Providing calculations and/or reasonable assumptions for the claimed economic benefits.

Merit Criterion Two: Social benefit**Summary (Score = 6.50 /10)**

Outcome of Assessor's Appraisal: The application exceeded the benchmark for Criterion 2 because the social benefits have been defined, the applicant has provided a strong link between these claims and the project outcomes, and the claims are supported by adequate evidence.

Assessment details

The applicant has not made any claims of social benefit during the project.

The applicant claims the project will contribute the following social benefit after construction:

- Reduce the number of domestic backyard burning by 1,500 tonnes annually.
- Make the region a more attractive place to live and visit.
- Strengthening local community institutions, governance and leadership capacity.
- Increasing community volunteering.
- Improving community connections and social inclusion.
- Supporting and protecting local heritage and culture.

These claims are supported by adequate evidence that is commensurate with the size and scope of the project:

- Detailed internal Business plan, prepared by the applicant.
- Detailed internal Cost benefit analysis, prepared by the applicant.
- Comprehensive Norfolk Island community strategic plan 2016-2026, prepared by the applicant.
- Letter of support from Director of National Parks Australia.
- Comprehensive Waste management strategic plan 2015, prepared by the applicant.

The case for social benefit and delivery to the broader region is satisfactory. If claims are achieved, the project will have a moderate impact on the local area and the region.

The application could have been improved by:

- Quantifying the social benefit claims.
- More clearly defining the social benefit.
- More clearly demonstrating how the project will deliver the claimed social benefits.
- Providing current evidence.

Merit Criterion Three: Value for money

Summary (Score = 3.17 /5)

Outcome of Assessor's Appraisal: The application exceeded the benchmark for Criterion 3 because the applicant has demonstrated a need for funding. However, the application has low partnership participation and has not leveraged additional co-funding above the minimum requirement.

Assessment details

The assessment has determined that:

- the project will have one partner (the Applicant);
- cash to meet the co-funding requirement is confirmed (with appropriate evidence provided);
- 25% of the total project cost (cash only) will be met by co-funding;
- the evidenced partner contributions are as follows:
 - \$426,125, or 64% of the partner contributions, is cash;
 - \$243,750, or 36% of the partner contributions, is in-kind; and
 - totalling \$669,875 of contributions.

The level of community commitment is good as indicated by the applicant's sole cash and in-kind contribution.

Co-funding and contributions:

- Applicant - \$426,125 (Cash), appropriate evidence has been provided.
- Applicant - \$243,750 (In-kind), appropriate evidence has been provided.

The application could have been improved by:

- A greater, confirmed partner funding above the minimum requirement.

- A greater level of commitment from potential partners and the community. There was reference to supporters who were not included as contributors or partners on the project.
- Better addressing the extent and nature of the partnerships, including those of a non-financial nature, which were formed to develop and deliver the project.

Merit Criterion Four: Project delivery

Summary (Score = 3.80 /5)

Outcome of Assessor's Appraisal: The application exceeded the benchmark for Criterion 4 because:

- Applicant viability is assessed as strong.
- Project viability is assessed as reasonable.
- Project sustainability is assessed as strong.

This rating has been determined considering the scores for applicant viability and project viability, with a greater weighting being applied to project viability.

The applicant has demonstrated the capacity, capability and necessary resourcing to undertake the project. Project planning and sustainability documentation was provided by the applicant to support the project's viability. The applicant has the necessary experience to undertake the project. The applicant has demonstrated capacity to fund and sustain the project.

Assessment details

Assessment of the application and supporting documentation identified that:

- The applicant is financially viable and has capacity to fund the project:
 - the applicant does not have experience in managing projects of similar size.
- Project planning is commensurate with the scope and stage of the project:
 - planning is at a preliminary stage;
 - costings are detailed estimates or quotes that have been independently produced; and
 - statutory approvals have been identified and the applicant is the issuing authority.

The applicant has provided the following documentation to support their capacity and capability to undertake the project:

- Detailed internal Business plan, prepared by the applicant.
- Comprehensive internal Waste Management Strategic Plan 2015, prepared by the applicant.
- Comprehensive internal Asset and Risk Management Plan, prepared by the applicant.
- Detailed external Report on Organic Waste Recycling for Norfolk Island, prepared by C-Wise Soil Carbon Solutions.
- Detailed internal Composting and capital and ongoing estimates, prepared by the applicant.
- Detailed external Material and Equipment Quotes 2017, prepared by Pacific Materials Handling.

No risks were identified during the assessment.

The application could have been improved by:

- Stronger supporting documentation that demonstrated sufficiently progressed beyond the concept stage. Stronger supporting documentation to demonstrate that the project would be delivered and remain viable beyond the project.

- Identifying who is managing the project and why they are appropriate, including project governance and authority for any variations.
- Identifying who has authority to manage large issues and changes in the project.

Other considerations, including issues with proposed activities, time or expenditure

The Applicant has previously applied for:

- Building Better Regions Fund (Round 1) - \$1,710,000 - Solid Waste Disposal System to replace current unsustainable system - Not approved.
- Building Better Regions Fund (Round 1) - \$3,060,000 - Futureproofing Telecommunications in Norfolk Island - Not approved.
- Building Better Regions Fund (Round 1) - \$165,000 - Strengthening environmental governance Norfolk Island Regional Council – Approved.
- Building Better Regions Fund (Round 2) - \$187,500 - A Water Quality and Wastewater Management Strategy for Norfolk Island - Application received.
- Building Better Regions Fund (Round 2) - \$3,450,000 - Futureproofing Telecommunications in Norfolk Island - Application received.
- Building Better Regions Fund (Round 2) - \$187,500 - Airport Master Plan for Norfolk Island International Airport - Application received.
- Stronger Communities Program (Round 3) - \$20,000 - Upgrade of Toilet at Anson Bay – Approved.

Comments by State/Territory Government/Australian Government Agencies

Department of Infrastructure, Regional Development and Cities - Strongly Supported. The Norfolk Island Regional Council must implement sustainable waste management practices to comply with the requirements included in the soon to be released Marine Protected Area Management Plan for the waters surrounding Norfolk Island. This requires that current practices of ocean waste disposal must cease before June 2019. The costs of waste management are proportionately much higher for small and remote island communities and costs of investing in the infrastructure required is beyond the community's financial capacity. The funding proposal was developed in consultation with the Department of Environment and Energy.

Department of Environment and Energy

Parks Australia - The NI Regional Council (NIRC) is a relatively newly formed local govt body on NI taking over from the NI Govt. NIRC is the key agency for waste management and has taken over a very primitive sea dumping operation to now employing specific dedicated staff to manage waste in a best practise manner.

There is a high degree of alignment with priorities of Parks Australia.

Parks Australia is responsible for the management of the Norfolk Marine Park, within the Temperate East Network of Marine Parks, which was first proclaimed in November 2012. A management plan for the Temperate East Network was subject to a 60 day public consultation period from 20 September 2017. Since this time, the Director of National Parks has carefully been considering submissions received and preparing final management plans for consideration and approval by the Minister for the Environment and Energy. Once approved, the final management plans will be subject to a disallowance period in Parliament, prior to coming into effect. The final management plan will set out the approach Parks Australia will take in managing the Temperate East Marine Parks over the next ten years, including provisions to protect important marine habitats and features, while providing opportunities for people to continue to enjoy these unique areas.

In developing and consulting on the Temperate East Management Plan, Parks Australia has worked closely with the Norfolk Island Administration (and now the Norfolk Island Regional Council, NIRC) in relation to waste and waste water management.

The discharge of commercial and domestic waste (including sewage) into a marine park is prohibited under the Environment, Protection and Biodiversity Conservation Regulations 2000. When the Temperate East Management Plan comes into effect, current practises of waste and sewage disposal into Norfolk Marine Park will be prohibited, unless special, time bound arrangements are put in place with the NIRC.

As such, Parks Australia is highly supportive of projects which aim to improve Norfolk Island's management of waste and waste water. From the information provided, it appears that the scope of this proposal includes installation and management of an aerated compost system for organic waste streams, and a metal baler for vehicles, metals and whitegoods. Organic and Green waste is part of the waste regime and the composting system is a viable solution in an island context. The metal baler will be essential in modernising the current facility and will allow for recycling of scrap metal instead of the old sea dumping technique.

From the information provided, it is unclear if the scope of the proposal includes infrastructure to support management of other waste streams, or to upgrade the Island's sewage/waste water treatment and discharge facility. We assume the NIRC has checked all quarantine, import and customs issues

We are highly supportive of the bid as presented, but would have encouraged its scope (if it isn't already) to be expanded to encompass infrastructure improvements for all waste streams and waste water/sewage, as part of a comprehensive plan to improve all aspects of Norfolk Island's waste and waste water management.

Department of the Environment and Energy

Clean Energy Finance Corporation - CEFC Query whether they are doing any landfill gas recovery and use for electricity generation. Methane is 25 times more destructive than CO₂ and if government is funding this through a grant they should insist this carbon liability is dealt with as it is probably economic. Possibly ERF eligible. Also query what Norfolk Island Regional Council is doing on waste gate fees - i.e. are they allowing people to dump for free.

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1.08 EVENT BRIEF – Community Reception

Date and Time:	Tuesday 13 November 2018, 5.30 pm – 7.00 pm
Location:	Government House
Attendees:	Eric Hutchinson Community members (80 guests - TBC)

Outcomes Sought:

- Meet with a broad cross section of the community

Key Issues:

- Provide continuity from previous minister and re-iterate Assistant Minister Ley's commitment to the Norfolk Island community

Sensitivities: Nil

Attachments: Nil



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1.09 EVENT BRIEF – Breakfast Bushwalk

Date and Time:	Wednesday 14 November 2018, 7.00 am – 10.00 am
Location:	Meet at Pinetree Tours pick up area
Attendees:	Michael (Boo) Prentice TBA visitors to the island

Outcomes Sought:

- Experience a popular tourist attraction.
- Overview of the challenges faced by tourism operators complying with modern awards

Background:

- Leisurely 3.5km walk through scenic Mt. Bates to Captain Cook Monument. At the end of the walk, meet on the clifftop for a delicious breakfast barbecue.
- Boo Prentice is a pioneer of popular tours on the island – Night as a Convict, Convict Settlement Tour, The Bounty Show, and many others. He promotes the island heavily and has his own travel agency located in Brisbane.

Sensitivities: Nil

Attachments: Nil



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1.10 EVENT BRIEF – Meeting with former Norfolk Island Advisory Council

Date and Time:	Wednesday 14 November 2018, 11.00 am – 11.30 am
Location:	Administrator's Office
Meeting with:	Duncan Evans, Melissa Ward, Eve Semple
Attendees:	Eric Hutchinson, Administrator

Outcomes Sought:

- Discuss the recommendations made by the Advisory Council as set out in Council's final report to the Government in June 2016 (**Attachment A**).
- General discussion regarding the advancement of the reforms.

Key Issues:

- The Advisory Council made 22 recommendation regarding governance and the legislative framework to the Australian Government in their final report (Refer **Attachment A**). The majority of these actions were deemed to be the responsibility of the Regional Council.
- The Advisory Council recommendations include that the management of the Norfolk Island government business activities sit outside of the core functions of the Regional Council, and an alternative professional and independent management and oversight model be established by the Australian Government. Government business activities include the airport, electricity and Norfolk Telecom.
- At the time the report, it was decided by the Australian Government that the management of the government business activities and future operational structuring would be the responsibility of the Regional Council.
- The Advisory Council is likely to raise this recommendation with you. The Administrator, Mr Eric Hutchinson has recently raised the issue of a skills based board for the government business activities.
- Alternate management and oversight models, including the establishment of a Commonwealth Government Business Enterprise are available for the government business activities. Before the Department of Infrastructure, Regional Development and Cities can brief with options regarding this matter, a project to scope the issues and potential outcomes needs to be undertaken. The project is planned to commence shortly with a report expected by the end of the financial year.

Background:

- On 4 June 2015, the Hon Jamie Briggs MP, the former Assistant Minister for Infrastructure and Regional Development, announced the appointment of Ms Melissa Ward as Chair of the Norfolk Island Advisory Council.

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

- Subsequently, on 12 June 2015, the Minister and Chair announced the appointment of the other four members, Mr Wally Beadman, Mr Duncan Evans, Ms Eve Semple, and Mr PJ Wilson. The members formally commenced their roles on 1 July 2015.
- The Norfolk Island Advisory Council was established with a membership drawn from within the local community to ensure there was a local representative body during the interim transition period between the dissolution of the Norfolk Island Legislative Assembly and the commencement of the Norfolk Island Regional Council.
- The Advisory Council provided a final report to the Assistant Minister for Infrastructure and Regional Development and the Minister for Major Projects, Territories and Local Government in June 2016. The Advisory Council ceased on the commencement of the Norfolk Island Regional Council (NIRC).
- Mr PJ Wilson he is now employed by the NIRC and will not attend meeting due to conflicts of interests. Mr Wally Beadman is no longer resident of Norfolk Island.

Sensitivities: Nil

Attachments:

A Norfolk Island Advisory Council Final Report, June 2016



Norfolk Island Advisory Council

Final Report

June 2016

A Note from the Advisory Council Members

Since 1 July 2015, we have provided a forum for the Norfolk Island community to express their views on a range of matters including the structure of the new Regional Council and priorities for the future including on legislation and the economy. The community provided a range of views and we worked diligently to advise on a sensible and practical way forward. As members with diverse backgrounds and range of views we have not always agreed, but we have worked cooperatively to reach a consensus position on all of the matters on which we have advised the Australian Government.

The first task we set ourselves was to release a work plan identifying the range of advice we anticipated providing to the Minister and Administrator, and the ways in which we intended to engage the community and collect feedback to present on behalf of the community. We are proud to say we have delivered the tasks set out in the work plan and have provided advice to the Minister, the Administrator, the Executive Director and Administration of Norfolk Island about what the community has told us it would like the future of Norfolk Island to look like.

We recognise it has been a personally and professionally challenging year for many on the Island, ourselves included, and we would like to thank the Norfolk Island community for their support during the transition year. We believe the community members who chose to actively engage in the consultation process should be proud of their advocacy work and successes. We also encourage the community to continue to engage with key stakeholders (both government and non-government) to continue to build a stronger and more sustainable future for Norfolk Island.

We would also like to thank Minister Fletcher and the former Assistant Minister Briggs for taking the time to visit Norfolk Island and hear the views of community directly, and His Honour the Administrator for sharing information and his insights with us. We also thank the staff of the Department of Infrastructure and Regional Development and the other involved agencies for their commitment to delivering the best possible outcomes for Norfolk Island in line with the decisions of the Australian Government.

The election of councillors to the inaugural Norfolk Island Regional Council took place on 28 May 2016, signalling the next step forward for Norfolk Island. We look forward to the councillors elect taking on the job of service to, and advocating on behalf of, all of the Norfolk Island community from 1 July 2016.

Melissa Ward – Chair

Wally Beadman

Duncan Evans

Eve Semple

PJ Wilson

Overview of the Norfolk Island Advisory Council

In March 2015, the Australian Government announced a significant reform programme for Norfolk Island. From 1 July 2016, the Australian Government will assume the responsibility for delivery of all Federal and State level services. The newly formed Norfolk Island Regional Council will be responsible for the delivery of local government services and a range of additional responsibilities brought about by the location of, and circumstances on Norfolk Island.

On 4 June 2015, the Assistant Minister for Infrastructure and Regional Development, the Hon. Jamie Briggs MP, announced the appointment of a Chair, Ms Melissa Ward MLA. Subsequently, on 12 June, the Minister and Chair announced the appointment of the other four members, Mr Wally Beadman, Mr Duncan Evans, Ms Eve Semple, and Mr PJ Wilson. The members formally commenced their roles on 1 July 2015.

The Norfolk Island Advisory Council was established with a membership drawn from within the local community to ensure there was a local representative body during the interim transition period between the dissolution of the Norfolk Island Legislative Assembly and the commencement of the Norfolk Island Regional Council.

We provided the community with a forum to raise issues and provide feedback to the Minister and the Administrator during the transition period. Specifically, the Minister asked the Advisory Council to provide advice on the following:

- A Regional Council model within the framework of the *Local Government Act 1993* (NSW);
- The restructure of the Administration of Norfolk Island into the Norfolk Island Regional Council and transition of staff from one organisation to the other;
- Priorities for introducing new law modelled on NSW, based on the criteria of economic development, community safety and sustainable government; and
- Any other matter referred to it by the Administrator.

The Advisory Council consulted on three additional matters important to the community:

1. The preamble to the *Norfolk Island Act 1979* (Cth);
2. The time zone including daylight saving; and
3. Economic development strategic priorities.

The Work of the Norfolk Island Advisory Council

Once established, the Advisory Council set about establishing procedural rules and a work plan. The procedural rules were published shortly after the formal commencement of the Advisory Council and the first work plan was published on 31 July 2015 with an update in December 2015.

To support its core task of providing advice to the Minister and Administrator, the Advisory Council released a series of discussion papers and a questionnaire, held supporting public hearings, accepted written submissions from interested parties, and attended a number of small group and individual meetings.

To ensure the community remained informed of its activities and had the greatest possible opportunity to involve itself, the Advisory Council released regular community bulletins providing updates on progress and information about its work and activities, including opportunities to contact members through formal and informal channels. The Advisory Council also released media statements as required to provide information on specific matters or on the activities of the Advisory Council.

Regular Meetings of the Advisory Council

The Advisory Council met on the first Wednesday of each month for a formal meeting of members. An agenda for the upcoming meeting was published ahead of the meeting date. The meetings generally ran from 10:00AM until midday but occasionally finished earlier or later depending on the progression of the agenda by members. Each formal meeting was open to the public to attend and was minuted. Minutes were agreed by the Chair and published online after each meeting.

The Chair, Mr Evans, and Mr Beadman attended all monthly meetings of the Advisory Council. Ms Semple attended all meetings except the August 2015 meeting, and Mr Wilson attended all monthly meetings except the September 2015 and April 2016 meetings. Apologies were recorded in advance for Ms Semple and Mr Wilson.

Discussion Papers and Questionnaire

The Advisory Council released three discussion papers. Each was drafted by the Secretariat following our instructions and specifications. The drafting of each discussion paper began with an informal discussion between members about the questions we sought to answer, what was important to the community, the sort of information we thought would assist us to understand community views, and the questions we could ask the community to obtain this information. The Secretariat then undertook preliminary research and proposed a format and structure which we amended or agreed. Based on the agreed structure, the Secretariat prepared a draft discussion paper for consideration by members. Each member had the opportunity to edit the material and to propose additions or deletions from the draft document. Based on our requests the Secretariat finalised a paper for our consideration and agreement.

Each discussion paper was released with a pro-forma feedback form including each of the discussion questions. This was intended to assist the community in making submissions and many respondents opted to use the supplied feedback forms. A number of respondents opted to provide more detailed written submissions. All respondents were provided with an assurance that submissions

would be treated confidentially on request and the identities of individual respondents would be protected.

In addition to the discussion papers, we also released a short questionnaire on priorities for economic development. The questions and options in the questionnaire were based directly on opportunities previously raised by the community in the Norfolk Island Economic Development Strategy prepared by SGS Economics and Planning.

To maximise our reach in the community, and ensure as many people as possible had an opportunity to contribute to the process, we took steps to make our discussion papers and the questionnaire as widely available as possible. We arranged delivery to each post office box on the island (there is no street delivery service on Norfolk Island), we made electronic copies available online, and hard copies available at the Advisory Council office, the Office of the Administrator, and the Australian Government Information Centre. Spare discussion papers and feedback forms, as well as spare questionnaire forms, were also left at the post office.

The response period for each of the discussion papers and for the questionnaire was at least two weeks. Responses were accepted in hard copy in a locked box at the post office, at the Australian Government Information Centre, and at the Advisory Council office. Emailed responses were also accepted.

Public Hearings

The Advisory Council conducted public hearings in support of each of the three discussion papers. The purpose of these hearings was for people to present views and ideas orally to members of the Advisory Council and to interested members of the public. Because the Advisory Council was established to pass on community views rather than to develop and set a policy agenda, members listened and deliberately limited their contribution to an opening statement and questions to clarify a number of points made by presenters.

Presentations to the public hearings were not recorded but minutes were kept and made available on the Advisory Council website. Presenters were provided an opportunity to correct factual errors in the minutes before publication.

The views put forward at the public hearings contributed to the development of advice to the Minister and Administrator on the issues covered and were given equal weight to views put forward in written submissions.

Feedback Summaries

Following the close of each consultative period, the members of the Advisory Council met to read and discuss the responses. Separately, the secretariat read each submission and prepared a draft summary of the feedback against each question. Following the circulation of the draft summary, members met informally to discuss the findings and whether the summary fairly represented the views expressed on the feedback forms, in presentations to public hearings and in private meetings held with interested parties. On reaching consensus that the feedback summaries fairly represented a balance of the range of views put forward, members endorsed and released the feedback summaries. Each of these summaries formed the basis for advice to the Minister.

Advice to the Minister and Administrator

The Advisory Council provided advice to the Minister on each of the three specific areas requested. Advice was based upon information gathered by the Advisory Council through the discussion paper and questionnaire processes, through letters to the Advisory Council, and through private meetings with interested individuals and groups. Advice was agreed between members by consensus on all occasions and no dissenting reports were made.

The Advisory Council also provided copies of its advice to the Administrator. Members provided information and advice to the Administrator on an informal basis around a range of suggested activities that could be carried out to build community capability with respect to the incoming framework in areas such as trade skills and qualifications, licensing and business skills. The Chair relayed community concerns to the Administrator on a weekly basis.

All advice to the Minister was published on the Norfolk Island Advisory Council website.

Community Bulletins

To ensure the community remained aware of our actions we released regular community bulletins. Initially, the bulletins were released monthly but this transitioned to one every two months as the reform process progressed.

The community bulletins provided information about the activities of the Advisory Council, meetings of note, discussion papers and other consultative activities, and ways to contact the Advisory Council and be involved in contributing to advice provided to the Minister and Administrator.

The community bulletins were made available online through the Advisory Council website, copies were placed at the Australian Government Information Centre and the Advisory Council office, and copies were distributed to every post-box on the island.

Media Releases

The Advisory Council prepared media releases as required to publicise specific things like the publication of documents, public meetings, and provision of advice to the Minister. These were made available online at the Advisory Council website and were published in the Norfolk Islander Newspaper and with Norfolk Online. The local radio station relayed Advisory Council notices and the Chair participated in a number of interviews with Radio Norfolk and ABC Western Plains.

Recommendations of the Norfolk Island Advisory Council

Over the term of our appointment, the Norfolk Island Advisory Council made a number of formal recommendations to the Assistant Minister for Infrastructure and Regional Development and to the Minister for Major Projects, Territories and Local Government.

Governance Functions of the Norfolk Island Regional Council

Recommendation:	Status:
1. The Advisory Council recommends the role of the Executive Director be continued and include some executive powers to advise and mentor an incoming Council and to continue the business improvement activities in cooperation with the Administrator and the Department of Infrastructure and Regional Development.	Executive Director role will not continue after 30 June 2016; however, these responsibilities will transfer to the General Manager of the Regional Council.
2. The Advisory Council recommends that the <i>Local Government Act 1993</i> (NSW) Charter be modified as follows: To promote and to provide and plan for the needs of children, <u>the elderly and the vulnerable</u> .	The Regional Council can add to the baseline charter set out in the Act.
3. The Advisory Council recommends seven members (including the Mayor) serve on the Regional Council.	A five member Regional Council established.
4. The Advisory Council recommends independent members may serve on Committees of the Regional Council to ensure that the Council is able to draw on a broader skill base.	This is a decision for the Regional Council.
5. The Advisory Council recommends Regional Council meetings have a public forum as provided for in the <i>Local Government Act 1993</i> (NSW) so members of the community, or representative bodies, can present views on topics important to them and their members.	This is a decision for the Regional Council.
6. The Advisory Council recommends Australian citizens, who are resident or non-resident landowners, and occupiers or leaseholders of business or residential property, be eligible to vote at Regional Council elections.	Actioned.

7. The Advisory Council recommends the Mayor be elected by councillors under the terms set out in the <i>Local Government Act 1993</i> (NSW).	Actioned.
8. The Advisory Council recommends electoral wards not apply to Norfolk Island due to its small population and geographic area.	Actioned.
9. The Advisory Council recommends the preferential voting electoral system set out in the <i>Local Government Act 1993</i> (NSW) be used and, given the Island's small population, recommends voting below the line only.	Voting system established as recommended but above the line voting permitted.
10. The Advisory Council recommends the Regional Council be responsible for administering elections.	Future elections will be the responsibility of the Norfolk Island Regional Council.
11. The Advisory Council considered the Island's small voting population (approximately 1000) and recommends to establish a political party would require 20 members.	Political party membership thresholds remain at 100 under the applied legislation.
12. The Advisory Council recommends the remuneration provisions in the <i>Local Government Act 1993</i> (NSW) apply to Norfolk Island.	Actioned.
13. The Advisory Council recommends the Executive Director continue to pursue governance and operational reform, improve management and customer service standards, remove barriers to competition, contract out services and divest businesses to the private sector wherever possible.	This will be the responsibility of the Regional Council; work in this area is ongoing.
14. The Advisory Council recommends the management of current Norfolk Island government business activities sit outside of the core functions of the Regional Council, and an alternative professional and independent management and oversight model be established by the Australian Government.	Management of government business activities and future operational structuring will be the responsibility of the Regional Council.

<p>15. The Advisory Council recommends an economic development function that encompasses heritage and tourism development be established in the Regional Council and destination marketing be funded by the Australian Government as a State function.</p>	<p>Economic development function announced in new Regional Council organisational structure.</p> <p>The Advisory Council notes tourism funding is included in the 2016/17 budget.</p>
<p>16. The Advisory Council recommends an interim rating model be introduced commencing 1 July 2016, and a value based system be introduced by the end of the first term of the Regional Council.</p>	<p>The <i>Local Government Act 1993 (NSW) (NI)</i> requires the establishment of a rating model. An interim rating model based on land use has been released by the Administration of Norfolk Island. The implementation of this model and the development of a value based rating model will be the responsibility of the Regional Council.</p>

A Modern Legal Framework for Norfolk Island

Recommendation:	Status:
1. The Advisory Council recommends the Australian Government establish a community consultation process to be applied for changes to laws on Norfolk Island which includes an impact assessment, a set timeframe for responding to the Minister and involves the Administrator and Regional Council.	Australian Government consultation processes will continue to apply to Norfolk Island including consultation and regulatory impact assessment requirements where appropriate.
2. The Office of the Administrator provides ongoing advice and support to the Australian Government and Regional Council, particularly in relation to the phasing in of laws and state-level services.	The role of the Administrator is continuing. The Advisory Council notes the role of the Administrator in advocating for a sensible and achievable application of NSW laws will be essential to the success of future reform activities.
3. The Advisory Council recommends the Australian Government implement a small business development programme with a focus on investment in local skills and capability around complying with Australian Government laws applied to Norfolk Island.	Small business and trade skills development programmes implemented by the Office of the Administrator.
4. The Advisory Council recommends a five year legislative programme, including transitional arrangements, setting out the following is published: <ol style="list-style-type: none"> Norfolk Island legislation to be immediately reviewed, amended, retained, or repealed; and NSW law to be applied to Norfolk Island based on local priorities. 	Correspondence from the Department of Infrastructure and Regional Development indicates further consideration of transitional arrangements in relation to the phased extension of modified NSW laws will occur.
5. The Advisory Council recommends a daylight saving trial be carried out and a decision about whether to apply daylight saving be made by the Regional Council.	This is a matter for further advocacy by the Regional Council.
6. The Advisory Council recommends, in light of significant community division and strong opinions both supporting and against, the matter of a Preamble should be further considered by the Regional Council.	This is a matter for the Regional Council.

Transition to a Regional Council and Economic Development

Further to the above specific recommendations, the Advisory Council wrote to the Minister for Major Projects, Territories and Local Government on the transition process and separately on economic development. These letters highlighted the support needs of the Administration of Norfolk Island as it transitions to a Regional Council structure and community priorities for government involvement in economic development activities. We are confident the information provided will inform future decision making as appropriate. We also note many of the community preferences for government involvement in economic development could be carried out by the Regional Council. For this reason, we included the Executive Director, Mr. Peter Gesling, in our correspondence on the matter.

Index of Publications:

Norfolk Island Advisory Council Work Plan

Norfolk Island Advisory Council Work Plan (July 2015)

Norfolk Island Advisory Council Work Plan (Updated December 2015)

Regular Meetings of the Advisory Council

Agenda – July Meeting

Agenda – January Meeting

Minutes – July Meeting

Minutes – January Meeting

Agenda – August Meeting

Agenda – February Meeting

Minutes – August Meeting

Minutes – February Meeting

Agenda – September Meeting

Agenda – March Meeting

Minutes – September Meeting

Minutes – March Meeting

Agenda – October Meeting

Agenda – April Meeting

Minutes – October Meeting

Minutes – April Meeting

Agenda – November Meeting

Agenda – May Meeting

Minutes – November Meeting

Minutes – May Meeting

Agenda – December Meeting

Agenda – June Meeting

Minutes – December Meeting

Minutes – June Meeting

Discussion Papers and Questionnaires

Discussion Paper 1: A future Norfolk Island Regional Council (July 2015)

Discussion Paper 2: A Future Norfolk Island Regional Council Service Delivery Model (September 2015)

Discussion Paper 3: A Modern Legal Framework for Norfolk Island (November 2015)

Questionnaire: Norfolk Island Economic Development Strategy (March 2016)

Summaries of Community Feedback

Discussion Paper 1: Community Feedback (September 2015)

Discussion Paper 2: Community Feedback (October 2015)

Discussion Paper 3: Community Feedback (January 2016)

Questionnaire on Economic Development: Community Feedback (March 2016)

Advice provided to the Minister and Administrator

Advice to the Minister on governance and functions of a future Regional Council (December 2015)

Advice to the Minister on a modern legal framework for Norfolk Island (March 2015)

Advice to the Minister on the transition of the Administration of Norfolk Island to a Norfolk Island Regional Council (April 2016)

Advice to the Minister on economic development priorities for Norfolk Island (April 2016)

Community Bulletins (2015/16)

July	November-December
August	January
September	February-March
October	April, May, June

Media Releases (2015/16)

Media Release – 2 July	Media Release – 27 November
Media Release – 31 July	Media Release – 4 December
Media Release – 14 August	Media Release – 11 December
Media Release – 21 August	Media Release – 18 December
Media Release – 4 September	Media Release – 5 February
Media Release – 18 September	Media Release – 4 March
Media Release – 25 September	Media Release – 24 March
Media Release – 2 October	Media Release – 6 May
Media Release – 9 October	Media Release – 17 June
Media Release – 30 October	

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.11 EVENT BRIEF – Norfolk Island Central School visit

Date and Time:	Tuesday 13 November 2018, 10.30 am – 11.15 am
Location:	Norfolk Island Central School – meet at front office
Attendees:	Eric Hutchinson, Administrator Brett Carr, School Principal Students receiving awards: Mia Pashley Year 5 Tahlia Evans Year 8 Mason Wilkinson Year 12

Outcomes Sought:

- To visit the Norfolk Island Central School (the school) and meet the Principal, Mr Brett Carr and the newly appointed Senior Leadership group.
- You may like to congratulate the new team and the importance of their leadership role within the school community.
- You may also like to give your best wishes to the Year 12 cohort for 2018 who currently sitting their Higher School Certificate exams.
- The Year 7/8 Debating team should be congratulated for their performance at the recent North Coast regional final of the State debating competition. The team were only just ‘pipped at the post’ by Nambucca Heads. What a great achievement that the smallest, most isolated school in the northern region came second in the competition.
- During your visit to the school, Eric Hutchinson, will present the Administrator’s awards for Sports and Citizenship. These awards acknowledge a student’s ‘effort in schooling based on ability and participation in sports and carnivals at School’. The recipients are recognised for their general behaviour, their help and cooperation around the school and community.

The recipients for this year are:

Year 3-6 – Mia Pashley (year 5)

Year 7-10 – Tahlia Evans (year 8)

Year 11-12 – Mason Wilkinson (year 12).

Eric has also been asked to present three sporting trophies following the annual school sports carnival and points scorers for other events. Details on recipients for these are not yet available.

Key Issues:

- The Hon Dr John McVeigh MP, the former Minister for Regional Development, Local Government and Territories, visited the Norfolk Island Central School (the school) in July 2018 and met with staff and the student leadership group. His visit was well received by the school community.

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

- The Senior Leadership Group were involved in a competition within the school community to name the new Child and Family Wellbeing Unit officially opened by the previous Minister in July 2018. The name chosen was NI-Connect in recognition of the importance of community connection and their proud identity as residents of Norfolk Island.
- You may be asked about vocational education and other tertiary opportunities for young people wishing to stay on the island.
- At the 2018-19 Budget the Australian Government committed to providing financial assistance to Norfolk Island residents undergoing Vocational Education Training while living on Norfolk Island.
- The Department is currently finalising the guidelines and associated documentation for this financial assistance. We anticipate that it will be announced before Christmas with the initiative open for application in January 2019.
- You may be asked to ensure the Norfolk Island language continues to be made available:
- The Norfolk language and culture lessons are included in the school curriculum as a language-other-than-English (LOTE) choice to help preserve the language and culture for future generations. NSW Department of Education supports its inclusion in the curriculum.

Background: Nil

Sensitivities: Nil



1.12 EVENT BRIEF – Chamber of Commerce

Date and Time:	Wednesday 14 November 2018, 2.30 pm – 3.00 pm
Location:	Administrator's Office
Meeting with:	Chamber of Commerce
Attendees:	Eric Hutchinson, Administrator Cherri Buffett, President Brett Sanderson, Vice President Natasha Arnold, Committee Alison Christian, Committee Naomi Thompson, Committee

Outcomes Sought:

- Recognise and listen to the concerns of the Chamber of Commerce (the Chamber) while asserting the Australian Government's long-held position about the status of Norfolk Island.
- Key issues likely to be raised, include:
 - ACT Government negotiations;
 - Norfolk Island Response Taskforce and Medical Records; and
 - Application to the Fair Work Commission.

Key Issues:

- The Chamber's mission is to be the voice of business to champion opportunities that drive investment and enable community prosperity. The Chambers 2017-22 Strategic Plan is provided at **Attachment A**.

ACT Government negotiations

- The Chamber, through social media sought reasons why the Norfolk Island Community was not informed about the "move" to the Australia Capital Territory. (Refer to Key Issues Brief 2.11)

Norfolk Island Response Taskforce and Medical Records

- The Norfolk United Group, which the Department of Infrastructure, Regional Development and Cities understands works closely with the Chamber wrote to all Members of Parliament and Senators regarding the removal of health records from the

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

Island and the establishment of the Norfolk Island Taskforce. (Refer to Key Issues Brief 2.10)

Application to the Fair Work Commission

- On 30 June 2018, the NSW Business Chamber made an unsuccessful application to the Fair Work Commission (FWC) for a new award to be made specifically for Norfolk Island private sector employees, similar to the existing Miscellaneous Award 2010. (refer to Key Issues Brief 2.01)

Background:

- The Chamber has approximately 70 members.
- The Chamber also wrote to you on 24 September 2018 about Mr Eric Hutchinson, Administrator.
 - In your response to the Chamber, you stated that the Australian Government values the work of the Chamber and that you want to work collaboratively, openly and transparently with the community and the Chamber.
- In July 2018, the Chamber sought a written explanation from Mr Hutchinson why the Chamber had not been given an opportunity to meet with the previous Minister for Regional Development, Territories and Local Government, the Hon Dr John McVeigh MP.
 - The Department of Infrastructure, Regional Development and Cities responded to this request stating that representatives were attending a number events and meetings with Dr McVeigh

Sensitivities:

- The Chamber is closely aligned with the Norfolk Island People for Democracy (NIPD). The NIPD is lobbying the United Nations and members of the UK Parliament claiming breaches of human rights by the Australian Government and is seeking to gain self-determination in free association with Australia (Refer to Key Issues Brief 2.04)

Attachments:

A Norfolk Island Chamber of Commerce 17-22 Strategic Plan





17-22 STRATEGIC PLAN

NORFOLK ISLAND CHAMBER OF COMMERCE



OUR VISION

The N.I. Chamber of Commerce is a business association of economic champions.

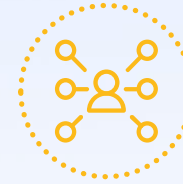
As the voice of local business, the Chamber is a strong advocate for continued development of our community and a partner for prosperity.

By working together and focusing on initiatives that support growth, members use the services of the Chamber as an important resource for their business success.



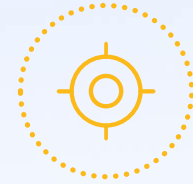
OUR MISSION

The voice of business to champion opportunities that drive investment and enable community prosperity.



OUR VALUES

Trust;
Open communication;
Integrity;
Personal accountability;
Initiative.



OUR GOALS

The Voice of Business;
Helping Business Succeed;
Helping our Community Succeed.





The Norfolk Island Chamber of Commerce



The Norfolk Island Chamber of Commerce (herein Chamber) was incorporated as a company in 1991. Following the introduction of the *Associations Incorporation Act 2005* (NI) the Chamber converted as a registered Association under the Act in 2007 and in 2017 adopted the Model Rules. Members are bound by the Code of Conduct and work to an overarching Mission and Goals framework now to be supported at an operational level by adopting this 5 year Strategic Plan that charts priorities to achieve our principal objectives.

Members are supported by an elected Committee that consists of the President, Vice-President, Secretary, Treasurer and 2 Executive Members. The Committee is charged with leadership and responsibility to represent and support Members to grow local business to be sustainable and empowered providers within the respective industries. Through continuous improvement Chamber can lobby to protect local businesses from external pressures where the local offering can be shown to be of a high standard and fair price. In championing local industry Chamber must also be an ear for consumers and address unsatisfactory practices in local operations that impact the reputation of Norfolk Island as a preferred tourism destination and place to invest.

Members know doing business in an isolated and remote location within a limited marketplace brings unique challenges particularly logistics of transport and freight.

Governance changes in Norfolk Island provide new stakeholders responsible to support solutions on island. In areas of infrastructure and tourism: the Chamber must push government for critical investment and even incentives for all operators within the transport and freight industries.

Partnerships will be key to the achievement of this ambitious strategy: local partnership within business including outreach of Members; affiliation with Australian and Regional bodies to leverage the learning, experience and resources of others; and the willingness of governments to work with the Chamber to facilitate economic recovery and sustainable growth.

There is much to do and with each step taken, Chamber works consciously towards achieving its strategic goals: To be the Voice of Business; Helping Business Succeed; and Helping Our Community Succeed. Please join us on this journey of recovery. With focused and collective effort we can shape our future based on accurate awareness of the Islands' resources limitations and capacity; ensure growth is both considered and responsible; and decisions are balanced to protect the environment and resources that sustain our continued community needs.

Cherri Buffett

Cherri Buffett
President

SNAPSHOT

The Norfolk Island Business Environment



LAND

Land Mass	3455 hectares
Coast	32km
Terrain	Volcanic formation with mostly rolling plains
Elevation	Lowest point: Pacific Ocean 0m
Extremes	Highest point: Mount Bates 319m



HABITATION

Population	1748 (ABS 2016)
Age structure	0-14 years: 19% 15-64 years: 58% 65 years +: 23%



GOVERNMENT

Dependency	Territory of Australia; Canberra administers
Constitution	Commonwealth
Legal System	Norfolk Island Act 1979 Based on the laws of Australia, local ordinances and acts; English common law applies in matters not covered by either Australian or Norfolk Island law
Suffrage	18 years of age; universal
Local government	Norfolk Island Regional Council



TRANSPORTATION

AIRPORTS	1: International
Paved Runways	2; 1,542m and 2,437m
Ownership	Norfolk Island Regional Council
ROADS	Total of 80km Sealed: 53km unsealed: 27km
Ownership	Norfolk Island Regional Council
PORTS	None; Loading jetties at Kingston and Cascade
Ownership	Australian Government



ECONOMY

Overview	Tourism, the primary economic activity, supporting average 30,000 annual visitors
Labour	Work: Full-time: 60% Part-time: 32%
Unemployment	2% (ABS 2016)
Occupation	Accommodation: 13% Cafe and restaurants: 6% Local government: 7% Tours/ travel: 4%
Agricultural	Norfolk Island pine seed, kentia palm seed, Norfolk palm (Nikau) seed
Products	Beef, pork, poultry, eggs, vegetables, fruit, coffee, cheeses, mushrooms
Industries	Tourism, light industry, ready mixed concrete



COMMUNICATIONS

TELEPHONES	
Main lines in use	2,532; Analog
System	International: country code 672; satellite earth station
Internet country Code	NF
Internet users	750 (not including NBN)
Ownership	Norfolk Island Regional Council
NBN	Australian Government provided through local private business
Radio broadcast stations	AM 1, FM 1, shortwave + 3 repeated (Australia)
Ownership	Norfolk Island Regional Council
TELEVISION	1 (Local programming station + 3 repeaters that bring in Australian programs by Satellite)



ELECTRICITY

Production	5.3 million kWh/ year
Consumption	450,000 kWh/ month
Unit Cost	\$0.62/ unit
Retails	
Ownership	Norfolk Island Regional Council



Norfolk Island

GOAL ONE THE VOICE OF BUSINESS



GOAL ONE

The Voice of Business

OBJECTIVE	POLICY PRINCIPLES	STRATEGIC PRIORITIES	ACTIONS REQUIRED	MEASURE OF SUCCESS
Work with government on issues related to taxation, business regulations, economic development and essential public services to promote sustainable growth and a less restrictive business environment.	Restrained public spending	Government and publicly funded activities must be accountable, responsible and efficient	1.1 Establish mechanisms to measure value of government services	<ul style="list-style-type: none"> Established relationships with industry regulators to assist in measuring standards, value and performance of services
			1.2 Identify appropriate benchmarks and standards to measure local performance	<ul style="list-style-type: none"> NIRC services are accurately costed; offer value for cost; and are comparable to industry standards
			1.3 Drive continuous improvement and transparency in government services	<ul style="list-style-type: none"> NIRC processes include engagement with Chamber and Industry bodies on all matters relating to local business
			1.4 Quantify taxes paid by local community	<ul style="list-style-type: none"> Financial data is collated and publicly accessible to inform policy and investment decisions
	Low taxes		1.5 Advocate for government transparency and reporting of revenue raised through taxation and what is provided in exchange for those taxes paid - local and federal	<ul style="list-style-type: none"> Governments are transparent in reporting what is funded from tax contributions Extension of new and additional taxes to the Island are properly assessed for their impact and return before being introduced
			1.6 Establish local mechanism to measure impact of taxes on business and community: respond early when changes signal unsustainable pressures	
	Streamlined state and federal regulation		1.7 Advocate for consultation and representation prior to extension of all state and federal laws to consider impact on local business and economy	<ul style="list-style-type: none"> Established working relationships with key Commonwealth Agencies and referral to Chamber as local business body
			1.8 Ensure essential State Government mechanisms for review and accountability of local government are provided in equivalent form for NI	<ul style="list-style-type: none"> Accountability mechanisms for local Council are in place in lieu of a State Body

GOAL TWO HELPING BUSINESS SUCCEED



GOAL TWO

Helping Business Succeed

OBJECTIVE	POLICY PRINCIPLES	STRATEGIC PRIORITIES	ACTIONS REQUIRED	MEASURE OF SUCCESS
Build a broad range of services that provide networking, marketing and educational opportunities	Strong economic growth	Serve members needs	2.1 Revitalize Chamber processes to modern practice	<ul style="list-style-type: none"> • Induction kit developed for new members • Streamlined meeting minutes and papers • Online portal for member to access records
			2.2 Engage with members regularly and seek full and robust participation	<ul style="list-style-type: none"> • Members meetings are held at least monthly and decisions are recorded, actioned and reported back to Members • Members are kept informed through structured reporting of Committee activities • Members contribute to areas of Committee work and act as Chamber representatives on Council and Industry Committees
			2.3 Survey members periodically to track business progress and provide support	<ul style="list-style-type: none"> • Chamber measures and collates information about business wellbeing of Members
			2.4 Map local business to create a Business Directory and create Factsheets for each industry to better represent members	<ul style="list-style-type: none"> • Chamber maintains a Business Register for commercial activity in Norfolk Island • Membership numbers increase as Chamber implements actions that support and improve local business conditions
			2.5 Identify training and quality improvement needs and seek funding to address these	<ul style="list-style-type: none"> • Factsheets detail local providers within business categories and key information specific to each industry
			2.6 Join relevant Australian and Regional bodies to expand access to information, support and funding to address business challenges and in particular infrastructure investment	<ul style="list-style-type: none"> • Chamber partners with accredited training providers and government to deliver on island training to improve local business operations • Chamber joins key industry bodies including the Australian Chamber of Commerce

GOAL TWO

Helping Business Succeed

OBJECTIVE	POLICY PRINCIPLES	STRATEGIC PRIORITIES	ACTIONS REQUIRED	MEASURE OF SUCCESS
Build a broad range of services that provide networking, marketing and educational opportunities	Strong economic growth	Establish, maintain and make accessible civic, social, cultural and economic statistics as a reliable source of vital business information	2.7 Establish mechanisms that quantify accurate measures of population, financial indicators, visitor numbers, conveyances, building applications, importation and export volumes, employment data	<ul style="list-style-type: none"> Vital economic demographic measures are publicly available, accurate and current Indicators are used to inform policy decisions and hold governments to account
			2.8 Establish working relationship with the Australian Bureau of Statistics to help put in place proven systems to accurately measure business activity and determine GDP and CPI	<ul style="list-style-type: none"> ABS actively works with Chamber to put in place systems to measure critical business indicators Accurate GDP and CPI are available for periods of no later than one previous financial year
			2.9 Ensure government policies are justified by accurate and current business and demographic data	<ul style="list-style-type: none"> Chamber has an effective working relationship with government when decisions are based on measured data and proper assessment
			2.10 Facilitate processes to ensure governments act on issues identified through comparative analysis of local data against corresponding Australian levels	<ul style="list-style-type: none"> Chamber partners with Council and commonwealth agencies to address business issues identified through measured data
Competitive and productive economy		Develop and deepen local relationship networks to promote business activity and business to business exchanges	2.11 Facilitate stakeholder workshops to develop business papers and strategies for Tourism, Business Support and Freight to be actioned directly through Federal Minister	<ul style="list-style-type: none"> Fact sheets detail local providers within business categories and key information specific to each industry Chamber partners with commonwealth agencies to champion local opportunities particularly in areas of conservation, environment and resource management
			2.12 Strengthen working relationships with departments including National Parks, Department of Agriculture, AFMA, to build capacity in new industries	

GOAL TWO

Helping Business Succeed

OBJECTIVE	POLICY PRINCIPLES	STRATEGIC PRIORITIES	ACTIONS REQUIRED	MEASURE OF SUCCESS
Build a broad range of services that provide networking, marketing and educational opportunities	Competitive and productive economy	Develop and deepen local relationship networks to promote business activity and business to business exchanges	2.13 Work in partnership with governments and grant funding bodies to enhance local access to business support and services	<ul style="list-style-type: none"> Chamber is successful in applying for funding to address targeted needs that improve work skills, work places and business practices
			2.14 Facilitate development of a Business Plan to address opportunities and barriers for growth of export industry and trade	<ul style="list-style-type: none"> An Export Industry business plan is developed for Norfolk Island
			2.15 Encourage members to coordinate activities within respective industries to address gaps in service provision instead of duplication of products in adequate supply	<ul style="list-style-type: none"> Local business Industries work cooperatively and include representation and advocacy channels
			2.16 Champion local production, local industry and local achievements	<ul style="list-style-type: none"> Local business is valued and supported as preferred suppliers of local needs
			2.17 Ensure systems are in place to resolve consumer complaints against business operators and where necessary advocate for regulations to protect consumers	<ul style="list-style-type: none"> Mechanisms are in place that establish standards and to protect consumers of local products and services - including methods to prosecute unlawful operations and practices

GOAL THREE HELPING OUR COMMUNITY SUCCEED



GOAL THREE

Helping Our Community Succeed

OBJECTIVE	POLICY PRINCIPLES	STRATEGIC PRIORITIES	ACTIONS REQUIRED	MEASURE OF SUCCESS
Actively support initiatives to strengthen local services, educational opportunities and the local labour market	Rising living standards	Engage in charitable actions that focus on local needs	3.1 Collaborate with cultural bodies locally to promote the islands unique qualities	• Chamber engages in local efforts to promote and celebrate the islands culture and people
			3.2 Pursue grant and investment funding for local infrastructure, facilities and business development	• Chamber actively joins local efforts to find investment in necessary community infrastructure and facilities
			3.3 Advocate for fair and equitable business conditions that flow through to value for money business products and services	• Chamber advocates for fair decisions that impact business and community capacity
	Full employment	Establish meaningful partnerships key to our communities success	3.4 Ensure an Unemployment and Underemployment Register is maintained to accurately gauge local work environment	• Employment issues are captured and used to address economic and social challenges
			3.5 Encourage and where possible facilitate upskilling, accreditation and licensing to improve standards and work opportunities	• Chamber actively promotes and where possible facilitates continuous improvement
			3.6 Facilitate development of a Master Plan for Norfolk Island that establishes a 10 year whole of island plan that focuses resources, investment and drives growth and jobs	• A Master Plan for Norfolk Island is adopted that provides vision, focus and confidence towards a collective future for the community
Encourage the business community to adopt best practices in environmental sustainability	Improved workforce participation	Business acts in an environmentally responsible manner to support social, cultural, health and educational systems	3.7 Promote programs to improve work prospects through training, mentoring and professional development	• Chamber actively promotes and where possible facilitates continuous improvement
	Sustained low rates of inflation		3.8 Advocate for assistance to deliver Work Health and Safety education and best practice standards	• Chamber actively promotes and where possible facilitates best practice
			3.9 Provide leadership and support in local efforts that address best practice environmental stewardship and waste minimisation	• Chamber champions and where possible facilitates initiatives that deliver environmental leadership for Norfolk Island

An aerial photograph of a winding asphalt road cutting through a dense, lush green forest. The road curves from the bottom left towards the top right. A blue bus is visible on the road, moving away from the viewer. The forest is composed of various types of trees and ferns, creating a rich, textured canopy. The lighting suggests a bright, sunny day.

ACTION LIST 2017 – 2022 STRATEGIC PLAN

STRATEGIC PLAN

Action List 2017 – 2022

ACTIONS REQUIRED		ACTION FOR	17/18	18/19	19/20	20/21	21/22
The Voice of Business	1.1	Establish mechanisms to measure value of government services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1.2	Identify appropriate benchmarks and standards to measure local performance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1.3	Drive continuous improvement and transparency in government services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1.4	Quantify taxes paid by local community	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1.5	Advocate for government transparency and reporting of revenue raised through taxation and what is provided in exchange for those taxes paid - local and federal	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1.6	Establish local mechanism to measure impact of taxes on business and community: respond early when changes signal unsustainable pressures	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1.7	Advocate for consultation and representation prior to extension of all state and federal laws to consider impact on local business and economy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	1.8	Ensure essential state government mechanisms for review and accountability of local government are provided in equivalent form for Norfolk Island	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

STRATEGIC PLAN

Action List 2017 – 2022

ACTIONS REQUIRED		ACTION FOR	17/18	18/19	19/20	20/21	21/22
Helping Business Succeed	2.1	Revitalise chamber processes to modern practice	○	○	○	○	○
	2.2	Engage with members regularly and seek full and robust participation	○	○	○	○	○
	2.3	Survey members periodically to track business progress and provide support	○	○	○	○	○
	2.4	Map local business to create a business directory and create factsheets for each industry to better represent members	○	○	○	○	○
	2.5	Identify training and quality improvement needs and seek funding to address these	○	○	○	○	○
	2.6	Join relevant Australian and regional bodies to expand access to information, support and funding to address business challenges and in particular infrastructure investment	○	○	○	○	○
	2.7	Establish mechanisms that quantify accurate measures of population, financial indicators, visitor numbers, conveyances, building applications, importation and export volumes, employment data	○	○	○	○	○
	2.8	Establish working relationship with the Australian bureau of statistics to help put in place proven systems to accurately measure business activity and determine GDP and CPI	○	○	○	○	○
	2.9	Ensure government policies are justified by accurate and current business and demographic data	○	○	○	○	○

STRATEGIC PLAN

Action List 2017 – 2022

ACTIONSREQUIRED		ACTION FOR	17/18	18/19	19/20	20/21	21/22
Helping Business Succeed	2.10	Facilitate processes to ensure governments act on issues identified through comparative analysis of local data against corresponding national levels	○	○	○	○	○
	2.11	Facilitate stakeholder workshops to develop business papers and strategies for Tourism, Business Support and Freight to be actioned directly through Federal Minister	○	○	○	○	○
	2.12	Strengthen working relationships with departments including National Parks, Department of Agriculture, AFMA, to build capacity in new industries	○	○	○	○	○
	2.13	Work in partnership with governments and grant funding bodies to enhance local access to business support and services	○	○	○	○	○
	2.14	Facilitate development of a Business Plan to address opportunities and barriers for growth of export industry and trade	○	○	○	○	○
	2.15	Encourage members to coordinate activities within respective industries to address gaps in service provision instead of duplication of products in adequate supply	○	○	○	○	○
	2.16	Champion local production, local industry and local achievements	○	○	○	○	○
	2.17	Ensure systems are in place to resolve consumer complaints against business operators and where necessary advocate for regulations to protect consumers	○	○	○	○	○

STRATEGIC PLAN

Action List 2017 – 2022

ACTIONS REQUIRED		ACTION FOR	17/18	18/19	19/20	20/21	21/22
Helping Our Community Succeed	3.1 Collaborate with cultural bodies locally to promote the islands unique qualities		○	○	○	○	○
	3.2 Pursue grant and investment funding for local infrastructure, facilities and business development		○	○	○	○	○
	3.3 Advocate for fair and equitable business conditions that flow through to value for money business products and services		○	○	○	○	○
	3.4 Ensure an Unemployment and Underemployment Register is maintained to accurately gauge local work environment		○	○	○	○	○
	3.5 Encourage and where possible facilitate upskilling, accreditation and licensing to improve standards and work opportunities		○	○	○	○	○
	3.6 Facilitate development of a Master Plan for Norfolk Island that establishes a 10 year whole of island plan that focuses resources, investment and drives growth and jobs		○	○	○	○	○
	3.7 Promote programs to improve work prospects through training, mentoring and professional development		○	○	○	○	○
	3.8 Advocate for assistance to deliver Work Health and Safety education and best practice standards		○	○	○	○	○
	3.9 Provide leadership and support in local efforts that address best practice environmental stewardship and waste minimisation		○	○	○	○	○



DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.13 EVENT BRIEF – Meeting with the Accommodation & Tourism Association

Date and Time:	Wednesday 14 November, 2018, 3.30 pm – 4.15 pm
Location:	Administrator's Office
Meeting with:	Accommodation & Tourism Association (ATA)
Attendees:	Eric Hutchinson, Administration Rael Donde, ATA President Sue Sills, ATA Secretary

Outcomes Sought:

- To discuss key issues in the “Federal Government Changes to Norfolk Island, Framework to Address Economic Impact” submission (Submission) made by ATA in 2016 (**Attachment A**) and the issues which ATA have identified as a priority in October 2018 (**Attachment B**).
- To provide feedback and information on the Australian Government's actions in relation to the priority key issues which have been raised by the ATA.

Key Issues:

- The ATA provided the Submission to the former Minister for Local Government and Territories, Ms Fiona Nash on 23 August 2016.
- The Submission had 17 key issues the ATA would like the Government to address, as follows:
 - Commit to funding Norfolk Island tourism promotion;
 - Share visitor statistics with industry;
 - Initiate an economic impact assessment of Australian Government reforms;
 - Publish an economic strategy for Norfolk Island;
 - Clarify policy regarding public sector/private sector responsibilities, monopolies and barrier to entry;
 - Provide a timeline for extension of legislation, i.e. company law, corporation law, occupation health and welfare (sic), consumer and competition law, ombudsman, anti-corruption law, etc.;
 - Ensure that Commonwealth entities, such as KAVHA, Tourism Australia, National Parks, Administrator's Office, Department of Infrastructure, Regional Development and Cities (Department), commit to supporting a tourism strategy and publish their implementation plans to do so;
 - Clarify the roles of the Administrator's Office, the Department and other Australian Government officials with respect to tourism;
 - Create a visa category or visa sub-class to enable foreign nationals from countries such as Fiji to perform accommodation industry work that cannot be filled by locals;
 - Direct Tourism Australia to fully include Norfolk Island;
 - Include Norfolk Island in the Australian Tourism Data Warehouse;
 - Clarify the role, if any, of Destination NSW;

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

- Initiate an enquiry into the actions of the action of the Joint Standing Committee on the National Capital and External Territories (JSCNCET) since 2014;
 - Extend anti-corruption legislation to Norfolk Island to provide access to independent review mechanisms for actions of public servants;
 - Create a commission of experts and stakeholders to recommend a new governance structure and constitutional relationship;
 - Respond to submissions and issues raised by the ATA and other business organisations; and
 - Ministers and Departmental staff to meet and meaningfully consult with elected officials of the ATA and the Norfolk Island Chamber of Commerce.
- In preparation for their meeting with you, the ATA provided a list of related issues in October 2018, as follows:
 - Tourism is a State function and should thus be carried out by the Government.
 - The funding provided for tourism by the Government is inadequate.
 - Increases to the flight schedule are needed, including from Sydney and in the peak period.
 - Continuing lack of Norfolk Island presence on the Tourism Australia website and in the Australian Tourism Data Warehouse.
 - Tourist numbers declined 11.8% between March and June 2018
 - The Government has taken action on these issues, as has the Norfolk Island Regional Council (NIRC). Key achievements are listed below:
 - NIRC are taking the lead in promoting Norfolk Island, supported by the Government.
 - The Government has committed funding of \$0.77 million to NIRC over the next two years to invest in marketing and promotion.
 - You recently announced that the airline services will be expanded to provide year-round, twice-weekly return flights between Brisbane and Norfolk Island from mid-2019. This change to the schedule adds a flight during winter and it was the first in a list of three requests put forward by NIRC.
 - You may wish to indicate that additional flights from Sydney and Brisbane are being considered, noting that they are not commercially viable without significant financial support through underwriting. The costs of supporting additional flights are not insignificant and the current budget for the airline underwrite would need to be increased.
 - The Department of Infrastructure and Regional Development is currently in discussions with Tourism Australia about increasing their focus on Norfolk Island.
 - The Government is developing a package of information on the performance and features of the airline underwrite contract which will be accompanied by key tourism statistics. This information will be shared with the community.
 - You may wish to comment that you are aware that visitor statistics are available from NIRC, for example in the minutes of the Tourism Advisory Committee.
 - You may wish to indicate that you are aware that NIRC has published economic development strategies for Norfolk Island, including the Norfolk Island Tourism Strategic Plan 2016 – 2023. NIRC are active in this area, having recently held a workshop focused on air services and a separate workshop with the Island's tourism industry facilitated by Regional Development Australia. NIRC have also established regular Tourism Industry Gatherings which are focused on developing this important sector of the economy.

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Background:

- ATA aims to represent the businesses which provide accommodation and services to visitors to the island. The ATA provides a hard copy publication and maintains a website and Facebook page. The ATA meets on a monthly basis.
- The ATA is supported by the Accommodation Association of Australia through a Memorandum of Understanding.
- The ATA would like to make a positive contribution to the economic development of Norfolk Island.
- A few of the challenges facing the Norfolk Island tourism sector identified by the ATA are:
 - overall awareness of the Island as a destination and its offerings;
 - perception that the Island is a destination for an older market;
 - major travel agency distribution limited to five main partners, which are driven by high volume, price driven destinations;
 - limited and uncertain tourism promotion budgets;

Tourist Accommodation Legislation Survey 2018

- The Tourist Accommodation Legislation Survey 2018 (Survey) is being run by the Norfolk Island Regional Council.
- The Survey is to gather information on how the legislation currently in force impacts on the tourism industry in both positive and negative ways.
- The findings of the survey will assist in developing a list of recommendations for legislative reform.

Sensitivities: Nil

Attachments:

- A** Submission to DIRDC dated 23 August, 2016.
- B** Correspondence from ATA to the Administrator's office dated October 2018



**Submission by the Norfolk Island Accommodation and
Tourism Association**

**to Hon Minister Fiona Nash MP
Minister for Local Government and Territories**

**Federal Government Changes to Norfolk Island
Framework to address Economic Impact**

23 August 2016

Accommodation and Tourism Association – Principal Contact
Rael Donde
President
Phone 50033
rael.donde@gmail.com



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1. Executive Summary

7.1 Federal Government to Commit to Norfolk Island Tourism Promotion Funding

The ATA calls on the Federal Government to commit to funding tourism promotion for Norfolk Island at levels that will stimulate the economy. The ATA calls on the Federal Government to immediately state its current policy with respect to Tourism Industry support in the form of Marketing Funding, and the Economic Development Bureau, of which tourism would be the major component.

The ATA would be happy to share with the Federal Government a detailed breakdown of the proposed \$3-mil budget in 2016-7 Federal Government funding for Norfolk Island tourism.

7.2 Federal Government to Share Visitor Statistics with Industry

The ATA calls on the Federal Government to share timely, confidentialised and relevant aggregated data with the tourism industry.

7.3 Federal Government to initiate an Economic Impact Assessment of its reforms

7.3.1 Introducing most of these reform measures all at once on a fragile economy is considered very risky and irresponsible.

7.3.2 Uncertain Impact of Federal Income Tax.

7.3.3 Lack of Econometric Modeling by Federal Government. The ATA has completed its own modeling with alarming results.

7.3.4 Massive Negative Economic Impact of Extension of Award Rates.

It is hoped that the Federal Government will reconsider or delay the introduction of laws that will cause further economic contraction.

7.3.5 Federal Government to validate its assertion that prices have fallen from 1 July 2016.

7.3.6 Federal Government to validate its assertion that Welfare and Income Tax (with the exemption of GST and Customs Duty) will create Economic Stimulus.

The ATA calls on the Federal Government to initiate an urgent economic impact assessment of its reforms. The ATA welcomes the opportunity to assist with this economic impact assessment, and to share its own modeling.

7.4 Federal Government to Announce an Economic Stimulus Policy

The ATA calls on the Federal Government to publish an Economic Strategy for Norfolk Island.

7.5 Federal Government to clarify policy regarding public sector/private sector responsibilities, monopolies and barrier to entry.

The Federal Government should be removing barriers to entry not creating them. It should provide an environment, with incentives and fewer regulations, conducive to private sector investment. It should take into account unique characteristics and needs of small isolated islands where privatisation is not always the best option for the common good, and where there are environmental and other constraints. There has NOT been a net economic benefit to the recent Federal Government reforms, and in many cases, businesses have closed or will be closing.

The ATA calls on the Federal Government to immediately clarify its policy with regard to public sector responsibility for tourism marketing, tourism education, industry support, etc.

7.6 Federal Government to Provide Timetable for Extension of Legislation

The ATA calls on the Federal Government to reduce business uncertainty, after first consulting with the private sector and completing an economic assessment, by providing a timetable for extension of Company Law, Corporation Law, Occupational Health and Welfare, Consumer and Competition Law, Ombudsman, Anti-Corruption legislation, etc.

7.7 Federal Government to participate in the Norfolk Island Tourism Strategic Plan.

The ATA calls on the Federal Government to ensure the relevant Federal entities such as KAVHA, Tourism Australia, National Parks, Administrator's Office, Department of Regional Development are committed to supporting the tourism strategy and publish their implementation plans to do so.

7.8 Federal Government to clarify responsibilities of Administrator and Federal officials with respect to Norfolk Island tourism.

The ATA calls for clarification with respect to the role of the Administrator and other Federal Government Officials in Norfolk Island tourism.

7.9 Federal Government to create Immigration options for unskilled workers

There is a lack of Immigration policy and visa types for hiring foreign nationals from countries such as Fiji to perform housekeeping and other relevant work. This will impact the tourism industry which depends on these permanent unskilled workers to perform certain tourism jobs. **This could lead to serious labor shortages and upward pressure on wages, which could have a negative impact on the tourism industry.**

The ATA calls on the Federal Government to create a visa category or visa sub-class to enable foreign nationals to fill unskilled positions that cannot be filled by locals.

7.10 Federal Government to direct Tourism Australia to fully include Norfolk Island

The ATA calls on the Federal Government to enable Tourism Australia to fully represent Norfolk Island as it does other states and territories, and announce a timetable for completion with accountability.

7.11 Federal Government to include Norfolk Island in the Australian Tourism Data Warehouse

The ATA calls on the Federal Government to include Norfolk Island in the Australian Tourism Data Warehouse and Australia.com, and announce a timetable for completion with accountability.

7.12 Federal Government to clarify role of Destination NSW

The Federal Government has not articulated any tourism plan or economic strategy for Norfolk Island. *The ATA calls on the Federal Government to clarify the role that Destination NSW may, or may not, play going forward.*

7.13 Federal Government to stay within JSCNET Enquiry terms of reference

The Joint Standing Committee on the National Capital and External Territories (JSCNET) terms of reference on its 2014 Enquiry into Economic Development on Norfolk Island deviated completely outside its published terms of reference, into Governance. It denied the community an opportunity to consult on governance.

The ATA recommends that the Federal Government initiate an enquiry into its actions with respect to Norfolk Island since 2014, and work to instil confidence in the community for Federal Government enquires, actions and outcomes.

7.14 Federal Government to provide access to independent review mechanisms to ensure accountability and natural justice for all public servants.

The Federal Government made a number of decisions which have been detrimental to the Norfolk Island Tourist Industry. It removed the Tourism Minister, General Manager for Norfolk Island Tourism, Tourism Board, and the Tourism Officer. **This significantly reduced the capacity on island to drive tourism to Norfolk Island, and almost dismantled the entire tourism promotion capacity.** Federal Officials failed to address tourism issues, human capacity, and to properly exercise their responsibilities with respect to tourism.

In June 2016, the Federal Government appointed a Regional Council Group Manager with responsibility for Tourism. The problem is she has no background or experience whatsoever in tourism.

The ATA believes that visitor numbers for the year ending June 2016 would not have fallen from the previous year if the Federal Government had exercised its tourism responsibilities effectively.

The ATA recommends that the Federal Government extend anti-corruption legislation and provide other judicial and appeal mechanisms to Norfolk Island without further delay, so that accountability processes are put in place.

7.15 Federal Government to create a Commission to recommend a new Governance Structure underpinned by the Community's legal and moral right to self-determination.

The Federal Government needs to create a commission of experts and stakeholders to examine a new governance structure and constitutional relationship, supported by the community, that respects the community's right to an act of self-determination.

It may be helpful to look to New Zealand's relationship with its Pacific Island dependencies, such as Niue, Tokelau and Cook Islands. It may also be helpful to look at the UK's relationship with Falkland Island, an economically successful British Overseas Territory with internal self-government, as well as Pitcairn Island, and figure out what lessons may be applicable to Norfolk Island. It makes no sense to take a governance model that has failed in the Indian Ocean Territories and apply it Norfolk Island.

7.16 Federal Government to respond to ATA Submissions and Correspondence.

The ATA calls on the Federal Government to respond to issues raised by the ATA and other representative business sector organisations.

7.17 Federal Government Minister and officials to Meet with Private Sector Business Representatives

The ATA extends its open invitation to the current Minister, Hon. Fiona Nash, and department officials to meet and consult meaningfully as soon as possible with the elected representatives of the peak industry bodies of the ATA and Norfolk Island Chamber of Commerce.

2. Introduction

- 2.1 The ATA has written to the Department of Regional Development (DIRD) and to the previous Ministers responsible for Norfolk Island several times, but has not received any response. For instance, its submission of 10 February, 2016 has never even been acknowledged. These submissions have also been copied to the Administrator of Norfolk Island and other Federal officials without any response.
- 2.2 This submission is a follow up to the Norfolk Island Accommodation and Tourism Association (ATA) submission of 10 February 2016, which was sent to the previous Minister with responsibility for Norfolk Island, Min. Paul Fletcher.
- 2.3 The ATA would like to make a positive contribution to the economic situation that has developed as a result of the changes that have been introduced by the Federal Government since June 2015.
- 2.4 The ATA has serious concerns that the Norfolk Island economy is in danger of collapse.

- 2.5 The ATA would like to engage with the Federal Government to discuss the proposed economic framework presented in this submission.

3. Background

- 3.1 Tourism is the most significant industry and employer in Norfolk Island.
- 3.2 In June 2015, the Federal Government removed the democratically elected Government of Norfolk Island, including the Tourism Minister, and replaced it with several Commonwealth officials.
- 3.3 The contract for the Norfolk Island Tourism General Manager was not renewed, and the Tourism Board was dissolved.
- 3.4 There has been no tourism general manager dedicated to driving Norfolk Island tourism since the Executive Director made the decision to not renew the previous tourism manager contract.
- 3.5 The tourism industry was previously actively involved in Tourism Bureau decisions through the Tourism Advisory Board. The Executive Director of Norfolk Island chose not to pursue legal avenues to ensure this involvement continued until some alternative framework could be developed. As a result, there has been no industry involvement in Norfolk Island's major industry since July 2015.
- 3.6 The ATA, Chamber and business community have been kept mostly in the dark with regard to demographic visitor data, upcoming marketing campaigns, sales, event funding, the work of the Norfolk Island Tourism's paid representatives both in NZ and Australia, and the work of the contracted Destination Marketing Manager based in Brisbane.
- 3.7 With neither a Tourism Minister nor a General Manager of Tourism, the Executive Director and later the Transition Manager were nominally charged with responsibility for tourism. However, **neither of these managers played any active tourism role throughout their tenure.**
- 3.8 When the Executive Director, and later the Transition Manager, assumed responsibility for Tourism, the ATA reached out to them many times. However, the only feedback the ATA received was something like "we're working a plan to address this" or "yes, we think industry should be involved, and will make sure this occurs" That is where it ended. Nothing ever happened.
- 3.9 According to the Norfolk Island Transition Manager, the focus was rather on "getting the machinery of government right, preparing for elections", etc. It was almost as if the private

sector was just a nuisance that could be ignored, as there were more important Government things to focus on. The Transition Manager stated to the ATA on 4 February 2016 that there was no plan to formally involve the industry in Tourism Bureau decisions before 1 July 2016.

- 3.10 The Federal Government ignored the issues raised by peak bodies representing the tourism and business industry.
- 3.11 The Executive Director of Norfolk Island engaged the consulting firm of Morrison Low. There does not appear to be any transparent procurement process. The ATA Executive met with a Morrison Low director in the first quarter of 2016 to discuss tourism from an industry standpoint, as part of a Federal Government review, but has never been provided with a report or seen any recommendations.
- 3.12 The Executive Director of Norfolk Island engaged the services of the James Corvan, Tourism Guru, to provide a number of tourism services working from his Brisbane home for two days per week. There does not appear to be any transparent recruitment process, or any assessment of performance against the schedule of contracted services, most of which were never delivered. The ATA received a copy of the two deliverables in August 2016. The first deliverable was a report titled “Matters for Urgent Discussion and Resolution” (4). There was no resolution and no approved budget, so it became a mostly worthless exercise. The second deliverable titled “Norfolk Island Marketing Action Plan 2016-2019” was basically a cut and paste from the first deliverable (8)
- 3.13 Norfolk Island Tourism responsibilities were essentially left to the Operations Manager, acting in the capacity of the General Manager without any oversight, and no tourism board, and limited resources. She has been expected to perform the role of both the Operations Manager and General Manager without resources or adequate compensation for this huge responsibility. As a consequence, **Norfolk Island Tourism is considered to be close to breaking point.**
- 3.14 In June 2015, the Local Tourism Officer was relieved of his duties with respect to tourism.
- 3.15 In June 2015, as part of the Federal government effort to increase intellectual capacity in local government, the Federal Government hired a Regional Council Group Manager (Governance) with responsibility for tourism. However, the incumbent in this position has **absolutely no background, experience or qualification in tourism.**
- 3.16 **Norfolk Island currently has less human and financial capacity to promote tourism than it did prior to June 2015.**
- 3.17 Since July 2015, when the Federal Government assumed total control of Norfolk Island Governance, there was a **lack of Economic Stimulus Policy**. Also, it has not articulated any future Federal Government Policy to stimulate the Norfolk Island tourism sector in the

short term. It initiated some low return infrastructure projects unrelated to tourism. Even the small business \$20,000 Asset Write-off provision did not apply to Norfolk Island until 1 July 2016, which meant assets purchased and used before that date did not qualify for the accelerated depreciation provision.

3.18 Visitor numbers of 26,602 for 2015-6 are slightly lower than 2014-5, with a sharp decline of 11% in June 2016.

3.19 On 1 July 2016, the Regional Council was established with a reduced tourism budget of \$1.1 million for 2016-7. The previous budget for 2015-6 was \$1.32mil. **It is estimated that the tourism Budget should be \$3 mil for 2016-7.**

3.20 The Norfolk Island Regional Council lacks the financial capacity to fund tourism promotion, which is a State-type of service. As such, it should be funded by the Federal Government, which is responsible for state-type services.

3.21 Prior to 1 July 2016, businesses were able to hire foreign nationals to fill unskilled positions that locals were not willing or able to fill. There is now a lack of Immigration policy and visa type for hiring foreign nationals from countries such as Fiji to perform housekeeping and other relevant work. This will impact the tourism industry which depends on these permanent unskilled workers to perform certain tourism jobs.

3.22 Prior to 1 July 2016, the Norfolk Island tourism industry was provided with detailed statistics **(6)** on visitors to Norfolk Island which helps with destination marketing, event planning and many other promotional initiatives. These statistics are no longer available due to Federal government policy.

3.23 The Border Force Officer on Norfolk Island advised the ATA in May 2016 that they are unsure what visitor data, if any, they can legally share data with the industry due to privacy concerns, despite the data being at an aggregate level and not at a personal level. It was suggested that any data sharing would require a formal agreement between the Federal Government and the Regional Council with restrictions on what can be shared.

4. About the Accommodation and Tourism Association

4.1 The Accommodation and Tourism Association (ATA) is the peak industry body for the Norfolk Island accommodation industry.

- 4.2 The ATA is an incorporated association on Norfolk Island with a long history of representing the collective interests of the accommodation and tourism sector.
- 4.3 Members of the ATA include large hotels, self-contained apartments, and single-unit licensed accommodation properties.
- 4.4 The Association's membership base represents approximately 44 properties, which constitutes the majority of accommodation properties.
- 4.1 4.5 The ATA is supported by the Accommodation Association of Australia through a Memorandum of Understanding. The AAoA membership base includes over 110,000 guest rooms across Australia. It is a representative voice for the entire accommodation industry. On the mainland, it is primarily the state and territory governments that fund and drive tourist promotion.

5. The Accommodation Industry – an Integral Part of Tourism

5.1 The accommodation industry is perhaps the most vital industry on Norfolk Island, as it is the engine room driving the tourism sector, which employs approximately half the adult population. It is imperative not to further burden the accommodation industry financially with special council rates.

5.2 The tourism sector currently faces a number of really important challenges. Just from a marketing perspective, the following are some of the identified challenges:

-) Overall awareness of Norfolk Island destination and offerings.
-) Trade perception positioning the destination for older markets.
-) Major Travel Agent distribution limited to five main partners.
-) Larger retailers are motivated by high volume, price driven destinations.
-) Consistency on island across accommodation properties, shops, services, activities, restaurants.
-) Competitive destinations and cruise product.
-) Ability to get 'off sale' product into market.
-) Limited budgets, particularly for destination advertising.
-) Uncertainty around funding for future destination advertising.
-) Uncertainty around future airline services, and barriers to entry for new operators.
-) Negative media in last 12 months.
-) Political Uncertainty.
-) Changes to how customers consume media and make travel decisions - Social / Online.
-) Connections for distribution channels to commissionable Island niche product.
-) Australian consumer confidence.

5.1 The Norfolk Island accommodation industry spends more on marketing and attracting overseas visitors than any other private sector industry. The on-island visitor spending on food, tours and other experiences supports various sectors of the Norfolk Island economy, but it is primarily the accommodation sector that initially drives the process of getting the visitor to the island and encouraging longer stays and increased spending.

6. Role of Government in Tourism

- 6.1 The Federal Government should enable a vibrant private sector to flourish and grow, thereby raising the living standards of the community. The Federal Government needs to recognize the unique role that the tourism sector plays in the Norfolk Island economy.
- 6.2 The ATA welcomes the reappointment of the Hon. Steven Ciobo, MP, as the Minister representing the tourism sector in the Federal cabinet.
- 6.3 Through Federal Government actions, the local Regional Council currently has a reduced human and financial capacity to promote tourism compared to the previous Norfolk Island Government.**
- 6.4 The Federal Government, acting in the capacity of the state, has a responsibility to commit to tourist promotion funding. On the mainland, it is primarily the state and territory governments that fund and drive tourist promotion. Each state and territory in Australia has its own government tourism agency that works with industry. The role of the state tourism organisations (STOs) is to support the development and marketing of sustainable tourism destinations and experiences within their state, to increase awareness and attract visitors.
- 6.5 It is unclear what role, if any, Destination NSW, will play in promoting tourism to Norfolk Island. Destination NSW is unlikely to act without funding and service agreement with the Federal Government.
- 6.6 The Federal Government has a special responsibility to ensure it does not target the tourism sector with higher fees as it has done with the new \$55 departure tax from Norfolk Island to New Zealand, or impose extra airport security costs or levies.
- 6.7 The Federal Government needs to ensure it does not leave the Regional Council with no choice in order to raise sufficient revenue, but to target the tourism industry for higher fees, or impose tourism levies. This appears to be the current situation.

7. Federal Government Tourism Framework

7.1 Federal Government to Commit to Norfolk Island Tourism Promotion Funding

Each state and territory in Australia has its own government tourism agency that works with industry. The role of the state tourism organisations (STOs) is to support the development and marketing of sustainable tourism destinations and experiences, to increase awareness, and attract visitors.

The previous Federal Minister responsible for Norfolk Island, Min. Paul Fletcher, indicated at a Norfolk Island public meeting held on 28 January 2016 that the Commonwealth Government was not prepared to commit to funding for tourism promotion, although he appeared to acknowledge that since tourism promotion is typically a state-type function, it follows that the Commonwealth would be responsible for Tourism. This responsibility is consistent with the Commonwealth Government's announcement that it would be responsible for all state functions.

The previous Federal Minister responsible for Territories had no coherent answer when asked where he expected the funding would come from, as the Norfolk Island Regional Council would clearly lack the financial capacity to fund tourism promotion even at its 2015-6 level of \$1.3 million annum.

The Norfolk Island Regional Council has reduced the 2015-6 tourism budget by a further \$200,000 to \$1.1 mil during 2016-7, but even that reduced amount is not guaranteed.

The Regional Council has resolved at a public meeting on 10 August 2016 to request that the Federal government honors its obligations to fund tourism promotion, which is a State-type of service for which it has responsibility.

The Federal Government provides approximately \$420,000 of tourism funding Christmas Island with just 1,200 visitors, yet will not commit to any tourism funding for Norfolk Island where tourism is really its only industry with 26,000 visitors per annum. Using the same ratio of marketing dollars to visitors, Federal Funding for Norfolk Island Tourism should be \$9.1 mil.

Without tourism promotion funding of at least \$3 million per annum, the economy will contract rapidly, leading to business failure, massive unemployment and population exodus as residents depart to seek work elsewhere, further reducing the tax base. In short, the island will rapidly become reliant on state welfare.

Most of this funding would be for Destinational Marketing in both Australia and New Zealand, which is urgently required. There would also be smaller amounts for Cooperative Wholesaler Sales Funding, Event Funding, and Industry Education and Training. The Accommodation Association of Australia can assist with industry training, mentoring and education. The Plan would be driven by Norfolk Island Tourism with assistance from the Norfolk Island Tourism Advisory Committee. Some destination marketing would be sub-contracted by NIT to Destination NSW.

The ATA would be happy to share with the Federal Government a detailed breakdown of the proposed \$3-mil in 2016-7 Federal funding for Norfolk Island tourism.

The ATA calls on the Federal Government to commit to funding tourism promotion for Norfolk Island at levels that will stimulate the economy.

7.2 Federal Government to Share Visitor Statistics with Industry

On 26 May, 2016, the ATA Executive met the Border Force Officer on Norfolk Island, regarding the Sharing of Visitor Statistics (6) with Industry.

The ATA was advised that Border Force does not know what data, if any, that can legally be shared with the industry due to privacy concerns, despite the data being at an aggregate level not a personal level. It was advised that any data sharing would require a formal agreement between the Federal Government and the Regional Council with restrictions on what can be shared.

The ATA is not aware of any other Federal agency such as the Tourism Research Australia (TRA) or Australian Bureau of Statistics (ABS) being in a position to provide this important information.

The ABS conducts a regular Survey of Tourist Accommodation (STA) but it has not included Norfolk Island as a geographic area. Small area data (SA2) are aggregated to tourism regions as defined by relevant state and territory tourism organisations – however, Norfolk Island has not been included.

Regarding Privacy concerns, this can easily be overcome as detailed by the ABS: Under the Census and Statistics Act, when releasing statistics, the ABS is required to do this in a manner that is "not likely" (in a legal sense) to enable the identification of a particular person or organisation. A number of techniques are used to do this, including suppression of information.

To ensure provider confidentiality in the Survey of Tourist Accommodation, the ABS uses a computerised process known as Disclosure Avoidance Analysis System (DAAS) to confidentialise the entire tourist accommodation dataset each quarter. This process not only ensures that data are suppressed to ensure individual establishments cannot be identified, but also suppresses data in other (consequential) cells to ensure data cannot be derived through deduction from the information available.

Border Force acknowledged the **need for industry to receive detailed and timely tourism information**. Some of the data may also be needed to administer the Accommodation Act of Norfolk Island.

Since 1 July 2016, the industry and regional council have no access to Norfolk Island tourist data. It becomes almost impossible to effectively implement any tourism plans without a feedback loop to measure progress, and almost impossible to effectively conduct destination or sales campaigns without this information.

The ATA calls on the Federal Government to share timely, confidentialised and relevant aggregated data with the tourism industry.

7.3 Federal Government to conduct economic impact assessment of its reforms.

A 2015 Federal Government newsletter stated that due to the small number of businesses on Norfolk Island, **it would NOT examine the impact of the reforms on business**. It is vital that the Federal Government assists with stimulating the private sector to improve the quality of life on Norfolk Island, and create value in the community.

The Federal Government short term economic stimulus has been confined to wasteful spending on small infrastructure projects with little stimulatory impact, such as Commonwealth Offices, a small section of road, school handicap ramps and painting, and hospital windows and ramps.

It has completely ignored Norfolk Island's dominant industry of tourism where the largest return on investment will be achieved, as over 70% of the Norfolk Island population are involved with tourism.

When global tourism was suffering after the 2008 Global Financial Crisis, the UN World Tourism Organization (WTO) reviewed policies adopted by virtually each country. In almost every case, Governments reduced taxation within their tourism industries to increase economic output.

However, the Federal Government has done just the opposite – it has introduced new taxation, superannuation contributions by business, capital gains tax, employment law (including Fair Work minimum wages and standards) and business compliance costs.

7.3.1 Introducing most of these reform measures all at once on a fragile economy is considered very risky in the face of many Federal Government commissioned reports, such as the Acil Tasman Economic Development Report of March 2012 **(1)**, which warn against this approach due to its several negative impact. These measures are not the means to stimulate a depressed economy, increase employment or encourage investment.

When income tax was introduced in Christmas Island under the Taxation Laws Amendment Act 1985, it was phased in over a period of four years from 1985-6 to 1989-90. It is understood that Income tax on Lord Howe Island was phased in over two years.

7.3.2 Uncertain Impact of Federal Income Tax

The Federal Government agreed in the Norfolk Island Roadmap to implement two years of dry runs during 2011-12 and 2012-3 to enable businesses to assess and plan for any major impact to their businesses. The Federal Government reneged on its written agreement, leaving businesses in the lurch with regard to impact and strategy. The Federal Government needs to re-instate its agreement to allow two years of dry run tax returns, and then phase Income tax in to reduce the negative impact on the economy and mitigate risks. The Acil Tasman Economic Development Report of March 2012 **(1)**, commissioned by the Federal Government, recommended that income tax not be introduced for a period of 5 years and then gradually phased in, and then only in the event that the economy is growing.

7.3.3 Lack of Econometric Modeling.

Modeling should have been performed, and shared on the impact of Federal Taxes and Municipal taxes on the economy. The previous Administrator, Mr. Neil Pope, promised to share the tax models that were to be developed by Treasury, with the community and then reneged on his promise.

Either the detailed models do not exist, or the Federal Government will not share this with the business community due the demonstrated negative economic impact. This lack of transparency is similar to what occurred with the Centre for International Economics (CIE) Report 2006 **(2)** where

the Commonwealth was determined to stop its release because as the Commonwealth stated in its fierce opposition to a Freedom of Information request, that "it will alarm the community".

In the absence of published Federal economic modelling, the ATA recently performed its own economic modelling which **indicates a 33% decline in net business profit over the next 3 years.**

The very brief two-year transition to complete Fair Work provisions will be particularly harmful to the economy as evidenced in the ATA models.

7.3.4 Massive Negative Impact of Extension of Award Rates

Fair Work Laws and National Employment Standards will have a devastating impact on the fragile Norfolk Island tourism industry. Much of the tourism work is performed on Saturdays, Sundays and public holidays, as the flights operate on these days.

Onerous Fair Work provisions, such as the 4-hour minimum shift, and punitive award rates will seriously impact the only industry on Norfolk Island. This will negatively impact employment levels and visitor experiences.

Sunday minimum Federal rates start at a minimum \$31.13 per hour for any hospitality worker (Level 1: full time, part time and casual). Level 6 employees need to be paid a minimum of \$38.43. On Public Holidays, minimum rates range from \$44.48 to \$60.39 per hour. **This is up to 6 times the current rate.**

The adverse consequences, especially on Sundays and public holidays, will be experienced throughout the tourism sector, and particularly with cafes and restaurants being closed, and accommodation properties unable to afford the housekeeping and other hospitality wages to clean units and make meals. This will have a detrimental impact of the visitor experience and tourism to Norfolk Island.

Other aspects of Federal Employment Law will also have serious consequences on employment levels, and viability of Norfolk Island businesses.

It is hoped that the Federal Government will reconsider or delay the introduction of laws that will cause economic contraction. For instance, the Employment Minister has rule making authority to delay the full introduction of Fair Work penalty rates and minimum wages until an economic assessment is completed.

7.3.5 Federal Government to validate its assertion that prices will fall from 1 July 2016.

The Federal Government repeatedly stated that goods and services on Norfolk Island will become cheaper after 1 July 2016 because the 12% GST and customs duty will no longer apply. The ATA warned in its submission to the Federal Government on 10 February 2016 that this statement was false and simplistic.

Just the opposite has already occurred - prices have increased to cover the increased cost burden on businesses. These prices are expected to increase further as the regional council increases fees and charges across the board by 20%, and imposes new levies and charges, to meet its budgeted

expenditure. The Federal Government also requires the Regional Council to raise at least \$500,000 in council rates in 2016-7 and \$1-mil in 2017-8.

Licensed tourism accommodation houses have been singled out for proposed special higher council rates, raising the cost of doing business for one vital sector of the economy, which will have a downstream impact on the rest of the economy as it reduces the capacity of accommodation houses to spend on marketing to new visitors, who would also spend on food and tours. This places pressure on the accommodation houses to raise nightly tariffs to survive.

In addition, many businesses are planning to lay off workers to reduce costs, and hold off any capital spending.

7.3.6 Federal Government to validate its assertion that Welfare will create Economic Stimulus

The Federal Government has tried to convey the message that increased social security payments and reduced medical payments on Norfolk Island alone will stimulate the economy. It has referenced the Centre for International Economics (CIE) report of 2014 **(3)** as the basis for this message. This has been proven to be false. Economies do not grow through welfare and increased taxation.

Independent analysts have discredited the Federal Government-commissioned Centre for International Economics (CIE) reports of 2006 **(2)** and 2014 **(3)**. The 2006 CIE Report warned of Detrimental effects on the Norfolk Island economy while the 2014 Report painted a rosy future with a 38% increase in consumption and 14% increase in economic activity due to Welfare and Medicare benefits, and no GST or Customs Duty.

The 2006 CIE report **(2)** identified a range of detrimental effects of the proposed governance changes on the Norfolk Island economy, notwithstanding that it took a view that in the long term the changes would be beneficial – that is, provided that the economy survived long enough to experience these optimistically assessed advantages. In summary, some of the short to medium term costs to Norfolk Island included:

-) A fall in GDP for at least five years;
-) Substantial falls in household incomes for up to 8 years;
-) Heavy regulatory and compliance costs for small businesses and individuals;
-) Higher input costs for employers, especially in wages and superannuation contributions;
-) Rises in unemployment and loss of on-island jobs;
-) Much higher taxes on Norfolk Island residents than their mainland counterparts;
-) The need for NIG to impose substantial new taxes such as a much higher consumption tax or a payroll tax.
-) The CIE 2014 report **(3)** overstates the quantum and effects of possible welfare payments, meaning that its assessment of the eventual positive effect on GTP and household consumption is seriously flawed. But even within its overly optimistic forecasts, it predicts a smaller Norfolk Island economy with higher unemployment and heavy dependence on welfare payments and ongoing Federal Government fiscal input to cover service delivery.

The 2014 CIE report **(3)** was prepared on the basis that the Australian government's intention was to resume responsibility for Federal Government services and administration of legislation (taxation, immigration, customs, quarantine, social welfare etc.) but that NIG would retain responsibility for all other programmes as administered by the states and mainland territories.

A major flaw in the 2014 **(3)** report compared with the earlier CIE study is that it largely omits or understates the level of fiscal support required from the Federal Government to ensure that NIG can continue to supply all public services, maintain and improve infrastructure and cover depreciation costs. This is a critical oversight, implying either that the Federal Government has little responsibility to ensure that residents of Norfolk Island receive service levels similar to all other Australian citizens or if it does, these can be done at little cost, compared with the estimate of at least \$286 million (in 2006 dollars) over nine years in the 2006 report **(2)**.

There are two possible explanations for this critical oversight in the 2014 report. One is that the CIE modelling in 2014 was grossly deficient, in overlooking or disregarding these critical areas. The other is that, in light of the collapse of the 2006 Federal Government plans due to concerns about the ongoing high cost of "normalising" Norfolk Island governance, the Department which commissioned the report directed CIE not to consider these factors in the same manner as the 2006 study.

This deficiency in the 2014 report **(3)** means that it totally fails to consider the sustainability of the Norfolk Island economy and the obvious need to create a new, cooperative and predictable fiscal relationship between Norfolk Island and the Federal Government.

Conclusion -2014 Report

The 2014 CIE report **(3)** appears to have been hastily written to fit with plans already decided by the Federal Government Minister and the Department which commissioned it. It lacks detail in many areas, fails to consider relevant information and demonstrates a lamentable lack of knowledge of Norfolk Island's economy, community, ethos and history, all of which are relevant to the manner in which the "reforms" might play out.

In particular the 2014 report **(3)** seems to overstate the quantum and effects of possible welfare payments, meaning that its assessment of the eventual positive effect on GTP and household consumption is seriously flawed. But even within its overly optimistic forecasts, it predicts a smaller Norfolk Island economy with higher unemployment and heavy dependence on welfare payments and ongoing Commonwealth fiscal input to cover service delivery.

Like the 2006 report **(2)**, the later document does not attempt to present a model for medium or long-term sustainability for Norfolk Island. Instead, it implies that for the long-term future, Norfolk Island will depend on welfare payments and *ad hoc* Federal Government grants and support for recurrent programmes to survive.

Conclusion – 2006 and 2014 Reports

-) Both reports were flawed due to unsupported assumptions, lack of accurate data and conclusions written to satisfy the limited terms of reference set by the department responsible for territories.

-) The responsible Federal ministers of the time cherry-picked the conclusions, taking full account of positive or optimistic findings but mostly ignoring the detrimental effects detailed in both reports.
-) This approach failed in 2006 because Cabinet Office, Treasury and Finance identified those detrimental effects and because they accepted the finding that to meet its obligations to Norfolk Island, the Commonwealth would be obliged to provide fiscal support to the Norfolk Island Government to cover service provision, infrastructure development and depreciation of an additional \$286 million over the following 9 years. This figure was in 2006 dollars and would be well over \$350 million in today's values.
-) The 2014 report was not written in the context of a proposal to abolish Norfolk's self-government, but rather a much more limited objective: to quantify the economic impact of the extension of Commonwealth legislation to Norfolk Island.
-) The 2014 CIE report appears to have been hastily written to fit with plans already decided by the minister. It fails to consider relevant information and demonstrates a lamentable lack of knowledge of Norfolk Island's economy, community, ethos and history, all of which are relevant to the manner in which the "reforms" might play out.
-) Neither report was based on assessment of the long-term sustainability of the Norfolk Island economy or of the Federal Government's planned "reforms."

The 2014 CIE report concluded a 38% increase in consumption and 14% increase in economic activity due to Welfare and Medicare benefits, and no GST or Customs Duty.

With the economy currently in a downward spiral, it is already clear that this conclusion will not even come close to materialising, unless the Federal Government urgently intervene to stimulate the economy through funding tourist promotion at least double the current levels.

The ATA calls on the Federal Government to initiate an urgent economic impact assessment of its reforms. The ATA welcomes the opportunity to assist with this economic impact assessment, and to share its own modeling.

7.4 Federal Government to Announce an Economic Stimulus Policy

Since July 2015, when the Federal Government assumed total control of Norfolk Island Governance, it has not implemented any policies to stimulate the Norfolk Island tourism sector, nor has it articulated any future Federal Government Plans to stimulate the Norfolk Island economy in the short term. There is still no Federal Government Economic Strategy for Norfolk Island.

Even the small business \$20,000 Asset Write-off provision does not apply to Norfolk Island until 1 July 2016, which means assets purchased and used before that date do not qualify for the accelerated depreciation provision.

7.5 Federal Government to clarify policy regarding public sector/private sector responsibilities, monopolies and barrier to entry.

There needs to be clarification with respect to the monopolies created by the Federal Government such as the newly created monopoly private sector pharmacy, and restrictive barriers to entry for new businesses such as airlines.

Any new carrier is required to post \$500,000 bond before they may be approved to fly a regular passenger service to Norfolk Island. Many of the Federal Government actions appear to be inconsistent with the Consumer and Competition Act, which is yet been extended to Norfolk Island.

A lack of competition often leads to higher consumer prices and less choice, which is clearly being evidenced with often exorbitant airline ticket prices. The monopoly airline receives Federal Government financial rewards for flying empty seats, it does no destination marketing if its own, and does not provide a non-stop service from Melbourne to Norfolk Island, previously a major market for Norfolk Island (17% of total visitors). Many of these issues are a result of the Federal Government contract with the airline, and its negotiation without involvement from key stakeholders such as the Norfolk Island tourism industry.

The Federal Government should generally be removing barriers to entry not creating them. It should be creating an environment conducive to private sector investment.

The Federal Government needs to publish its policy with respect to private and public sector commercial entities. Examples include the recent Federal Government action to privatise doctor services, pharmacy, etc. It is not always in the best public interests, or even viable, for a small island community to have total dependence on a single private sector entity providing essential services such a pharmacy or medical services. It seems the Federal Government has backtracked (for the moment) on its policy to privatise doctors after it became apparent this was not viable. It does not follow that a policy which works on the mainland will work on Norfolk Island.

This is what happens when the Federal Government prefers not to consult with the very community that will be impacted, as if it already knows what is best for the community. This result of this recent Federal Government action has been detrimental to the well-being of the community.

Another example: As a result of recent Federal Government changes, the community has lost its only optometrist. It was warned that this would occur, as it has created an environment which is no longer financially viable for many private sector operators, and yet the local council also lacks the financial capacity to provide the service. The risk of eye disease within the community has just skyrocketed.

There has not been a net benefit to the recent Federal Government reforms, and in many cases, businesses have closed or will be closing.

The Federal Government policy with respect to Norfolk Island tourism, and responsibility by the public sector for tourism marketing, is another case in point of a muddled policy. The financial burden will need to fall almost exclusively on the public sector in this regard.

The ATA calls on the Federal Government to immediately clarify its policy with regard to public sector responsibility for tourism marketing, tourism education, industry support, etc.

7.6 Federal Government to Provide Timetable for Extension of Legislation

The reform process has created uncertainty regarding the future economic operating environment on Norfolk Island, in terms of what legislation will apply on Norfolk Island and when this legislation will come into effect. The issue of concern is not only the imposition of new business costs, but the uncertainty of exactly what legislation will be extended to Norfolk Island and the timeline for the extension of that legislation. As the average firm size on Norfolk Island is relatively small, the effect of uncertainty on business investment is relatively strong.

The ATA calls on the Federal Government to reduce business uncertainty, after first consulting with the private sector and completing an economic assessment, by providing a timetable for extension of Company Law, Corporation Law, Occupational Health and Welfare, Consumer and Competition Law, etc.

The ATA calls on the Federal Government to immediately state its current policy with respect to Tourism Industry support in the form of Marketing Funding, and the Economic Development Bureau, of which tourism would be the major component?

7.7 Federal Government to participate in the Norfolk Island Tourism Strategic Plan.

On 17 August 2016, the Regional Council adopted the Norfolk Island Tourism Strategic Plan 2013-2023 (7), and the establishment of a Tourism Advisory Committee to replace the Tourism Board which was dismantled by the Federal Government in 2015.

It is imperative that all stakeholders commit to this plan, including Federal Government entities such as KAVHA, Tourism Australia, National Parks, Administrator's Office, Department of Regional Development, etc. as well as any other entities to which the Federal Government may sub-contract such as Destination NSW.

The ATA calls on the Federal Government to ensure the relevant Federal entities are committed to supporting the tourism strategy and publish their implementation plans to do so.

7.8 Federal Government to clarify responsibilities of Administrator and Federal officials with respect to Norfolk Island tourism.

There need to be clarification with respect to the role of the Administrator and other Federal Government Officials in tourism. For instance, the ATA has discovered that the Administrator conducted a meeting with Destination NSW on 12 August 2016, but did not consult before or after with the Regional Council or industry representatives. It is unknown what role the Administrator is playing with respect to tourism as there is no transparency in this regard.

7.9 Federal Government to create Immigration options for unskilled workers

Prior to 1 July 2016, the industry was able to hire foreign nationals under strict immigration conditions to fill positions that locals were unable or unwilling to fill.

The Temporary Entry Program (TEP) and General Entry Program (GEP) program has done an excellent job in the past in ensuring Norfolk Island's labor needs were met in a timely and regulated way without putting residents' jobs at risk. This program ended on 30 June 2016.

Border Force confirmed that there is no visa category to allow Norfolk Island to fill its labor needs for unskilled foreign nationals. It was conceded that other visa categories are not appropriate for this purpose (e.g. WHM Working Holiday Maker Visa (which excludes Fiji), Temporary Worker Skilled (subclass 457) Visa, Skilled Employer Sponsored Permanent Residence (PESE) Visa (includes subclass 186 and 187)).

There is a lack of Immigration policy and visa types for hiring foreign nationals from countries such as Fiji to perform housekeeping and other relevant work. This will impact the tourism industry which depends on these permanent unskilled workers to perform certain tourism jobs. **This could lead to serious labor shortages and upward pressure on wages, which could have a negative impact on the tourism industry.**

The ATA calls on the Federal Government to create a visa category to enable foreign nationals to fill unskilled positions that cannot be filled by locals.

7.10 Federal Government to direct Tourism Australia to fully include Norfolk Island

Tourism Australia, funded by the Federal Government, markets Australia in key international markets and states back that up according to their priority markets. Tourism Australia does not undertake leisure marketing in Australia or New Zealand (Norfolk Island's key markets), so their value to Norfolk Island is limited.

Nevertheless, despite repeated requests to Tourism Australia, Norfolk Island is still not effectively represented by Tourism Australia which promised as a *temporary* measure to create an external page for Norfolk Island linked from the Tourism Australia homepage.

The ATA calls on the Federal Government to enable Tourism Australia to fully represent Norfolk Island as it does other states and territories, and announce a timetable for completion with accountability.

7.11 Federal Government to include Norfolk Island in the Australian Tourism Data Warehouse

There is still no provision for Norfolk Island to participate effectively in the **Australian Tourism Data Warehouse ATDW) and Australia.com**. There is a simple, very limited page on Australia.com with "Top reasons to visit Norfolk Island", but no product has been loaded and no links to the Norfolk Island Tourism website for more information. This has been an ongoing request for many years. Nobody at ATDW or Tourism Australia appears willing to take any responsibility for making this happen. No dates for completion, and no accountability.

The ATA calls on the Federal Government to include Norfolk Island in the Australian Tourism Data Warehouse, and announce a timetable for completion with accountability.

7.12 Federal Government to clarify role of Destination NSW

There needs to be clarification with respect to the role that Destination NSW may, or may not, play going forward. The Federal Government has not articulated any tourism plan or economic strategy for Norfolk Island.

7.13 Federal Government to stay within JSCNET Enquiry terms of reference

The Joint Standing Committee on the National Capital and External Territories (JSCNCET) terms of reference on its 2014 Enquiry into Economic Development on Norfolk Island deviated completely outside its published terms of reference, into Governance. The primary recommendation from this enquiry was the removal of the democratically elected government of Norfolk Island. It seems to have seriously confused democracy with economics.

This denied the community, including the ATA, any input into the area of Governance. It also diminished any confidence the community has in future Enquiries as published terms of reference appear to have no substance or validity.

The ATA believes the recommendations reached in this Enquiry were not properly founded or supported by the community. The results of the referendum on 8 May 2015, various community petitions, the Regional Council election results and the overwhelming support for the goals of the Norfolk Island People for Democracy all clearly demonstrate that the JSCNCET Enquiry recommendations on governance have never been accepted by a majority of the community.

The Governance model that emerged from this JSCNCET Enquiry into Economic Development is not consistent with economic sustainability for the island, or with the aspirations of the community as expressed in the Regional Council Community Strategic Plan of August 2016.

The ATA recommends that the Federal Government initiate an enquiry into its actions with respect to Norfolk Island at least since 2014, and work to instil confidence in the community for Federal Government enquires and outcomes.

7.14 Federal Government to provide access to independent review mechanisms to ensure accountability and natural justice for all public servants.

The Federal Government made a number of decisions which have been detrimental to the Norfolk Island Tourist Industry. It removed the Tourism Minister, General Manager for Norfolk Island Tourism, Tourism Board, and the Tourism Officer. This significantly reduced the capacity on island to drive tourism to Norfolk Island, and almost dismantled the entire tourism promotion capacity. The

ATA believes that the decision to remove the General Manager was taken against the advice of the Norfolk Island Advisory Council.

The Norfolk Island Administrator caused damage to the tourism industry by making disparaging remarks about Norfolk Island on national television. This resulted in cancellation of existing bookings to Norfolk Island, and likely caused potential travellers to decide to rather travel to other destinations. Questionable statements by the Administrator have also caused great anxiety in the community. Community petitions and requests for the removal of the Administrator have been ignored, resulting in a further loss of confidence in the office of the Administrator and a broad perception that there is no accountability.

The Federal Government appointed an Executive Director and Transition Manager, both with responsibility for Tourism. However, they both ignored all appeals from the ATA and industry to address tourism issues, human capacity, and to properly exercise their responsibilities with respect to tourism.

The Destination Marketing contractor, Tourism Guru, appointed by the Executive Director submitted a report dated April 2016 titled “Matters for Urgent Discussion and Resolution – The Way forward for Norfolk Island Tourism” (4). It appears that this report was ignored, and was certainly not shared with the ATA or community at the time. It appears that the contracted services (5) have not all been delivered.

In June 2016, the Federal Government appointed a Regional Council Group Manager with responsibility for Tourism. The problem is she has no background or experience whatsoever in tourism.

It could be concluded that the Federal Government has not recognized the importance of tourism to the well-being of the community.

The ATA believes that visitor numbers for the year ending June 2016 would not have fallen from the previous year if the Federal Government had exercised its tourism responsibilities effectively.

The ATA recommends that the Federal Government extend anti-corruption legislation and other judicial mechanisms to Norfolk Island without further delay, so that accountability measures are put in place for decisions and actions made by public servants.

7.15 Federal Government to create a Commission to recommend new a Governance Structure underpinned by the Community’s legal and moral right to self-determination.

The Federal Government needs to create a commission of experts and stakeholders to examine a new governance structure and constitutional relationship, supported by the community, that respects the community right to an act of self-determination.

It may be helpful to look to New Zealand’s relationship with its Pacific Island dependencies, such as Niue, Tokelau and Cook Islands. It may also be helpful to look at the UK’s relationship with Falkland Island, an economically successful British Overseas Territory with internal self-government and figure

out what lessons may be applicable to Norfolk Island. Another example is the UK's relationship with Pitcairn Island, another British Overseas Territory.

7.16 Federal Government to respond to ATA Submissions and Correspondence.

This submission is a follow up to the Norfolk Island Accommodation and Tourism Association (ATA) submission of 10 February 2016, which was sent to the previous Minister with responsibility for Norfolk Island, Min. Paul Fletcher.

The Minister and the Department have not responded to, nor even acknowledged, that submission and earlier enquiries by the ATA. The submission was also sent to the Norfolk Island Administrator without receiving any response or acknowledgment.

The ATA calls on the Federal Government to respond to issues raised by the ATA and other representative business sector organisations.

7.17 Federal Government Minister and officials to Meet with Private Sector Business Representatives

Unfortunately, the previous Minister with responsibility for Norfolk Island, Min. Paul Fletcher, did not avail himself of the opportunity to meet with representative business representatives during his only visit to Norfolk Island on 28 January 2016, instead choosing to meet briefly with a few handpicked business people. Min. Fletcher's predecessor, Min. Jamie Briggs, also ignored representative business representatives during his only visit to Norfolk Island.

During the months prior to 1 July 2016, the Federal Government has sent a stream of bureaucrats to Norfolk Island to assist the community with understanding how to complete applications for Medicare, Tax File Numbers, Welfare, etc. However, this is not consulting with the community to shape policy, or understand its needs or issues, but simply informing the community how to deal with newly imposed obligations.

With the myriad Federal Government Laws, NSW Laws, and Local Government Laws, and an unannounced schedule of new laws, there is much confusion and are many issues that remain unresolved. There needs to be meaningful consultation with the private sector to assist with business planning, and assessing its economic impact.

The ATA extends its open invitation to the current Minister, Hon. Fiona Nash, and department officials to meet and consult meaningfully as soon as possible with the elected representatives of the peak industry bodies of the ATA and Norfolk Island Chamber of Commerce.

8. References

- (1) Economic Development Report Acil Tasman Report (March 2014)
https://www.dropbox.com/s/mzffki06x9mk9o6/Norfolk_Island_EDR_2012%20AcilTasman.pdf?dl=0
- (2) Centre for International Economics Report (2006) released through FOI process
<https://www.dropbox.com/s/jtx4kfloibyt6x1/CIE%20Report%202006.pdf?dl=0>
- (3) Centre for International Economics Report (2014)
<https://www.dropbox.com/s/r8vszjh63dccwj/CIE%20Report%202014.pdf?dl=0>
- (4) Tourism Guru Report “Matters for Urgent Discussion and Resolution – The Way forward for Norfolk Island Tourism (April 2016)
<https://www.dropbox.com/s/qjm00vxwa8tu22l/Tourism%20Guru%20-%20Norfolk%20Island%20Tourism%20Direction%20Paper%20April%202016.pdf?dl=0>
- (5) Tourism Guru Contracted Services (approx. March 2016)
<https://www.dropbox.com/s/shc2z2npmt1221n/Tourism%20Guru%20-Terms%20of%20engagement%2C%20KPIs%20for%20%27Tourism%20Guru%27%20consultancy.pdf?dl=0>
- (6) Norfolk Island Visitor Statistics
<https://www.dropbox.com/s/f3jfx0ma80wgewj/Norfolk%20Island%20Visitor%20Stats%20Qtr%20Apr-Jun2016.pdf?dl=0>
- (7) Norfolk Island Tourism Strategic Plan
<https://www.dropbox.com/s/hl066xvnt0lw2w4/Norfolk%20Island%20Tourism%20Strategic%20Plan%202013-2023.pdf?dl=0>
- (8) Tourism Guru Report titled “Norfolk Island Marketing Action Plan 2016-2019”
<https://www.dropbox.com/s/pc66yh4n4r9ktcc/Tourism%20Guru%20-%20NIT%20Marketing%20Action%20Plan%202016-2019.pdf?dl=0>

Meeting: Minister Ley and ATA Executive

October 2018

Tourism

-) Tourism Promotion - State function - Federal Govt. responsibility
-) 2018-9 Tourism Marketing Budget same as previous year despite Federal funding of \$385K (\$760k over 2 years). Zero promotional funding in 2016-7 and 2017-8.
-) Federal funding of \$385K is inadequate. Same as Xmas island with 100 beds and 1,000 tourists (vs. 1,730 beds and more than 28,000 tourists).
-) Need Increased flights (Sunday ex Syd all year), but need to promote extra flights. (2014-5 with extra flights - 55% of unused capacity was from May to Aug). Need Increased flights during peaks.
-) No Event Funding (essential for Winter season), Extremely limited budget for NZ promotion.
-) Tourism Australia – still no links to NI under “States and Territories”.
-) Australian Tourism Data Warehouse – NI still missing. Feds to pay?

Massive Cost Increases and Reduced Employment

Visitors declined 11.5% from March to June 2018

Modern Award System phased in too quickly and inappropriate for NI circumstances – was any economic modelling performed?

Land Rates severe increases of 800% in some cases

Income Taxes, NSW Water Quality assurance Scheme, Super, Compliance Costs

Legislation Consultation Framework released 9 May 2017- was Public Health Act 2010 (NSW) (NI) March 2018 assessed under this framework?

Telecom

Federal Govt. Strategy (O3b and NBN). Telecom becoming less viable (follow Xmas Island)

4G will still be slow as still goes by satellite backbone.

Undersea Fibre Optic Cable required to diversify economy. Missed opportunity with Hawaiki. Feds helping other islands (eg. Over \$100 mil for PNG and Solomon Island).

Other Initiatives: Medicinal marijuana, Tourism Industry Council

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.15 EVENT BRIEF – Dinner at Government House

Date and Time:	Wednesday 14 November 2018, 7.00 for 7.30 pm
Location:	Government House
Attendees:	Eric Hutchinson, Administrator Cross section of business operators on the island (retail, service, commercial)

Outcomes Sought:

- Gain an appreciation of the opportunities and challenges for business operators on Norfolk Island.

Sensitivities: Nil

Attachments: Nil



DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.16 EVENT BRIEF – Breakfast with the Council of Elders

Date and Time:	Thursday 15 November 2018, 8.30 – 9.30 am
Location:	Government House
Meeting with:	Council of Elders
Attendees:	Eric Hutchinson, Administrator Albert Buffett, President Gaye Evans, Vice President Edith Christian, Executive Anita French, Executive Secretary

Outcomes Sought:

- Listen to the Council of Elders' views on the status of Norfolk Island and explain how the Australian Government is working to understand and address these concerns.
- Respond to issues raised by the Council of Elders with the previous Minister, the Hon Dr John McVeigh MP, during his visit in July 2018, including cultural recognition and the consolidation of laws governing Norfolk Island.
- Seek feedback from the Council of Elders public meeting regarding biosecurity.

Key Issues:

- The Council of Elders is a group formed to represent the interests of Norfolk Island residents of Pitcairn descent. Membership is not open to the broader community as it is limited to a small number of families. The Council is aligned with the Norfolk Island People for Democracy (NIPD).

Cultural Recognition

- The Australian Government is committed to protecting culture and heritage on Norfolk Island, including Pitcairn heritage. The Government has implemented a number of measures, including the following:
 - the curriculum at Norfolk Island Central School includes classes in the Norfolk language and culture;
 - requirements around the Norfolk language are included in the Service Delivery Agreement negotiated with the NSW Department of Education, and
 - Norfolk Island's public holidays have been maintained.
- With the abolition of the preamble to the Norfolk Island Act 1979, the Council of Elders are concerned about formal recognition of Norfolk Islanders of Pitcairn descent.
- The Norfolk Island Advisory Council provided advice in 2015 about the development of a preamble to the Norfolk Island Act, concluding that "in light of community division on the matter and strong opinions both supporting and against, the matter of a preamble should be further considered by the Regional Council".

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

- At the time, the Department of Infrastructure and Regional Development advised that the Australian Government is most likely to support the reintroduction of a preamble if the wording is short, historically accurate, and reflects the multicultural nature of today's Norfolk Island community. (Key Issues Brief 2.03).
- During his July meeting with the Council of Elders, the Hon Dr John McVeigh recommended that the Council of Elders work with the Norfolk Island Regional Council (NIRC) and the Administrator of Norfolk Island to develop a new preamble that has majority support in the Norfolk Island community and reflects the Island's multicultural make-up. You may wish to seek and update from the Council of Elders.

Access to laws governing Norfolk Island:

- During the Hon Dr John McVeigh MP's visit the Council of Elders requested the consolidation of Acts governing Norfolk Island to make the law easier to access and understand.
- Compilations of legislation are available for all laws governing Norfolk Island, with the exception of applied NSW laws.
- The NSW laws that apply in Norfolk Island include, as set out in Schedule 1 to the Applied Laws Ordinance: the Health Services Act 1997; the Local Government Act 1993; the Crimes (Domestic and Personal Violence) Act 2007; the Education Act 1900; and the Public Health Act 2010.
- Since the Hon Dr John McVeigh MP's visit the Department of Infrastructure, Regional Development and Cities has investigated the compilation of NSW laws.
- Changes to relevant NSW law can be made frequently without advice being provided to the Commonwealth. Making a new compilation of an applied law every time there is a change in the NSW law would be resource intensive and would result in drafting resources being diverted away from higher priority legislation work. As an example, since the Local Government Act 1993 (NSW) was applied in Norfolk Island on 1 July 2016, it has been amended approximately 20 times.
- The Department will trial the periodic compilation of certain high-use applied laws, that is, legislation that is used by a number of participants in the activity which is the subject of the legislation.
 - A compilation of the Local Government Act 1993 (NSW) (NI), as at 13 October 2018, has just been produced. This will be provided to the Norfolk Island Regional Council for use by its officers, and will also be made publicly available for broader consumption.
 - Consideration will be given to the production of a compilation of the recently applied domestic and personal violence legislation, which would be used by the courts and police.
- In addition, the Department will publish an information sheet for the community outlining how to understand the operation of a NSW law applied in Norfolk Island, without a compilation.

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Biosecurity

- The Council of Elders held a public meeting on 7 November 2018 to address multiple issues regarding biosecurity and the Department of Agriculture and Water Resources import conditions.
- You may wish to provide feedback from your meeting with biosecurity stakeholders (refer Event Brief 1.04).

Abolition of revenue sources and imposition of land tax:

- The Council of Elders may also raise the abolition of revenue streams from the Regional Council and the imposing of land tax.
- Land rates apply in the rest of Australia and are the main source of revenue available to local governments for maintaining infrastructure (such as roads) and providing community services (such as waste management).
- Special hardship arrangements are available through the Norfolk Island Regional Council (NIRC) to those experiencing genuine hardship.
- A number of other changes have impacted on the revenue streams available to the NIRC, including:
 - with the shift to the mainland taxation system, the Norfolk Island GST was abolished to reduce the pressure of the commencement of income taxation;
 - import duty was abolished to reduce financial hardship in the community; and
 - the Australian Government provides a Financial Assistance Grant type payment and funding for NIRC service delivery to make up for foregone revenue.

Background:

- In 2015 the Council of Elders wrote to the previous Minister for Territories, Ms Fiona Nash about the preservation of cultural heritage. Preservation of cultural heritage is a shared community and government responsibility.
- A number of submissions to the Advisory Council also raised specific concerns about the preservation of cultural heritage, including:
 - public holidays;
 - Norfolk language;
 - flying the Norfolk flag;
 - singing of the Pitcairn Anthem;
 - ownership of cultural objects and ongoing access to KAVHA; and
 - the role of volunteerism in the community.

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- The previous Norfolk Island Administrator assured the community that the Australian Government does not plan to prohibit any existing cultural practices and the community is responsible for maintaining the best parts of Pitcairn (and broader Norfolk) culture. This continues to be the position of the Australian Government.

Sensitivities:

- The Council of Elders is closely aligned with the NIPD. The NIPD is lobbying the United Nations and members of the UK Parliament claiming breaches of human rights by the Australian Government and is seeking to gain self-determination in free association with Australia.

Attachments: Nil



DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.17 EVENT BRIEF – Cascade Pier Tour

Date and Time:	Thursday 15 November 2018, 10:00 am – 10:20 am
Location:	Cascade Pier
Meeting with:	Nil
Attendees:	Eric Hutchinson, Administrator

Outcomes Sought:

- A tour of the completed Cascade Pier upgrade and an update on future projects associated with the Cascade Pier including the Ports Traffic Management Plan, the Passenger Transfer Vessels and upgrades to road infrastructure at Cascade.

Key Issues:

- The Australian Government invested \$16.9 million in upgrading the Cascade Pier to facilitate greater access to Norfolk Island for cruise ships and to better support cargo transfers. This investment was important for tourism and local businesses on the Island.
- The Cascade Pier upgrade commenced in May 2016 and was completed on April 2018. The original fisherman's crane was also re-installed on the pier which is important to the Norfolk Island fishing community.
- Since the completion of the upgrade, the Cascade Pier has been used to unload cargo from the lighters using both the permanent fixed dock crane and Norfolk Island Regional Council's mobile crane. No cruise ship passengers have been unloaded at Cascade Pier since the completion of the project as the cruise ship season has just commenced.
- A Traffic Management Plan is currently being prepared by Consult Marine to manage traffic during cargo unloading operations at both Cascade and Kingston Piers. The Traffic Management Plan is being developed to address risks to Commonwealth Department of Agriculture and Water Resources and Commonwealth Department of Home Affairs staff undertaking tasks in an environment that does not comply with the Safe Work Australia Guide.
- The passenger transfer vessels, used to transfer cruise ship passengers from ship to port, are expected to be completed by mid-2019 (Key Issues Brief 2.08). The permanent fixed dock crane will be used to lift the vessels from the water for storage.
- To allow for the movement of the passenger transfer vessels and future cargo transfer vessels from the port to storage, upgrades to the road infrastructure at Cascade are required. The engineering and design works will be conducted this financial year.

Background:

- Some key features of the upgraded pier are:
 - a 24m long x 10m wide extension;

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- strengthening of the pier and improved structural integrity, increasing operational life;
 - the pier has been designed for a 50 year service life with minimal maintenance factoring in a sea level rise of 0.2m;
 - stainless steel reinforcement and stainless steel permanent anchors;
 - a dock crane which is 10m tall and has a 35t lift capacity at 7m reach and is permanently fixed to the deck;
 - the pier deck has been raised by 1 metre and wave deflectors installed, which significantly increases safety for pedestrians by extending the incident wave height to around 2.5m;
 - the pier has been re-orientated and extended which has reduced markedly the wave heights at the inner berth of the pier;
 - the addition of new tidal stairs and hand-railing provides a safer environment for cruise ship passengers and other vessel users to access the pier; and
 - additional safety features have been provided for local users including installation of guardrails, a safety ladder, a life buoy and better lighting.
- The new design of the pier will now accommodate a variety of cranes to use the pier including the Dock Crane, the Norfolk Island Regional Council's current and future Mobile Crane and the Fisherman's Crane. The current lifting capacity of Council's mobile crane for freight out of lighters is approximately 8 tonne, and with the Dock Crane, this has increased to 35 tonne. The new Dock Crane will also allow for future freight operations and allow the passenger transfer vessels to be lifted from the water for storage.
 - The design for the Cascade Pier reconstruction was completed by project delivery and consulting firm Advisian. This work included the completion of the design for construction works, testing the design for constructability, consulting locally with key stakeholders, developing a draft construction program and a peer review of the final design. Waterway Construction completed the construction of the pier.
 - To ensure safe and compliant use of the crane, 28 Norfolk Island residents undertook a one day Dock Crane training course, a further six Norfolk Island residents completed a five day Dogging course.
 - Under a Service Delivery Agreement for State Type Services, the NIRC is responsible for the management and use of maritime ports including port related infrastructure.

Sensitivities: Nil

Attachments: Nil



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1.18 EVENT BRIEF – Visit to Banyan Park Play Centre

Date and Time:	Thursday 15 November 2018, 10.30 am – 11.15 am
Location:	Banyan Park Play Centre
Attendees:	Eric Hutchinson, Administrator Claire Quintal, President and DIRDC Banyan Park Committee (names TBC)

Key Issues:

- Norfolk Island families are not able to access the Australian Government's Child Care Subsidy (CCS), as Banyan Park and other child care providers on Norfolk Island are not accredited child care service providers eligible to attract CCS.
- The interim child care relieve funding was announced on 2 July 2018 and is provided through a contract with Banyan Park administered by the Department. The current contract expires on 31 December 2018.
- When the interim funding arrangement was agreed, there was an expectation that a state child care regulator would be in place by 31 December 2018.
- More detailed briefing is at **Attachment A**.

Building Better Regions Fund Round One – Banyan Park Playcentre Inc– Auwas Letl Salan, Norfolk Island's Kids

- The Australian Government has committed BBRF funding of \$899,900 towards the \$999,900 Auwas Letl Salan, Norfolk Island's Kids project.
- Banyan Park Playcentre Inc is providing \$100,000 cash and \$62,500 in kind support towards the project.
- The project will upgrade the island's major education and care facility with new classrooms, landscaped outdoor area and extended undercover play areas.
- The project commenced in October 2017 and is expected to be completed by the end of January 2019.
- It is estimated that seven jobs will be created during the project, and another nine ongoing jobs to be supported post construction.

Other Childcare issues

- Norfolk Island Family Day Care (FDC) providers, Ms Katherine Lance and Ms Deborah Sheridan, have approached the former Minister for Regional Development, Territories and Local Government and his Advisor, seeking support to provide CCS to FDC providers on Norfolk Island. The Department advised the priority is to strengthen and embed the Banyan Park arrangement prior to considering expansion to include FDC.

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- Childcare worker placements at Banyan Park. Correspondence was received from [REDACTED] for People Plus, in relation to students undertaking the practical component of childcare training at Banyan Park. The Department provided advice from DET encouraging [REDACTED] contact the Australian Skills Quality Authority to ascertain the process through which Banyan Park can become a regulated centre for workplace placement purpose.

Background: Nil

Sensitivities: Nil

Attachments:

A Child Care Fee Relief – Banyan Park Early Learning Centre – Norfolk Island



Child Care Fee Relief Banyan Park Early Learning Centre – Norfolk Island

Key Issues

- In 2018 Price Waterhouse Cooper was commissioned to provide the Department with a baseline assessment and transition plan for the Banyan Park Early Learning Centre (Banyan Park). A report was provided to the Department in June 2018 on the viability of the Centre to meet the requirements set out in the National Quality Framework and to provide baseline costs for the provision of fee relief for up to 25 children prior to transition to a child care regulator and Banyan Park transitioning to be an approved centre. No significant concerns were raised in the report. A number of safety concerns identified in the report have been managed by Banyan Park.
- In May 2018, Senator the Hon Simon Birmingham, the then Minister for Education and Training provided conditional agreement to provide one-off administered funding to Banyan Park Early Learning Centre in lieu of mainland child care fee relief, for the period 2 July 2018 to 31 December 2018. At this time, Banyan Park was the only Norfolk Island child care centre that had expressed an interest in becoming an approved centre for the purpose of attracting the Child Care Subsidy (CCS) equivalent.
- A number of assurances were sought by Minister Birmingham, from the then Minister for Regional Development, Territories and Local Government, the Hon Dr John McVeigh MP, in regard to Banyan Park's application of CCS fee relief equivalent, and that Banyan Park meet (where possible) standards for child care, consistent with an approved centre on the mainland.
- The interim funding was announced on 2 July 2018 and is provided through a contract with Banyan Park administered by the Department. The Department has not identified any issues with Banyan Park's administration of fee relief, or its operation, during the contract period.
- When the interim funding arrangement was agreed, there was an expectation that a state child care regulator would be in place by 31 December 2018. This has not occurred and it is not likely that a regulator will be in place within the next 12 months. With the current interim arrangement expiring on 31 December 2018 and in the absence of a regulator, a more enduring solution is required.
- The Department is consulting with the Department of Education and Training (DET) to recommend that Banyan Park is supported by DET as a budget-based funded centre. Unlike the interim arrangement, this gives the centre certainty and on-going support from DET.
- The Department procured the services of a mentor [REDACTED] to assist Banyan Park to continue to work towards the requirements under National Quality Framework to be an approved child care centre.
- The Administrator of Norfolk Island, Mr Eric Hutchinson is a strong advocate for the continuation of child care fee relief to families on Norfolk Island.

Background

- Banyan Park is the largest child care centre on Norfolk Island opening in 1977. Currently 28 children from the ages of 3 to 5 attend the centre.
- Norfolk Island families are not able to access the Australian Government's CCS, as Banyan Park and other child care providers on Norfolk Island are not accredited child care service providers eligible to attract CCS.
- Funding for Banyan Park Child Care Fee Relief is via the transfer of administered funds of \$250,000 from the DET to this Department. The transfer of funds will occur through the 2018/19 MYEFO process and was approved by Assistant Minister to the Prime Minister, the Hon Steve Irons MP, in September 2018.

Sensitivities

- Parents and the Norfolk Island Community are understandably anxious about ongoing access to childcare fee relief beyond 31 December 2018. The Commonwealth will be publicly criticised if assistance is not provided beyond 31 December 2018.
- You and Minister Tehan, and respective Departments will agree on arrangements post 31 December 2018, including any announcements or talking points that will support the future arrangement.

Other Childcare issues

- Norfolk Island Family Day Care (FDC) providers, Ms Katherine Lance and Ms Deborah Sheridan, have approached the former Minister for Regional Development, Territories and Local Government and his Advisor, seeking support to provide CCS to FDC providers on Norfolk Island. The Department advised the priority is to strengthen and embed the Banyan Park arrangement prior to considering expansion to include FDC.
- Childcare worker placements at Banyan Park. Correspondence was received from [REDACTED] People Plus, in relation to students undertaking the practical component of childcare training at Banyan Park. The Department provided advice from DET encouraging [REDACTED] contact the Australian Skills Quality Authority to ascertain the process through which Banyan Park can become a regulated centre for workplace placement purposes.



Australian Government

BUILDING OUR FUTURE

Event Opportunity

Strengthening Environmental Governance

Event date/time:	1.30am Thursday 15 November 2018
Event type:	Ceremonial Planting of Native Plants
Event responsibilities:	Speech, ceremonial planting and photo opportunity
Location:	Bumbora Reserve, Bumbora Road Norfolk Island 2899
Patron Senator:	Senator the Hon Zed Seselja
Federal Member/Electorate:	Ms Gai Brodtmann MP / Canberra / Labor
State Member/Electorate:	N/A
Funding programme:	Building Better Regions Fund
Estimated project cost:	\$220,000
AG Funding:	\$165,000
Other Funding:	\$55,000 committed by Norfolk Island Regional Council

Description

This project develops an environmental strategy for Norfolk Island. It has been developed through extensive reviews of existing literature, community consultation and expert technical input, assessed environmental issues such as: atmosphere; biodiversity; built environment; food security; transport; energy; land and marine environment; water; and waste management. It will provide the essential framework for statutory State of the Environment reporting by Council.

Sensitivities

Nil advised.

Status/timetable

The project commenced in November 2017 and was completed in July 2018.

Template for use by Australian Government representative's Electorate Office

- **Please liaise directly with the successful grant recipient to confirm an event date and time.** As soon as a date and time for the event has been agreed, or if a date or time change has occurred to a confirmed event, **immediately advise Minister's Office.**
- A full project briefing pack, including a Joint Media Release with the Minister for the event, will be provided to your EO to assist you to promote the project.
- Please use the below template to gain event logistics from the grant recipient prior to the event. You will then attach this to the briefing package provided by the Minister's Office for use on the day.

Confirm the time:

XX:XXam/pm – XX:XXam/pm on Day date month year

Confirm attendances:

**Please list distinguished guests in order of protocol and ensure the spelling and title of their name is correct.*

- <insert Salutation, First Name, Last Name, Official Title, Organisation>
- <Federal/State representatives>.
- <Proponent/Community attendees>

Event location:

- <insert address>
- <insert as necessary any additional information that may impact on location, arrival and parking>

Run sheet:

XX.XX am/pm AG Rep and guests – Arrive
 XX.XX am/pm <Name and title> – <Action>
 XX.XX am/pm All attendees – Event concludes

Media attendance:

**Please confirm if event organiser arranging media or if assistance with media is required.*

Supporting social media:

**Does the grant recipient have a website or social media accounts to cross reference for promotion?*

Additional details:

- <insert as necessary any additional information that may impact on event/representative.>
- E.G. grant recipient to provide High-visibility vest/work boots/hard hats etc.

CONTACT ON DAY:

Name/Title/Organisation:
 Mobile:

Please note: All proponents are obligated under the terms of their Funding Agreement to hold an official opening and provide notice to the Department of Infrastructure, Regional Development and Cities.

If your Office is contacted directly by a grant funding recipient for an event regarding a project contracted by the Department, **you must immediately advise the Minister Office.** This will ensure the event is recorded under the terms of the agreement. It will also ensure the Department can provide approved briefing materials.

Should your Office receive materials for review, such as plaques, newsletters or media releases, please advise the grant funding recipient to send to the Department via eventbriefings@infrastructure.gov.au for final approval.

1.19 EVENT BRIEF – Norfolk Island Airport

Date and Time:	Thursday 15 November 2018, 11.30 am – 12.00 pm
Location:	Norfolk Island Airport
Attendees:	Eric Hutchinson, Administrator Karen Quintal, Airport Manager

Key Issues

Upgrade of the Norfolk Island Airport

- As the asset owner, the Norfolk Island Regional Council (NIRC) is responsible for managing and maintaining the Norfolk Island Airport (the airport). The next upgrade of the airport runways was planned for 2022 at an estimated cost of \$30 million. A recent report by the Civil Aviation Safety Authority has shown the runway has deteriorated more rapidly than expected and that repairs need to be brought forward.
- NIRC has completed preliminary estimate for the runway resealing project based on an expert engineering report. Following expert assessment and a more robust costing process, the preliminary estimate is \$42.98 million. The project work includes upgrading airfield lighting and reconstructing parking pads in the passenger transport apron.
- In September 2018, NIRC issued an open tender for a design and construct contract for the pavement repair and resurfacing of the airport runway in anticipation of the Government agreeing to fund the runway resealing project. Tender closes on 18 December 2018.
- The Department has requested NIRC write to you to obtain Commonwealth approval to extract rocks from Cascade Quarry for the runway resealing project. Extracting rocks from Cascade Quarry is expected to minimise cost and biosecurity risks of importing rocks.

Waiving the loan for the previous airport upgrade

- NIRC's predecessor received a \$12 million loan in 2005 for limited work to resurface one runway. NIRC has struggled to repay this loan while maintaining the airport, having repaid only \$1 million since 2005. NIRC has capacity to fund the airport's ongoing maintenance and has indicated it may be able to contribute to scoping the runway resurfacing, but is unable to repay the existing loan or fund the next round of resealing works
- Government has agreed to modify or defer repayments for the loan seven times. At the current rate of payment, \$200,000 per year, the loan will take 55 years to be repaid. The airport generates revenue of approximately \$3 million each year, which NIRC uses for the airport's maintenance and upkeep and to subsidise other service delivery. Loan repayments directly reduce NIRC's budget for service provision at the airport and the provision of local government services, including waste management services and community assets. This in turn increases costs for the Commonwealth.
- NIRC are not aware the Australian Government is considering waiving the loan.

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

New biosecurity standards for the airport as a first point of entry

- In July 2018, the Department of Agriculture and Water Resources (DAWR) wrote to the NIRC advising them of outcomes against the first point of entry (FPOE) biosecurity standards for the airport, Sydney Bay (Kingston), Cascade Bay and Ball Bay. For commencement of the Biosecurity Act in June 2016, DAWR made temporary first point of entry determinations to enable continuation of operations at first points, including Norfolk Island. Under transitional arrangements, these determinations could be made by the Director of Biosecurity without first points of entry having to meet relevant requirements under Biosecurity Regulation 2016. These transitional arrangements will end in June 2019.
- Over the past 18 months DAWR have been working with NIRC to assess compliance with the standards. The assessment outcome summaries show NIRC are required to provide further evidence on elements of the standards to be fully compliant by June 2019 for the airport and seaports.
- DAWR has offered assistance to NIRC to discuss remedial action. If NIRC choose not to meet the required standards by June 2019, the FPOE determinations may lapse, or NIRC may be excluded from an ongoing FPOE determination and will no longer be able to facilitate arrivals without prior approval.

Background

- A total of 33,750 arriving passengers were processed at the airport in 2017-18 and generated revenues of around \$3.4 million. With costs of \$2.3 million, about \$1 million per year will be available for debt servicing and future maintenance provision.
- NIRC submitted a Building Better Regions Funding application for an Airport Master Plan for Norfolk Island International Airport. The application was ineligible as strategic planning did not meet the eligibility criteria.

Sensitivities: Nil

Attachments: Nil



1.20 EVENT BRIEF - Demonstration Argentine Ants Eradication Drone

Date and Time:	Thursday 15 November 2018, 1.30 pm – 2.00 pm
Location:	TBA
Attendees:	Eric Hutchinson, Administrator PJ Wilson Drone operator

Key Issues

- Argentine ants were identified on Norfolk Island in 2005 and an eradication program has been underway since 2008, using a variety of products and methods. It is unclear how and when the ants arrived on the island, but it was most likely many years before and through arriving with goods from either Australia or New Zealand. A map of the known Argentine ant infestations on Norfolk Island as at May 2015 is at **Attachment A**.
- As Argentine ants are aggressive in nature and need protein-based food sources, they may pose a threat to the majority of the Island's vertebrates and invertebrates.
- There is consensus between Norfolk Island residents and people globally involved in ant eradications that eradication of Argentine ant from Norfolk Island is achievable.
- A number of eradication treatments have been used to date. Currently, hydrogels, dry and liquid sugar (laden with fipronil) and termidor spray are being used.
- Treating the western cliffs are problematic using traditional methods for dispersing treatment as most of the product would fall to the cliff base and into the ocean. The use of Fazer drones is more feasible, cost-effective and safe.
- The drone provides horizontal spraying using ballistic technology. Spraying a sucrose-rich solution laced with fipronil is considered to be the most environmentally acceptable, cost effective and efficacious eradication treatment.
- You recently announced \$40,000 to extend the time the drone is on Island. The Norfolk Island Regional Council and CSIRO are leading the eradication program (**Attachment B**). The program is fully funded by the Australian Government.
- Post treatment assessments will be undertaken by a specially trained detector-dog. A detector dog is currently being training in New Zealand and is expected to arrive on Norfolk Island in late 2018.

Background

- The dispersal of Argentine ants on Norfolk Island can be attributed to the processing of contaminated garden waste at the Island's Waste Management Centre (WMC) between late 2006 and early 2008 which was then sold to the community as mulch. This dispersal pathway no longer exists because the WMC is no longer operational. The only dispersal pathway remaining is by accidental movement of an ant in soil or goods.

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

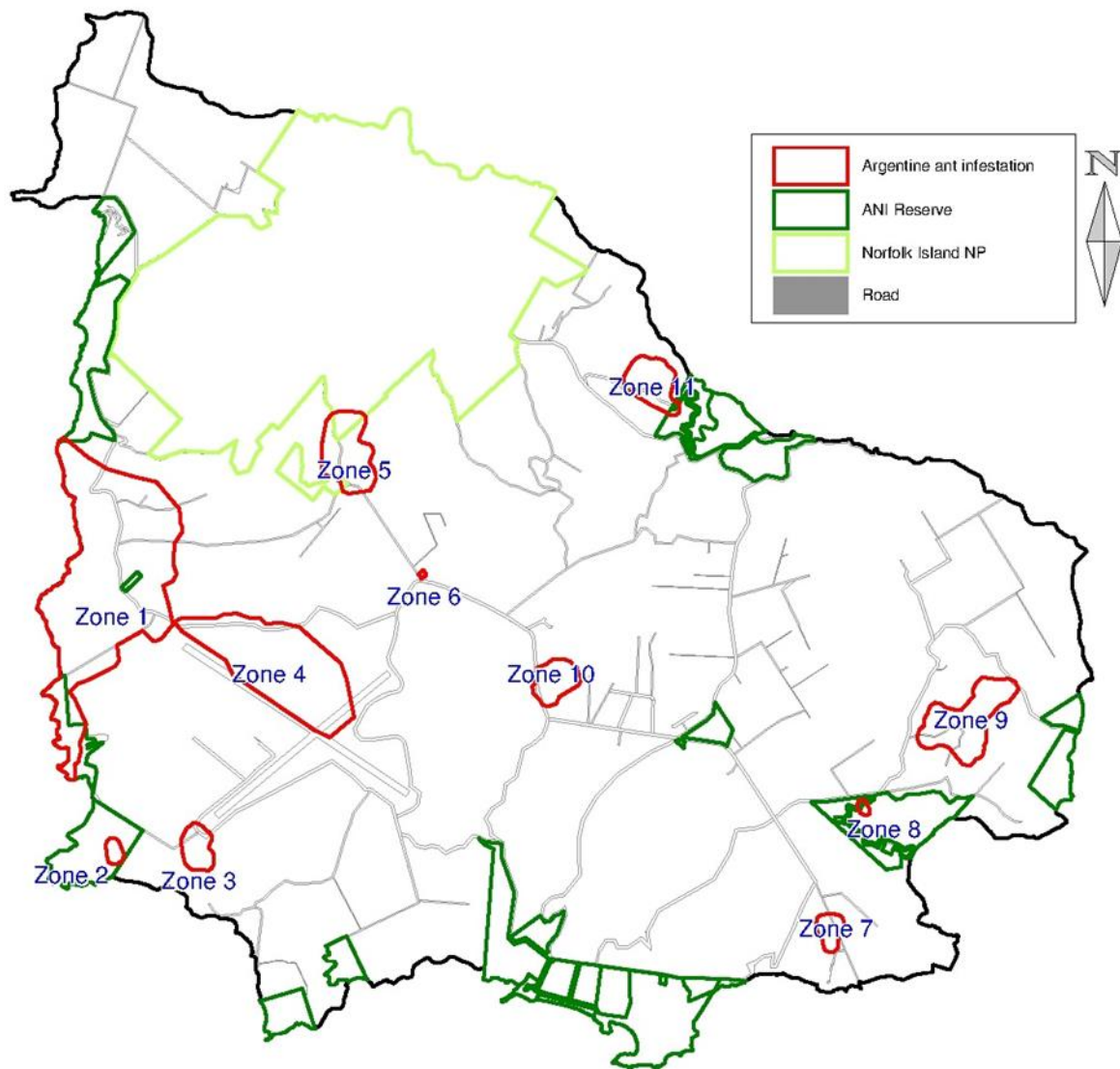
- As Queen Argentine ants do not fly, in the absence of human intervention population expansion is achieved through budding or fission (where a new queen and workers split from an existing colony). This results in Argentine ants forming large and contiguous populations.
- Norfolk Island's mild climate is generally favourable for Argentine ants with foraging, breeding and activity peaking during the warmer months of spring and summer. During the winter, when maximum temperatures range between 18°C to 19°C, the foraging activity of Argentine ants reduces.
- At particular risk on Norfolk Island are ground-nesting sea birds and already endangered species such as the Norfolk Island Green Parrot, Norfolk Island Scarlet Robin and Slender-billed White-eye. The Lord Howe Island Skink and Gecko, now restricted to Phillip Island, may face the same threat if Argentine ants spread to this offshore islet.
- Argentine ants also farm and protect bugs such as aphids for the honeydew that these bugs secrete. As a result these sap-sucking bugs can become so prolific that they can destroy or significantly reduce the yield of horticultural crops, especially citrus.
- Post-treatment assessments to assess treatment efficacy to date have been conducted using the traditional and laborious method of attracting ants to non-toxic lures. More recently, professionally trained detector dogs have proven their efficiency and cost-effectiveness. Detector dogs are now routinely used for detecting ants in all major ant eradication programs in Australia and New Zealand. These dogs are highly cost effective because they can survey areas more quickly and with greater confidence than people using other methodologies.
- The world's first Argentine ant detector dog was trained in New Zealand in 2015, and a second is currently being trained for this program on Norfolk Island. The use of a detector dog will dramatically decrease the time required to assess treatment efficacy compared with the use of lures. The dog will also allow the thorough assessment of the entire island for any more unknown populations.

Sensitivities: Nil

Attachments:

- A Map - Known Argentine ant infestations on Norfolk Island as at May 2015
- B Argentine Ant Eradication Strategy 2018 - 2022



Known Argentine ant infestations on Norfolk Island as at May 2015

Extent and location of known Argentine ant infestations on Norfolk Island as at May 2015. All zones except 1 and 4 have been treated and are awaiting post-treatment assessments or re-treatment. Although the boundaries of zones 1 and 4 have not been accurately re-surveyed since 2015, on-ground observations indicate that the boundaries shown here hold true. The most recently found infestation, zone 12, is not shown and only covers one property.

Argentine Ant Eradication Strategy

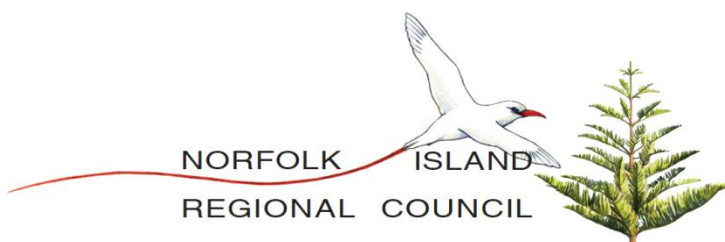
Norfolk Island

2018 - 2022



Ben Hoffmann

April 2018



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Abbreviations

AA	Argentine ant
APMVA	Australian Pesticides and Veterinary Medicines Authority
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAWR	Department of Agriculture and Water Resources
KAVHA	Kingston and Arthurs Vale Historical Area
GIS	Geographic Information System
GPS	Global Positioning System
NIRC	Norfolk Island Regional Council
WMC	Waste Management Centre

1. Executive Summary

The Argentine ant, *Linepithema humile*, is one of the world's worst invasive species, having spread from its native habitat in South America to establish populations on six continents and many oceanic islands¹.

The Threat Abatement Plan to Reduce the Impacts of Tramp Ants on Biodiversity in Australia and its Territories identifies the Argentine ant as one of six species of National priority².

In 2005 Argentine ant was identified on Norfolk Island and an eradication program commenced in 2008.

Work to date has found Argentine ant infestations in 12 spatially discrete areas 'zones' covering approximately 300ha of the Island's 3,529ha. The dispersal of Argentine ants on Norfolk Island can be attributed to the processing of contaminated garden waste at the Island's Waste Management Centre (WMC) which was then sold to the community as mulch. This dispersal pathway no longer exists because the WMC is no longer operational. The only dispersal pathway remaining is by accidental movement of the ant in soil or goods.

Up to December 2016, eight of these zones (zones 2, 3, 5, 6, 7, 8, 10, 11) were fully treated using a variety of products and methods. Limited post-treatment assessments indicate that the ant may have been eradicated from (zones 2, 6, 7, 8, 10), whereas zones 3, 5 and 11 have needed subsequent treatment of small persistent populations. Zone 12 encompassing a single property was most recently found in early 2018 and has been traced to the necessary movement of goods from an infested property. Importantly, work to date has demonstrated that multiple treatment methods can achieve eradication.

There is consensus between Norfolk Island residents and people globally involved in ant eradications that eradication of Argentine ant from Norfolk Island is achievable. Challenges that must be overcome to achieve eradication are: 1. Scaling-up of the ability to treat substantially larger areas; 2. The ability to conduct rapid and large-scale post-treatment assessments as well as validate the remainder of the island as not having Argentine ant; and 3. The development of protocols to achieve eradication on the western cliffs.

This document sets out a four year program (September 2018 – July 2022) to eradicate Argentine ant from Norfolk Island. This document updates and supersedes all previous eradication plans. This report should be reviewed in July 2019, incorporating all of the information gained from works relating to section 5. The review should re-assess the fully-costed eradication plan based on work conducted to date, and if necessary detail additional work needed to modify the plan.

¹ Andrew V. Suarez, David A. Holway & Ted J. Case (2001). *Patterns of spread in biological invasions dominated by long-distance jump dispersal: Insights from Argentine ants*. Proceedings of the National Academy of Sciences 98 (3): 1095–1100

² Department of the Environment and Heritage (2006) *Threat Abatement Plan to Reduce the Impacts of Tramp Ants on Biosecurity Australia and its Territories* <http://www.environment.gov.au/system/files/resources/f120c0f6-5bf4-4549-b087-8e53864b315b/files/tramp-ants.pdf> (accessed May 2015)

2. Eradication Strategy objective

This document sets out a four year program (September 2018 – July 20122) to eradicate Argentine ant from Norfolk Island. The plan has been built by bringing together all of the knowledge gained to date of treatments of Argentine ant on Norfolk island as well the combined knowledge of numerous ant eradication programs globally, past and present. This document updates and supersedes all previous eradication plans.

3. Background

3.1 Argentine ant description

Argentine ants are 2-3mm long, with a uniform honey-brown colour (Figure 1). Worker ants are the same size (monomorphic) and each colony can have multiple queens (polygynous). Argentine ants do not have a distinct smell when crushed.³ Argentine ants can form large foraging trails to food sources that are several ants wide.⁴

The Argentine ant is distinctive compared with the other 24 species of ant recorded on Norfolk Island.⁵ The Flat-backed tyrant ant (*Iridomyrmex spp.*) is the most similar to Argentine ant however to the naked eye Flat-backed tyrant ants are slightly larger and darker than Argentine ants, and have a strong smell when crushed.



Argentine ant (*Linepithema humile*).

Photo: April Noble (www.Antweb.org)



Flat-backed tyrant ant (*Iridomyrmex* sp).

Photo: Ryan Perry (www.Antweb.org)

Figure 1: Photograph of an Argentine ant and a morphologically similar tyrant ant.

³ DPIPWE (2010) [Argentine Ants Biosecurity Fact Sheet](http://www.dpiw.tas.gov.au/internsf/Attachments/MCAS-88794J/$FILE/argentineant.pdf) [July 2013]

<[http://www.dpiw.tas.gov.au/internsf/Attachments/MCAS-88794J/\\$FILE/argentineant.pdf](http://www.dpiw.tas.gov.au/internsf/Attachments/MCAS-88794J/$FILE/argentineant.pdf)>

⁴ Sarnat, E. M. (December 4, 2008) *P.I. Akey: Identification guide to ants of the Pacific Islands*, Edition 2.0, Lucid v. 3.4. USDA/APHIS/PPQ Center for Plant Health Science and Technology and University of California — Davis. [July 2013] <http://www.lucidcentral.org/keys/v3/PIAkey/>

⁵ Shattuck, Steve (December 2013). Norfolk Island – Antwiki. [March 2014] http://www.antwiki.org/wiki/Norfolk_Island

3.2 Impacts

No specific data on the impacts of Argentine ant on Norfolk Island's biota and agriculture have been documented, but the potential impacts of this globally-dispersed invasive species are well known. Argentine ant is a dominant and aggressive competitor causing localised extinctions of native ants in other regions of the world.⁶ Information gathered from monitoring Argentine ant infestations on Norfolk Island shows a potential for local extinctions to also occur here. Where Argentine ant colonies are present the diversity and abundance of other ant species is notably reduced.⁷ By displacing other ant species, Argentine ants can significantly alter ecosystem processes such as pollination and seed dispersal of native plant species.^{8 9}

Because of their aggressive nature and need for protein-based food sources, Argentine ants may pose a threat to the majority of the Island's vertebrates and invertebrates.

Invasive tramp ants can alter the foraging behaviour and/or reduce the nesting success of various species of avifauna.^{10 11} Kane Anderson, a long term resident of Norfolk Island who lives within the boundary of the oldest and largest infestation has reported noticeable reductions in the abundance of nesting White Terns along the western coastline since the arrival of Argentine ants over ten years ago.¹²

At particular risk are ground-nesting sea birds and already endangered species such as the Norfolk Island Green Parrot (*Cyanoramphus cookii cookii*), Norfolk Island Scarlet Robin (*Petroica multicolor multicolor*) and Slender-billed White-eye (*Zosterops tenuirostris*). The Lord Howe Island Skink (*Oligosoma lichenigera*) and Gecko (*Christinus guentheri*), now restricted to Phillip Island, may face the same threat if Argentine ants spread to this offshore islet.

Argentine ants also farm and protect bugs such as aphids for the honeydew that these bugs secrete (Figure 2). As a result these sap-sucking bugs can become so prolific that they can destroy or significantly reduce the yield of horticultural crops, especially citrus.

In domestic situations Argentine ant is a significant household pest: infiltrating homes in large numbers in search of food; establishing nests in walls and other cavities within the home. Norfolk Island residents living within the bounds of infestations have reported incursions into homes on many occasions. In one instance a resident woke in the night to find Argentine ants crawling over him.¹³ If incursions such as this were to regularly occur in tourist accommodation the islands principal source of income may be threatened.

⁶ISSG (2009) Global Invasive Species Database – *Linepithema humile* [online: viewed October 2013]
<http://www.issg.org/database/species/ecology.asp?si=127&fr=1&sts=&lang=EN>

⁷ Administration of Norfolk Island (unpublished data).

⁸ Carney, S.E., Brooke Byerley, M., Holway, D.A. (2003) Invasive Argentine Ants (*Linepithema humile*) do not replace native ants as seed dispersers of *Dendromecon rigida* (Papaveraceae) in California, USA. *Oecologia* vol. 135 Issue 4 pp576-582

⁹ Christian, C.E. (2001) Consequences of a biological invasion reveal importance of mutualism for plant communities. *Nature* vol. 431 pp635-639.

¹⁰ Davis, N., O'Dowd, D., MacNally, R. & Green, P. (2008) Effects of an Alien Ant Invasion on Abundance, Behaviour and Reproductive Success of Endemic Island Birds. *Conservation Biology* Vol. 22 Issue 5 pp 1165-1176

¹¹ Suarez, A., Yeh, P. & Case, T. (2005) Impacts of Argentine ants on avian nesting success. *Insects Sociaux* Vol. 52 Issue 4 pp. 378-382

¹² Pers. comm. May 2014.

¹³ Pers. comm. Kane Anderson, Norfolk Island resident May 2014.



Figure 2. Pest bug outbreaks on plants being tended by Argentine ants.

3.3 *Habitat*

Argentine ants can form nests in a wide range of environments, including cracks in concrete, behind retaining walls, between boards and timber, underground, within vegetative cavities such as hollows and under bark, as well as in the upper canopy of tall trees. They particularly nest at shallow depths in leaf litter, under bark and in rotting timber.

3.4 *Dispersal*

Unlike many other ant species which disperse by queens flying to a new random location, queen Argentine ants do not fly, so in the absence of human intervention population expansion is achieved through budding or fission (where a new queen and workers split from an existing colony). This results in Argentine ants forming large and contiguous populations, referred to here as “zones”. Although no specific data for Argentine ant range expansion by budding on

Norfolk Island exists, maximum rates of spread recorded from around the world average $\leq 150\text{m/year}$ ¹⁴.

In the event of accidental human-assisted transportation (including movement of potted plants, rubbish, and earthmoving equipment)¹⁵, Argentine ants can be moved to any location on the island where people can transport them, and these locations are predictable. On Norfolk Island human-mediated dispersal appears to have mainly occurred via contaminated garden waste received at the Waste Management Centre (WMC) where it was processed and sold to the community as garden mulch between late 2006 and early 2008.

Norfolk Island's mild climate is generally favourable for Argentine ants with foraging, breeding and activity peaking during the warmer months of spring and summer. During the Norfolk Island winter, when maximum temperatures range between 18 to 19°C, the foraging activity of Argentine ants reduces.

4. Status of Argentine ant on Norfolk Island

4.1 History on Norfolk Island

In 2005 Argentine ant was identified on Norfolk Island. It remains unclear exactly how and when the ant arrived on the island, but it had undoubtedly been present for many years prior, and most likely arrived with goods either from New Zealand or Australia. The dispersal of Argentine ants on Norfolk Island can be attributed to the processing of contaminated garden waste at the Island's Waste Management Centre (WMC) which was then sold to the community as mulch. This dispersal pathway no longer exists because the WMC is no longer operational. The only dispersal pathway remaining is by accidental movement of the ant in soil or goods. An eradication program targeting Argentine ant commenced in 2008. From 2008-2014 many treatments and methods were attempted in an ad-hoc fashion with varied results. In 2014, the program conducted a review of results and created a 5-year strategic plan with in-kind input from CSIRO. In 2015, the program coordinator left the island and project coordination was contracted to CSIRO.

4.2 Distribution and status on Norfolk Island

As of April 2018, Argentine ants have been found in 12 spatially discrete areas 'zones' across Norfolk Island, covering a total area of approximately 300 ha (Figure 3; Table 1). Up to December 2016, various treatments (see section 8.2) have been applied to the full extent of eight zones (zones 2, 3, 5, 6, 7, 8, 10, 11). As a result the current status of each infestation is different. A summary of treatment history and current status is provided in Table 1. Limited post-treatment assessments indicate that the ant may have been eradicated from zones 2, 6, 8, 10 and 11, whereas zones 3, 5, 7 require re-treatment. Importantly, work to date has demonstrated that multiple treatment methods can achieve eradication. Only one new infestation has been found since 2014, encompassing a single property with a predictable infestation risk. All high-risk sites on the island have now been inspected and all potential sightings reported by the public continue to be investigated.

¹⁴ Suarez AV, Holway DA, Case TJ (2001). Patterns of spread in biological invasions dominated by long- distance jump dispersal: insights from Argentine ants. *Proceedings of the National Academy of Sciences (USA)* 98: 1095–1100.

¹⁵ Landcare Research (2013) *Argentine Ants in New Zealand* [online: last viewed November 2013]
<http://argentineants.landcareresearch.co.nz/biology.asp>

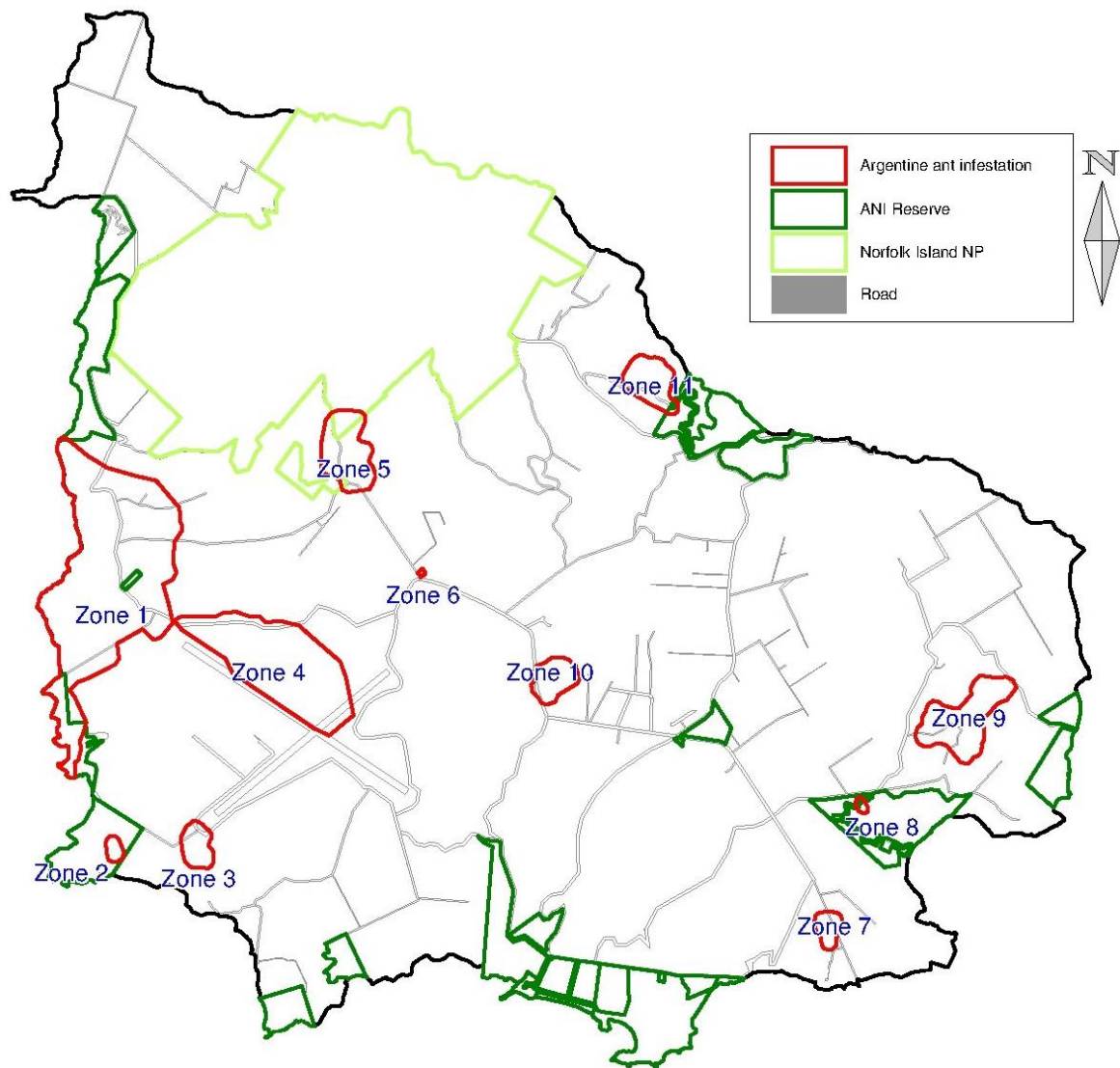


Figure 3. Extent and location of known Argentine ant infestations on Norfolk Island as at May 2015. All zones except 1 and 4 have been treated and are awaiting post-treatment assessments or re-treatment. Although the boundaries of zones 1 and 4 have not been accurately re-surveyed since 2015, on-ground observations indicate that the boundaries shown here hold true. The most recently found infestation, zone 12, is not shown and only covers one property.

Table 1. Treatment history and current status of each zone on Norfolk Island

Zone	Name	Size (ha)	Status at April 2018	History
1	Anson Bay - Headstone	>130	Boundary delineated in May 2014. Highly fragmented, unknown rate of spread and current size.	<ul style="list-style-type: none"> • Original infestation. Incursion likely to be around late 1990's or early 2000's. • In 2008 this infestation was mapped at 68ha • Treatment regime poorly documented prior to 2013 but likely that >80% of the infestation has been treated at least once between 2008-2013 with Xstinguish. • Area east of Headstone Rd treated with SAS PRO & ANTagonist PRO in May 2014 to test product as a containment measure. • Post-treatment monitoring conducted in May 2015 has shown a notable reduction in AA abundance but has fragmented perimeter of infestation even further. • No other treatment has occurred within this infestation since 2013 • As of March 2016 the population within this zone has fully recovered and is expanding, such that it has now merged with zone 4
1 (cliffs)	Western cliffs	24	Unknown rate of spread to the north and south: ≥3km of cliff face ≤80m high.	<ul style="list-style-type: none"> • Small-scale trial at southern end at Headstone using hydrogels in March 2016 almost completely extirpated the ant on the top of the cliff, but following treatment cessation re-infestation occurred within months indicating that the population on the cliff edge was not affected by the predominantly cliff top applications and that reinfestation is rapid
2	Hundred Acres	2	Possibly eradicated. Post-treatment assessments with detector dog required to confirm.	<ul style="list-style-type: none"> • Public reserve managed by NIRC. • Incursion caused by contaminated garden mulch • Size of infestation and treatment regime prior to 2013 poorly documented. • A 1.8ha area treated with Xstinguish and SAS PRO in February 2014. • No AA detected in November 2014 or anytime later. Indicatively eradicated.
3	New Farm Rd	9	Remnant colonies likely to still persist, monitoring required to identify and map current infestation boundary. Post-treatment assessments with detector dog required to confirm status.	<ul style="list-style-type: none"> • Predominantly a residential area. • Incursion caused by contaminated garden mulch. • Size of infestation and treatment regime prior to 2013 poorly documented. • Monitoring in spring 2013 revealed a 6ha infestation • Treated on two occasions with SAS PRO • Monitoring in spring 2014 revealed remnant AA nests within the treated area but also discovered AA outside the treatment areas where they were not previously detected. Total infestation size increased from 6 ha to 9 ha. • Area was treated with Xstinguish in November 2014 and January 2015. • Entire zone treated with hydrogels and/or dry sugar method 2017 to June 2018.
4	Waste Management Centre (WMC)	>55	Current boundaries of infestation unknown.	<ul style="list-style-type: none"> • At the centre of this site is the Island's catchment for all household waste. Also within the infestation is the NIRC roads depot, NI International Airport, Bureau of Meteorology, NIRC Health & Quarantine office, a privately operated rock crushing plant and farmland. • Incursion caused after receiving contaminated garden waste at the Waste Management Centre from a zone 1 property before AA were confirmed to be on Norfolk Island. • In 2008 the infestation was thought to be 12ha. • Treatment prior to 2013 poorly documented. Infestation was treated at least once with Xstinguish between 2008-2013. • 80% of perimeter surveyed by March 2014. Unknown rate of spread since. • Southern perimeter treated with SAS PRO in May 2014 – efficacy not yet evaluated, but no doubt the perimeter is now breached following lack of re-treatment. • The population within this zone has fully recovered from any treatment and is expanding, such that it has now merged with zone 4

				<ul style="list-style-type: none"> Regular prophylactic treatments around the Waste Management Centre keep this centre free from AA.
5	Mt Pitt Rd / NINP	20	Possibly eradicated. Post-treatment assessments with detector dog required to confirm.	<ul style="list-style-type: none"> Infestation is spread across Norfolk Island National Park and Botanic Gardens; accommodation units, residential properties and farmland. Unconfirmed cause of incursion Delineation completed in spring 2014 Two treatments of Xstinguish completed in November 2014 and February 2015 Treatment regime and size of infestation prior to 2013 unknown. Two persistent populations found in March 2016 and treated using hydrogels. Site not fully inspected. Inspection in September 2017 found entire site to be re-infested. Boundary along road regularly treated to contain spread until re-treatment.
6	Hospital	<1	Possibly eradicated. Post-treatment assessments with detector dog required to confirm.	<ul style="list-style-type: none"> Unknown cause of incursion Unknown size and treatment regime prior to 2013 Monitoring and thorough visual searching found only one nest near the entrance of the hospital. This area was treated with SAS PRO and ANTagonist PRO in November 2013. Monitoring in autumn and spring 2014 returned negative results for AA. Indicatively eradicated.
7	Collins Head Rd	<5	Possibly eradicated. Post-treatment assessments with detector dog required to confirm.	<ul style="list-style-type: none"> Residential area Incursion caused by contaminated garden mulch. Treated in November 2013 and February 2014 with Xstinguish Remnant colonies detected in spring 2014. Treated again with Xstinguish in November 2014 Inspection in September 2017 found entire site to be re-infested. Currently awaiting planning for re-treatment
8	Ball Bay	<2	Possibly eradicated. Post-treatment assessments with detector dog required to confirm.	<ul style="list-style-type: none"> Public reserve managed by NIRC Incursion caused by movement of contaminated material from WMC to the reserve Treated in November 2013 on three occasions separated one week apart. Infestation size and treatment regime prior to 2013 unknown. Monitoring in spring 2014 returned negative results for AA. Indicatively eradicated.
9	Two Chimneys & Hibiscus Drive	>18	<p>Infestation split into two sectors – Two Chimneys & Hibiscus Drive.</p> <p>Two Chimneys sector is possibly eradicated after treatment in 2013/14. Post-treatment assessments with detector dog required to confirm.</p> <p>Hibiscus Drive sector currently undergoing treatments</p>	<ul style="list-style-type: none"> Incursion caused by contaminated garden mulch. 3.1ha of the Two Chimneys sector was treated with Xstinguish twice, seven days apart, in December 2013. A third treatment was applied in April 2014. Monitoring in spring 2014 of Two Chimneys sector detected one positive lure outside of treatment area. This was treated with Xstinguish in January 2015. No AA have been detected within the Two Chimneys treatment area since November 2013. No treatment or monitoring has been completed in the Hibiscus Drive sector in 2014/15. Unknown rate of spread and current extent of infestation since last monitoring in 2013/14 season. Boundaries of Hibiscus Dve zone treated multiple times in 2016 with hydrogels to contain the population. Treatments with hydrogels and/or dry sugar conducted from 2017 to mid 2018. Final property to be treated owned by a resident who does not want treatments. Negotiations ongoing.
10	Burnt Pine	8	Post-treatment assessments with detector dog required to confirm if eradicated or if persistent populations exist.	<ul style="list-style-type: none"> Incursion discovered in 2013. Unknown origin. Treated with Xstinguish shortly after discovery. Area treated with Vanquish Pro in November 2014 and February 2015 Third treatment not applied due to limited resources Remnant AA colonies possibly persist within the zone.

11	Prince Phillip Drive	13	Post-treatment assessments with detector dog required to confirm if eradicated or if persistent populations exist.	<ul style="list-style-type: none"> • Unknown cause of incursion but potentially caused by relocation of materials from WMC to the area. • Site first discovered in November 2014 • Mapping not complete until March 2015 • Hydrogel bait lure treatment first trailed at this site over a 3ha area • Treated eight times with hydrogels in 2016 • Persistent populations found in September 2017 treated using hydrogels and/or dry sugar. • Awaiting post-treatment assessments.
12	Bee keeper's place	unknown	As yet unmanaged.	<ul style="list-style-type: none"> • Population discovered in early 2018 through a predictable accidental transport of bee hives from an infested property. • No work yet conducted at this zone

5. Feasibility of eradication

There is consensus between Norfolk Island residents and people globally involved in ant eradications that eradication of Argentine ant from Norfolk Island is achievable. Following are the three challenges remaining that must be overcome to adequately prepare the program to achieve eradication rapidly (approximately 5 years) and cost effectively (less than \$2 million):

1. Scaling-up of the ability to treat substantially larger areas
2. The ability to conduct rapid and large-scale post-treatment assessments as well as validate the remainder of the island as not having Argentine ant
3. The development of protocols to achieve eradication on the western cliffs

5.1 Challenge 1. Rapidly and effectively treating large areas

Many treatment products have been trialled since 2008, some with great success (Table 1). Treatment products have now been identified that are capable of achieving eradication and can also be applied quickly over large areas, especially using aerial application. The use of these products in the future of this program is reviewed in section 6.2.

Much of the infested area is over very steep terrain covered in impenetrably thick bush. To date, treatment of these areas has been conducted by hand and required large efforts to chainsaw pathways in grids throughout the terrain. Such an effort is not feasible over the substantial infested area remaining. The use of a helicopter to conduct aerial treatment (as is more typical for ant eradications) is feasible, but the logistics of getting a manned helicopter to Norfolk Island are very difficult, and the cost of such transport as well as for the helicopter to stay for the time required to achieve eradication make it cost prohibitive. Instead it is envisaged that Australia's largest non-military drone can be used to deliver bait over these areas. Proof-of-concept of effective large-scale ant baiting using this drone was demonstrated in Townsville in late 2017 in a yellow crazy ant eradication program. The use of the drone is detailed further in Section 6.4.

5.2 Challenge 2. Conducting post-treatment assessments

Post-treatment assessments to date have been conducted using the traditional and laborious method of attracting ants to non-toxic lures. More recently, professionally trained detector dogs have proven their efficiency and cost-effectiveness and they are now routinely used for detecting ants in all major ant eradication programs in Australia and New Zealand. These dogs are highly cost effective because they can survey areas more quickly and with greater confidence than people using other methodologies. The world's first Argentine ant detector dog was trained in New Zealand in 2015, and a second is currently being trained for this program on Norfolk Island (Figure 4). The use of a detector dog will dramatically decrease the time required to assess treatment efficacy compared with the use of lures. The dog will also allow the thorough assessment of the entire island for any more unknown populations.

Unfortunately the first dog (Finn) had to be put down just prior to being deployed into this program in January 2018. A new dog is again being trained for delivery in late 2018. This setback has delayed the post-treatments assessments that were to be conducted in zones 11 and 9 demonstrating the efficacy of the new treatment methods. However visual searches and limited lure assessments have provided high confidence that the treatments are effective over large areas (>20 ha).



Figure 4. Finn the detector dog being trained in New Zealand to detect Argentine ants.

5.3 Challenge 3. Treating the western cliffs

The Argentine ant infestations along the western cliffs of Norfolk Island (Figure 5 & 6) pose a significant logistical challenge. Argentine ants have been detected at the top of 3km of cliff edge stretching from Puppys Point in the north to Headstone in the south. The height of the cliffs ranges between 50 and 80m. The terrain along the western cliffs varies with some sections being vegetated from the top to the high water mark and some sections are vertical rock face. Argentine ants have been detected at the high water mark at one location where it is accessible by foot.¹⁶

Many treatment options have been explored in previous years, including the use of an abseiling team dispersing paste bait (see previous eradication plan). Although potentially feasible, this method would be very laborious and costly, as well as dangerous, but it should not be ruled out as a potential treatment.

The use of aerial treatments would be more feasible, cost-effective and safe. Dropping solid, and even liquid, products vertically is probably not the most efficient strategy, because much of the product would fall to the cliff base and into the ocean. Instead, horizontal spraying using ballistic technology (Figures 7 & 8) has great potential. Spraying a sucrose-rich solution laced with fipronil is considered to be the most environmentally acceptable, cost effective and efficacious. A trial of this method on flat ground demonstrated that eradication was feasible. Because the cost of getting a manned helicopter to Norfolk island and staying for the time required to achieve eradication it would be inhibitive, the best solution is the use of the Fazer drone fitted with a lance and laser-guidance system.

¹⁶ Pers. comm. Kane Anderson, Norfolk Island resident May 2014



Figure 5. View of the western cliffs at Headstone



Figure 6. View of the western cliffs at Puppys Point.



Figure 7. Example of ballistic technology being used to spray a cliff face on Lord Howe Island using a Squirrel helicopter. The same method, using a sugar solution laced with fipronil, will be used to treat the western cliffs on Norfolk Island.



Figure 8. Spray lance attached to Australia's only agriculturally-certified drone. Note this photograph is of the R-max which has now been superseded by the Fazer.

6. Program protocols

6.1 Mapping and post-treatment assessments

Mapping and post-treatment assessments to date have been conducted using the traditional and laborious method of attracting ants to non-toxic lures. Mapping utilised lures in a grid of 4 lures/100m² (10x10m grid) across and around a known infestation. Post-treatment monitoring utilised a higher lure density of 4 lures/25m². Lure locations were recorded using a GPS and uploaded into a GIS database (MapInfo®) (Figure 9).

Due to the improvement of ant management techniques and capacity on Norfolk Island, lures should no longer be used for mapping and post-treatment assessments. Mapping should only involve the use of visual assessments of a team of people walking in a line perpendicular to the perceived infestation boundary. Each search location should be recorded in a GPS and indicate presence or absence of Argentine ant (Figure 10). Once mapped, the boundary of the infestation can be validated with the use of the new detector dog (see section 3.2). This change in procedure is particularly based on the reasoning that anybody working within the Argentine ant program should be able to identify Argentine ants on sight. It also represents a massive time and cost saving for conducting on-ground work.

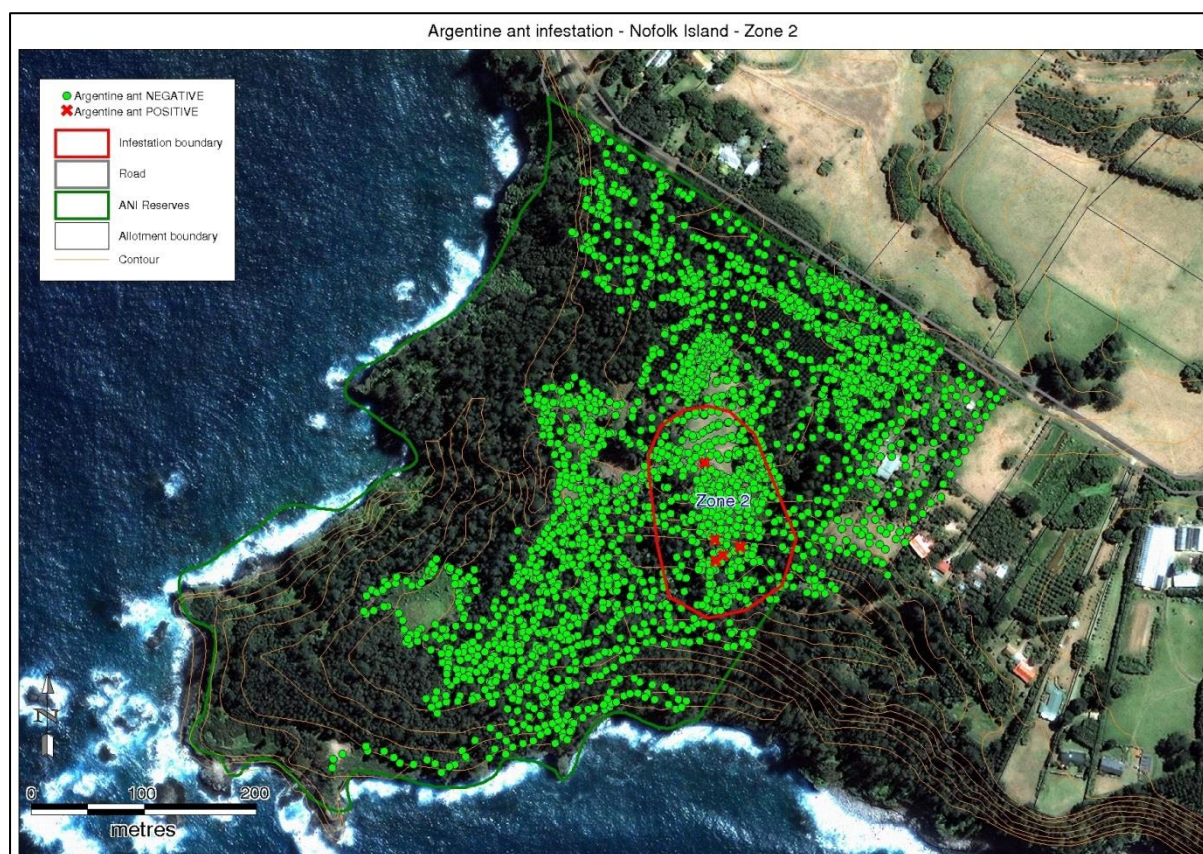


Figure 9. Example of mapping produced from lure data. Red points indicate the presence of Argentine ants and green points indicate an absence of Argentine ants.

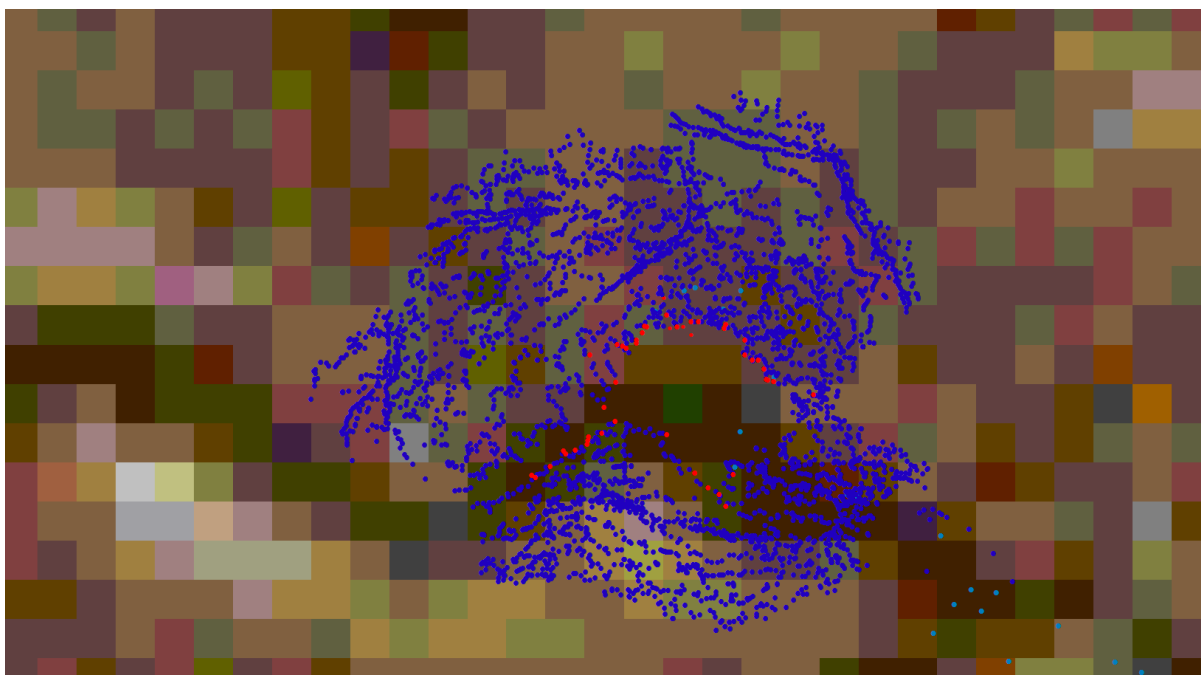


Figure 10. Example of mapping produced from visual assessments. Red points indicate the presence of Argentine ants and blue points indicate an absence of Argentine ants. Using this method, the presence of Argentine ants only needs to be confirmed on the boundary of an infestation, not internally. Note, this figure is an example only, and is from a different ant eradication program on mainland Australia.

6.2 Treatment products

Many ant control products have been used on Norfolk Island since 2008. Full descriptions of these products can be found in the previous eradication plans. This report only details products that will continue to be used in the eradication program.

A combination of bait products and application methods will be required to achieve eradication on Norfolk Island due to the variation in topography, environments and treatment histories of the multiple zones.

All treatments require APVMA permits to be used legally.

6.2.1 Hydrogels

The hydrogels have proven to be highly effective at eliminating Argentine ant on Norfolk Island, reflecting results also found on Santa Cruz Island in the United States¹⁷, and in South Africa¹⁸. Work on Norfolk Island in zone 11 has shown that six treatments are sufficient to eliminate most ants when populations are at their highest in January, but only three treatments may be necessary in Spring (September) when populations are at their lowest. This product has also

¹⁷ Boser, C., Hanna, C., Faulkner, K. R., Corey, C., Randal, J. M. & Morrison, S. A. 2014. Argentine Ant Management in Conservation Areas: Results of a Pilot Study. *Monographs of the Western North American Naturalist* 7 pp. 518-530

¹⁸ Buczkowski, G, Roper E, Chin D, Mothapo N, Wossler T (2014) Hydrogel baits with low-dose thiamethoxam for sustainable Argentine ant management in commercial orchards. *Entomologia Experimentalis et Applicata* 1–8,

been demonstrated to be highly efficacious in wet weather. This product can be dispersed by hand, by ground-based motorised spreader, or aurally.

6.2.2 Dry sugar

This treatment can be used on properties that have owners that do not prefer the hydrogel treatments. However it should be noted that this treatment potentially confers a greater environmental threat to non-target soil biota and human exposure because the toxicant is far more airborne and subject to aerial drift, and is also directly exposed to the soil. This product can be dispersed by hand, by ground-based motorised spreader, or aurally, however aerial dispersal is not the preferred method for this product and should be avoided where possible.

6.2.3 Liquid sugar

This method, being a high-sucrose liquid laced with fipronil, will be used in a strategic grid across the western cliffs (see section 5.3). Treatments will need to be conducted aurally, most likely by the latest drone technology using a lance to spray and laser guidance system to fly the cliff-line.

6.2.4 Termidor spray

Termidor can be diluted with water to create a spray for use on goods or equipment that need to be moved on the island and may pose a potential risk of spread (e.g. if machinery need to be moved from within an infested zone). The spray can also be used as a prophylactic treatment around the grounds of the recycling facility. This treatment should only be applied by a hand-based method, either knapsack or motorised spray unit.

6.3 Treatment timing

Spring (September to December) is now identified as the best time to commence treatments in any location because the ant populations are at their lowest after winter and much fewer treatments are required to reduce the ants to undetectable levels. Treatments can also be conducted in summer to early autumn (January – April) where persistent populations exist or where prophylactic treatments are needed. During all of these times, as well as in remaining months, treatments should only be conducted when weather conditions are suitable for ant foraging, which is approximately in temperatures >17C, and prior to 3pm.

6.4 Treating the western cliffs

The Fazer needs to be sourced and tested as soon as possible, because treatment of the entirety of zone 1 should not proceed until proof-of-concept has been demonstrated on a section of cliff.

The drone would first fly LIDAR over the treatment area so that a 3 dimensional image is obtained. The machine would then be pre-programmed with flight paths using the LIDAR image that would enable spray to be dispersed on the cliff face in a grid pattern.

Treatments should commence in September 2018 to utilise the best treatment time (see section 6.3). Quantifying treatment efficacy

At each different zone, it is vital that appropriate quantification of ant abundance is conducted simultaneously prior to, and after, treatments to assess treatment efficacy. This is to be done

using the rapid assessment techniques of counting ants at lures and along trails at permanently marked locations.

6.5 Post-treatment assessments

The dog is to become the primary method to detect ants upon its arrival on the island.

The dog is to be fitted with a GPS so that the area it assesses can be tracked and uploaded into the program GIS.

The output of the dog is only as good as the way in which the dog and the handler interact. Specifically, the handler needs to be able to clearly understand what the dog is signalling or doing, and the dog needs to receive positive and correct feedback from the handler. A failure in either, even subtle failures, can result in long-term reductions in work efficacy. It is therefore vital that prior to commencing work the handler and the dog are trained together. Additionally, at the commencement of working, and then again after a short timeframe (up to 6 months), the dog and handler are to be scientifically assessed in real working conditions to quantify their efficacy in different environmental situations. This assessment will be able to identify any issues at a time when they can be rectified and before work is compromised. This research is now being planned with detector-dog research specialists from CSIRO and Monash University.

6.6 Community engagement

Community support of the program and its methods are critical if eradication is to be achieved. Maintaining high levels of community awareness and support of all program activities must be a priority. Notably, there is a need for public consultation of all residents within treatment areas prior to treatments commencing. This is particularly pertinent for the use of aerial baiting. It is recommended that a list of directly-affected landholders in each zone is made to ensure that direct consultation is made with every individual.

6.7 Project governance

The Argentine ant eradication program currently sits within the Waste and Environment portfolio of NIRC. On-ground works are managed and supervised by a part-time coordinator, with casual labour being engaged on an as-needs basis. Sufficient general labour is available on the island to conduct this project, but some specialised labour is likely to need to be sourced externally. Overall project strategy and coordination, is currently being provided by Dr Ben Hoffmann from CSIRO under a consulting services agreement. CSIRO is also conducting the science being used to refine the project and collate data required by Australian legislation. This governance structure has proven to be highly successful in multiple ant eradications throughout Australia, including on Lord Howe Island, Melville island, Kakadu National Park, Tryon island within the Great Barrier Reef, Daly River, and throughout NE Arnhem Land, and it is recommended that the Norfolk Island Argentine Ant Eradication Program continue with this governance arrangement.

6.8 Quarantine

Eradication can only be achieved with the implementation of effective quarantine and biosecurity measures. This is applicable to individual infestations on Norfolk Island as well as the island as a whole.

Accidental human-mediated dispersal of Argentine ants is what has been responsible for the creation of 12 spatially discrete populations (zones). It is critical that ants are not accidentally dispersed from infested areas to uninfested areas. People must not move infested or potentially infested materials from known infested areas without first alerting those involved in the Argentine ant eradication program so that inspection and/or treatment can be conducted.

Preventing the spread of Argentine ants is the responsibility of the whole community. Without the participation and engagement of the community the likelihood of success is low, so the need for an effective community engagement program is high. Engagement must highlight the importance and need for restrictions on movement of certain goods from within the known infested areas and early reporting of suspected infestations.

NIRC staff, individual landholders and the broader community are often advised that the transportation of items from an infested area must either not occur at all or be thoroughly inspected by eradication program staff before being moved.

These items include:

- Garden waste;
- Plant and machinery (chippers, slashers, earthmovers, etc);
- Firewood;
- Cow manure;
- Soil & gravel;
- Hard rubbish; and
- Potted plants

Biosecurity for items arriving on Norfolk Island is now the responsibility of the Department of Agriculture and Water Resources. Argentine ant is high on the Department's priority list.

Monitoring of high risk sites should continue throughout the eradication program to ensure that any potential incursions are identified as soon as possible. This monitoring should be restricted to visual assessments until the arrival of the detector dog. Inspections should occur monthly.

Sites considered to be high risk include:

- Mulch recipient sites;
- The forestry depot;
- Carparks within Norfolk Island National Park;
- Firewood suppliers;
- Private contractor depots;
- NIRC works depots;
- Properties of NIRC staff who work in infested areas;
- Nurseries; and
- KAVHA.

7. Program milestones

The Program has been developed around three key timeframes for Argentine ant activity. September to December is when ant populations are at their lowest following winter which is the best time for treatments. January to June is when ant populations are at their highest, which is the best time for mapping and detection. Approximately July and August are the coldest months when little ant activity occurs. Notably no specific milestones are planned for July and August, but any unmet milestones can be conducted in these months if conditions are suitable. The Milestones are deliberately set to cover large works over many months, rather than detail many minor actions that could be conducted within small timeframes.

Table 2. Program milestones

Milestone number	Milestone Dates and Description
	September to December 2018
1	Treatment of zones 4, 5, and the southern end of zone 1 (cliff trial)
2	Visual post-treatment assessments of zones 11 and 9
3	Spot treatments in zones 11 and 9 as required.
4	Potentially treat zone 12 if sufficiently small.
	January to June 2019
5	Final treatments of zones 4, 5 and the southern end of zone 1 if required
6	Establish detector dog on Norfolk Island
7	Dog conducted first post-treatment assessment in zones 11, 9, 5 and 1 (part)
8	Mapping of zones 1, 3 & 7
9	Dog conducted assessments in at least 20 other properties around the island that are not known to have Argentine ant
	September to December 2019
10	Treatments of zones 1, 3, & 7
11	Dog conducted second post-treatment assessment in zones 11, 9, 5 and 1
12	Dog conducted first post-treatment assessments in zone 4, 10, and 12
	January to June 2020
13	Final treatments of zones 1, 3, & 7 if required
14	Dog conducted first post-treatment assessment in zones 1, 3 & 7
15	Dog conducted second post-treatment assessment in zones 4, 10 and 12
16	Dog conducted assessments in at least 40 other properties throughout the island that are not known to have Argentine ant
17	Mapping conducted for any newly detected populations
	September to December 2020
18	Treatments of any final populations
19	Dog conducted second post-treatment assessment in zones 1, 3 & 7
20	Dog conducted third post-treatment assessment in zones 11 and 9
21	Dog conducted assessments in at least 40 other properties throughout the island that are not known to have Argentine ant

Milestone number	Milestone Dates and Description
	January to June 2021
22	Dog conducted third post-treatment assessment in zones 5, 7, 3 and 1
	September to December 2021
23	Dog conducted assessments in at least 40 other properties throughout the island that are not known to have Argentine ant
	January to June 2022
24	Dog used to assess as much remaining area as possible throughout the full extent of Norfolk island to demonstrate that Argentine ant has been eradicated from Norfolk island.

8. Interim budget

Table 4. Interim budget.

OPERATIONAL ITEM DESCRIPTION	2018-19	2019-20	2020-21	2021-22	
Treatment products					
Aerial contractors					
Project external coordination					
External on-island costs					
Operating expenses					
Detector dog					
TOTAL OPERATIONAL COST					TOTAL OPERATIONAL EXPENDITURE OVER REMAINING PROGRAM
SALARIES – NIRC PERSONNEL	2018-19	2019-20	2020-21	2021-22	
					TOTAL SALARY EXPENDITURE OVER REMAINING PROGRAM
TOTAL NIRC IN-KIND SUPPORT					TOTAL NIRC IN-KIND EXPENDITURE OVER REMAINING PROGRAM
TOTAL NIRC EXPENDITURE TO JUNE 2018					
TOTAL PROGRAM INVESTMENT					

9. Triggers for review

One or more of the following occurrences would trigger a report to external funding providers and NIRC for consideration of future and/or further action. These Triggers reflect those of other invasive ant eradication programs.

Table 3. Triggers requiring reporting and review.

	Assumption	Proposed NBAEP Trigger	Reporting mechanism
1.	Accidental dispersal has been stopped	Argentine ants are found at a new location after initially being found to not be present.	Detection report forwarded to external funders and NIRC
2.	Techniques for surveillance and treatment of Argentine ant are effective	There is a detection of Argentine ant on a site that was deemed no longer infested following completion of clearance protocols	Detection report forwarded to external funders and NIRC
3.	Eradication Strategy costs are as budgeted	The cost of delivering the Eradication Strategy activities exceeds the proposed indicative budget for the Program (over the life of the plan)	Half-yearly and Annual reports to external funders and NIRC
4.	Milestones can be achieved within the scope of the Eradication Strategy	Program milestones are not being achieved	Half-yearly and Annual reports to external funders and NIRC

10. Strategy review date

This Eradication Strategy should be reviewed in July 2019, incorporating all of the information gained from works relating to section 5. The review should re-assess the fully-costed eradication plan based on work conducted to date, and if necessary detail additional work needed to modify the plan.

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1.21 EVENT BRIEF – Meeting with Norfolk Island People for Democracy

Date and Time:	Thursday, 15 November 2018, 2.15 pm – 2.45 pm
Location:	Administrator's Office
Meeting with:	Norfolk Island People for Democracy (NIPD)
Attendees:	Mr Eric Hutchinson, Administrator Mr Chris Magri, President, NIPD Brett Sanderson Alan Buffett Peter Christian-Bailey Candice Snell Mary Christian-Bailey Lisle Snell Phil McDowell Ron Ward

Outcomes Sought:

- Recognise and listen to the concerns of NIPD while asserting the Australian Government's long-held position about the status of Norfolk Island.

Key Issues:

- NIPD seeks to have their opposition to the removal of self-government and the current governance arrangements understood and recognised.

Background:

- NIPD is an unincorporated association established in June 2015 with the aim of having Norfolk Island inscribed on the United Nation's list of Non-Self-Governing Territories. The group is primarily composed of Pitcairn Island descendants and represents a minority of views on the island – up to 30 per cent depending on the specific issue.
- NIPD have, in the past, travelled to the United Kingdom to meet with Members of Parliament and deliver petitions to the UK Government. The UK Government has stated on a number of occasions that the governance and administration of Norfolk Island is a matter for Australia.

Sensitivities:

Preamble to the Norfolk Island Act 1979

- NIPD may raise their wish to reinstate the preamble to the Norfolk Island Act 1979 (Cth). Further detail on this issue is available in briefing (Key Issue Brief 2.03).

Petition for the United Nations to list Norfolk Island as a non-self-governing territory

- The NIPD have, in the past, petitioned the United Nations to seek to have Norfolk Island inscribed on the list of non-self-governing territories NIPD believes that inscription as a

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non-self-governing territory will lead to free association with Australia and the provision of untied financial assistance from the Australian Government. Free association with Australia also provides an ability to seek assistance and financial support from other foreign governments. Norfolk Island has previously petitioned the UN for recognition as a non self governing territory (in 1977 and 1994) without success.

- In April 2016, Geoffrey Robertson QC, acting on behalf of the NIPD, submitted a petition requesting that Norfolk Island be inscribed on the Non-Self Governing Territories List to the Chair of the United Nations General Assembly's Fourth Committee (the Special Political and Decolonisation Committee).
- The Department received legal advice from the Office of International Law (OIL) which argues that Norfolk Island does not meet the United Nation's definition of a non-self-governing territory and disputes many of the claims made in the NIPD's petition to the United Nations.
- On 8 June 2018, the NIPD announced its intention to draft a United Nations General Assembly resolution by the end of August 2018 on the inscription of Norfolk Island on the UN's list of non-self-governing territories.

Norfolk Island's legal status as part of Australia

- NIPD, in the past, has expressed views that question Norfolk Island's legal status as part of Australia. It has been the position of successive Australian Governments that Norfolk Island has been an integral part of the Commonwealth of Australia since 1914 when it was accepted as a Territory under the authority of the Commonwealth, pursuant to section 122 of the Constitution. This position has been recognised by the High Court of Australia.

Attachments: Nil



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1.22 EVENT BRIEF - HomeGrown & Bee Sanctuary Afternoon Tea

Date and Time:	Thursday 15 November 2018, 3.00 – 4.00 pm
Location:	Government House
Meeting with:	HomeGrown members
Attendees:	Eric Hutchinson, Administrator Merv & Claire Buffett Bekky Nobbs Other HomeGrown members, TBA

Outcomes Sought:

- Gain an appreciation of Norfolk Island becoming the 3rd Bee Sanctuary in the world.
- Promotion of Norfolk Island as a pristine environment for locally produced products.
- Biosecurity concerns.

Background:

To be included further to finalising the guest list.

Sensitivities: Nil

Attachments: Nil



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1.23 EVENT BRIEF – Meeting with Dr Chris Nobbs

Date and Time:	Thursday, 15 November 2018, 4.30 pm – 5.00 pm
Location:	Administrators Office
Meeting with:	Dr Chris Nobbs
Attendees:	Eric Hutchinson, Administrator Christine Dacey, Executive Director, DIRDC

See separate folder for briefing and related documents.



Norfolk Island's Major Problem is DIRDC

An examination of the relationship of the Australian Department of Infrastructure, Regional Development and Cities with Norfolk Island, 2015-2018

A Report provided to
The Hon Dr John McVeigh MP
Minister for Regional Development, Territories and Local Government
and to
The Norfolk Island Community

by

Chris Nobbs

Norfolk Island
June 2018

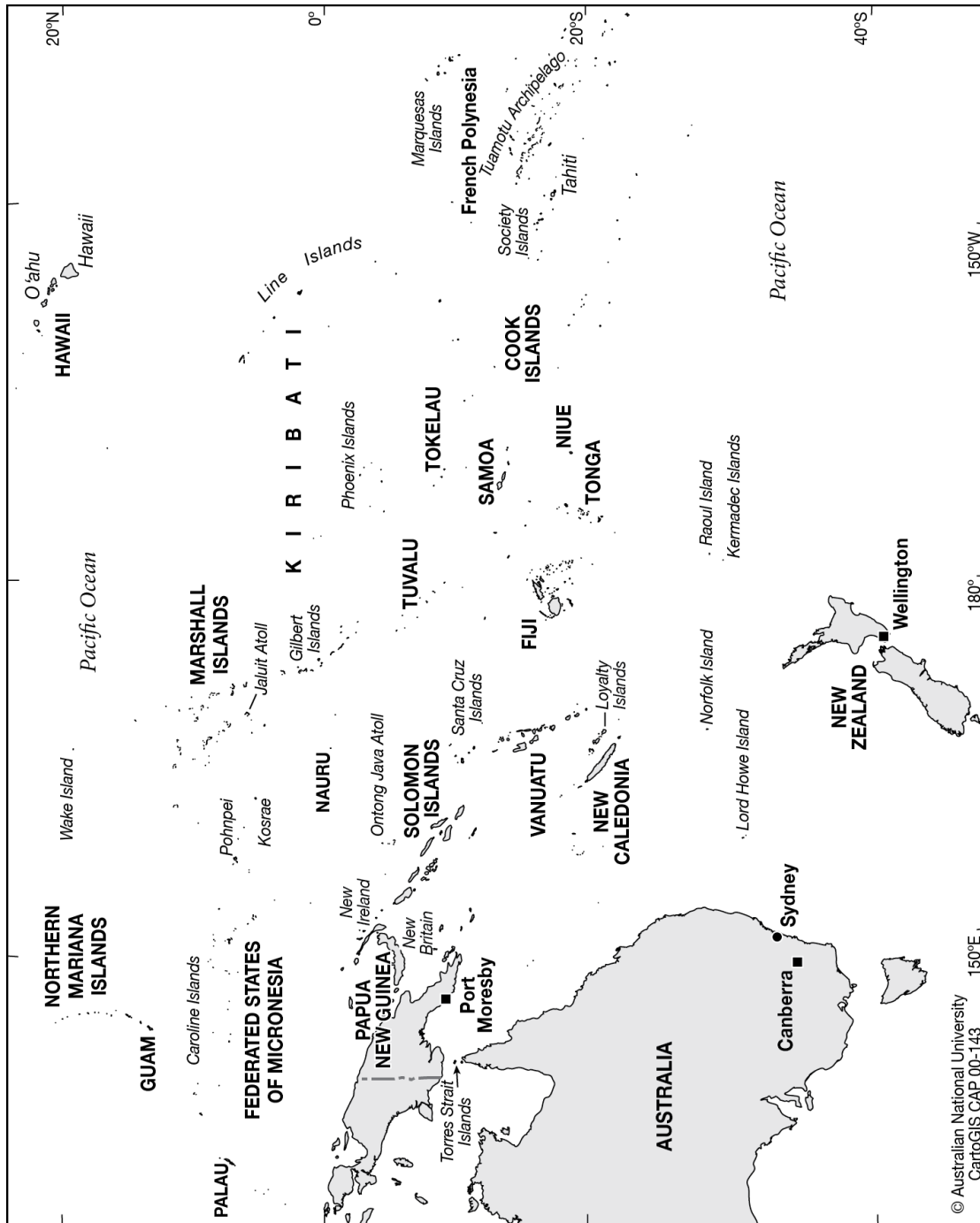
This report is provided as a free supplement to
The Norfolk Islander, Saturday 16 June 2018, and copies
are also available for free download from *Norfolk Online News* at:
<http://www.norfolkonlinenews.com/norfolk-islands-major-problem-is-dirdc.html>

STOP PRESS

On 7 June 2018 the Australian National Audit Office (ANAO) announced as part of its on-going performance monitoring processes, the commencement of a performance audit on *The design, implementation and monitoring of services reform on Norfolk Island*, with the objective "to assess whether the Department of Infrastructure, Regional Development and Cities has designed and implemented appropriate governance and administration arrangements for the transition and delivery of sustainable reforms to services on Norfolk Island." The completed audit is due for tabling in the Commonwealth Parliament in April 2019.

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This map shows the location of Norfolk Island in relation to other islands and major land masses in the Southwest Pacific region. The map is reproduced by kind permission of CartoGIS Services, College of Asia and the Pacific, The Australian National University.

Preamble

I made hundreds of phone calls to the education department, the police and civil departments, to ask questions about the student casualties, but of course nobody would talk to me. (Ai Weiwei, "Remembering the Sichuan earthquake 2008", 2018)

Norfolk Island is in a state of quiet crisis: it is undergoing immense economic and social disruption and uncertainty in the wake of the interventions on the island by the Australian Government commencing in 2015. This crisis has been the subject of recent reporting (Nobbs, 2017a), and has been documented and discussed elsewhere over an extended period of time in local, national, and international media [Note 1].

Amid rising concern in the Norfolk Island community the Norfolk Island Regional Council agreed unanimously at its meeting of 20 December 2017 to write to the Minister for Local Government and Territories, Hon John McVeigh, requesting that he commission a public inquiry to be carried out by the Australian Productivity Commission in order to determine:

- (a) The current financial capacity of the island; and*
- (b) How to grow Norfolk Island economically, socially, culturally and environmentally, including building a diverse and vibrant business environment. (Adams & Jackson, 2018)*

In his letter of response dated 20 February 2018 Minister McVeigh determined that:

.... it is too early in the reform process to properly assess the impacts and gain an accurate understanding of Norfolk Island's economic future. I have asked the Department of Infrastructure, Regional Development and Cities to consider options for reviewing and monitoring the progress of the reforms. (McVeigh, 2018)

This appears to be a rather temporizing response from the Minister, but there is an even more fundamental concern expressed by the Minister's letter, and that is that for Norfolk Island it is the Department of Infrastructure, Regional Development and Cities (DIRDC) itself which is Norfolk Island's major economic and social problem.

Setting aside the political and human rights issues raised by the recent Australian intervention on the island and considering only economic and social issues, the actions of DIRDC have had a very detrimental influence on the island. The proposal that DIRDC should carry out "reviewing and monitoring" is akin to putting the fox in charge of the chicken coop. The purpose of the present report is to describe why this is so, and to request remedial action from the Minister.

In making this critique, it needs to be emphasised that the author freely acknowledges the importance to Norfolk Island of the Commonwealth's support and interest, which indeed is likely to be vital for the island's well-being at least in the short to medium term. As this report will describe, what is at issue is the developmental and consultative model held by DIRDC and expressed in present Australian Government policies and the manner of their imposition.

Executive Summary

Following the implementation of the *Norfolk Island Legislation Amendment Act 2015* on Norfolk Island the Australian Government has intervened making major structural changes to the organisation, administration, and economy on the island, and consequential changes to its social fabric. This intervention has been augmented by a number of infrastructure investments on the island that have been broadly welcomed by the community.

The Commonwealth Minister responsible for Norfolk Island is supported by the Department of Infrastructure, Regional Development, and Cities (DIRDC) which provides analysis, advice and recommendations to the Minister, as well as administrative support.

This report finds that DIRDC has exercised a calamitous influence on Norfolk Island over the last three years in enforcing a grossly inappropriate developmental model on the island.

The evidence available demonstrates that in recent years DIRDC has: imposed its own model view of what the Norfolk Island economy requires; conducted inadequate analysis of the effects of changes consequent on the intervention; failed to engage adequately on the ground with commercial and other interests on the island; remained silent on important and unresolved economic issues; and not supported major projects championed by Norfolk Island governments. This approach has had damaging consequences for Norfolk Island, and has led to a lack of confidence on the island, a lack of trust, and the questioning of the motives and competence of DIRDC. The fate of the former Norfolk Island Hospital Enterprise provides a case study.

There is an urgent need for a reappraisal of the developmental model being applied to Norfolk Island, and the implementation of one that takes cognisance of its small size and extreme marine isolation. Recent studies of the financial sustainability of three Australian "island councils" (Kangaroo, Flinders and King Islands) by Sinnewe *et al.* have pointed to the "distinctive nature" of these island councils and the key issues involved namely:

- ◆ the greater importance of local government for islands than in Australia as a whole;
- ◆ the especial reliance on an intricate knowledge of local needs;
- ◆ the wide range of services island councils are called upon to deliver;
- ◆ the "tyranny of distance" that negates economies of scale; and
- ◆ the importance of local leadership in economic development.

The importance of these issues for Norfolk Island is magnified by the extreme nature of its isolation. (The issues are laid out in more detail in Sections 5.2 and 5.3.)

Within this context there is an urgent and immediate need for a deferral of the imposition on the island of the Australian Modern Award System (MAS) for employment – due on 1 July 2018 – until its consequences for the island are better understood. Coming on top of the wide range of impositions by the Commonwealth in recent times – the introduction of Australian taxes, compulsory superannuation, a plethora of NSW-based regulatory requirements, land rating, and changes in health services provision – this will increase the burden on the island community beyond fairness or reason.

This report therefore respectfully requests the Minister to:

- (1) Act immediately to delay the introduction of MAS on Norfolk Island until an analysis of its effects on the island's economy is carried out and the results made available publicly;

And in relation to the provision of health services on the island to:

- (2) Undertake a thorough cost benefit analysis of medical and health services for Norfolk Island given its severely isolated location, focusing in particular on the possible return of hospital services on the island and the reopening of the operating theatre; and
- (3) Increase the efficiency of NIHRACS service provision by providing an alternative management structure and involving shared responsibility between the Commonwealth and Norfolk Island;

And in relation to Norfolk Island's longer-term needs to:

- (4) Initiate a broad inquiry – not restricted to DIRDC and open to public participation – to determine an improved developmental model for Norfolk Island's future (taking cognisance of the evidence provided by Sinnewe and co-workers);
- (5) Acknowledge the unique position and needs of islands in the Australian local government system;
- (6) Increase the transparency of all processes involving the Commonwealth and the people of Norfolk Island in order to increase trust in these processes;

And in the interim and in relation to the adequate functioning of the Norfolk Island Regional Council to restore greater flexibility by:

- (7) Re-introducing the ability of the Norfolk Island Regional Council to approach relevant ministers directly for advice, as was previously the case for the Norfolk Island Government; and
 - (8) Assisting the Norfolk Island Regional Council to develop a series of relevant economic indicators to monitor the time course of the island's economy.
-

1. Note on Norfolk Island's Current Administrative Arrangements

Norfolk Island is an external territory of Australia and under the responsibility of the Australian Government. From 1979 until 2015 the island enjoyed a degree of self-government but this was terminated in June 2015 by the then Australian Government under the *Norfolk Island Legislation Amendment Act 2015*, which saw the abolition of the Norfolk Island Legislative Assembly and the disbanding of the Norfolk Island Government and Public Service, and the absorption of Norfolk Island into the Australian taxation and welfare systems.

The Legislative Assembly was replaced by a "regional council", constructed under Commonwealth legislation, modelled on a New South Wales local authority template, and with substantially reduced powers. The activities of the new Norfolk Island Regional Council (NIRC) are regulated by the Commonwealth-enacted *Local Government Act 1993 (NSW)(NI)*, and by other Commonwealth Acts and Norfolk Island Acts still applicable to Norfolk Island. (This whole package of measures is hereinafter referred to as "the intervention".)

Politically Norfolk Island residents now vote in the Australian Federal electorate of Canberra, 1900km away and with which they have no associations, and have no vote in New South Wales elections. Internationally regarded human rights lawyer Geoffrey Robertson QC has referred to this imposition as "a heavy-handed act of regression". (Robertson, 2016) World-renowned author and long-time resident of Norfolk Island, the late Colleen McCullough, referred to the actions of the Australian Government as "bloodless genocide". (Robinson, 2016)

The Department of Infrastructure, Regional Development and Cities (DIRDC) is a large and complex department with a wide range of responsibilities, from cities, to infrastructure policy and projects, aviation and airports, land transport, maritime and shipping, regional development and local government, in addition to territories. [Note 2] It serves the needs of three Ministers in the Australian Government: the Minister for Infrastructure and Transport, the Minister for Urban Infrastructure and Cities, and the Minister for Regional Development, Territories and Local Government currently Hon John McVeigh MP. Minister McVeigh has overall Commonwealth political responsibility for Norfolk Island.

Under the Norfolk Island Government, Norfolk Island ministers had access to relevant Commonwealth ministries for their concerns (health, environment, finance etc.), while under the new arrangements all Norfolk Island issues are referred to the Minister for Territories. This gives the single Minister and his or her Department immense power over events on Norfolk Island. As Norfolk Island has had five different Commonwealth ministers responsible for the island over the last three years (see Appendix I), this has given DIRDC even greater influence on policy formation and practice than it would otherwise have had. The Commonwealth's representative on Norfolk Island is the Norfolk Island Administrator, formerly a Crown appointee but now the delegate of the Minister paid from the DIRDC budget. The Administrator has delegated powers under a number of Commonwealth Acts.

Within DIRDC the Territories Division has responsibility for the administration of the Jervis Bay Territory, the Territory of Cocos (Keeling) Islands, the Territory of Christmas Island, the Coral Sea Islands Territory, the Territory of Ashmore and Cartier Islands, and for Commonwealth responsibilities on Norfolk Island. Christmas Island and the Cocos (Keeling) Islands comprise what is referred to as the Indian Ocean Territories (IOT). The IOT has been facing a series of economic and social issues with similarities to those of Norfolk Island.

It appears that DIRDC has two major functions in its dealings with Norfolk Island: policy development and the provision of advice and recommendations to the minister; and organising the provision of Commonwealth services to the island. These latter appear to involve a range of inter-departmental

relationships. On the one hand Commonwealth statutory requirements for taxation, workplace issues and welfare payments, for example, place immutable obligations on DIRDC in its relation to Norfolk Island; Commonwealth-owned land on Norfolk Island (including the World Heritage listed Kingston and Arthur's Vale Historic Area - KAVHA) places management responsibility directly on DIRDC; however DIRDC manages the Norfolk Island Health and Aged Care Service (NIHRACS) through a service provision arrangement with South East Sydney Local Health District (SESLHD), and the Norfolk Island Central School through an arrangement with the NSW Education Department. The recent on-island project on law and child and family welfare appears to have been an initiative by the Department of Prime Minister and Cabinet, and its relationship to DIRDC's functions unclear.

The passage of the *Norfolk Island Legislation Amendment Act 2015* which precipitated the transformation of Norfolk Island and its changed relationship with the Commonwealth, was prompted in large measure by the report of the Joint Standing Committee on the National Capital and External Territories (JSCNCET) in 2014. In their final report to Parliament the Committee remained uncertain as to what "model" would best suit Norfolk Island, indicating that: "The Commonwealth, supported by the resources and expertise of DIRDC, can work out the best model to proceed with, in accordance with the community's needs and aspirations" (JSCNCET, 2014: 42): something that has yet to be achieved.

2. DIRDC and the Norfolk Island Economy

2.1 Non-response to residents' and organisations' concerns

There are in the Norfolk Island community many examples, spread over time, of DIRDC not responding to, or even acknowledging receipt of, legitimate correspondence and enquiries sent by Norfolk Island residents, community and business groups, to an extent that can only be regarded as systemic. Commonwealth Ministers responsible for Norfolk Island have been similarly uncommunicative with Norfolk Island residents on the subject of Norfolk Island. (e.g. Nobbs, 2016a) The consequences of this approach for Norfolk Island have been a shutting down of information flow, a lack of transparency, a circumscribed ability to plan for the future, and a lack of trust in the Department. Further issues relating to DIRDC's conduct on the island are considered in Section 3.

This approach by DIRDC should come as no surprise, as it mirrors the experience of the IOT with the same department. Mr Jon Stanhope AO, Administrator of the Indian Ocean Territories 2012 - 2014, in evidence before the JSCNCET inquiry into governance of the IOT in 2015-16, stated:

An issue of concern to residents in relation to the governance of the Indian Ocean Territories is the practice adopted by the Department of Infrastructure, the administering Department, of not responding to correspondence from either the Administrator or community organisations..... I have in my possession a raft of other community-initiated correspondence which was similarly ignored by the Department.... None of the issues raised by residents in the correspondence was addressed while I was Administrator and my understanding is that even now, more than eighteen months after it was sent, it has not been answered. The Department consistently ignores correspondence from residents and community organisations and treats their views and concerns with contempt. (Stanhope, 2015)

2.2 Disguised and inappropriate econometric modelling

In 2006 DIRDC (then DOTARS) commissioned the Centre for International Economics (CIE) to prepare a report on the effects of an extension of all Commonwealth legislation to Norfolk Island. The report was not released by the Commonwealth, and only became available publicly in August 2015 by decision of the Administrative Appeals Tribunal following a four-year-long campaign under the *Freedom of Information Act*, opposed by the Commonwealth. According to court documents DOTARS, together with the Department of Prime Minister and Cabinet, argued that release of the report would be contrary to the public interest. (Belot, 2015)

In 2014 the CIE was asked by DIRDC to prepare a second report on the same issue. This report was released publicly by the Australian Government and gave a much rosier picture of the merits of the intervention by the Commonwealth on Norfolk Island.

When both reports became available, Professor Michael Common, an internationally recognised professor of economics based in the UK, well versed in the methodology used in the CIE computer modelling, was asked to compare the two CIE reports and comment on their differences. In his report Professor Common noted that the numbers generated by the two model applications (2006 and 2014) were quite different, and that due to the lack of transparency as to the data entered into the models and how they had been treated, it was not possible to discriminate amongst possible causes for the discrepancies. (Common, 2015) Furthermore, his judgement was that given the very small size of the Norfolk Island economy, the use of the type of general equilibrium economic modelling employed by CIE was invalid. Common considers that "... neither CIE2006 nor CIE2014 was a useful exercise". The usefulness of the CIE2014 report in particular was further undermined by the fact that it did not make clear what the baseline was against which the economic changes were assessed, nor what infrastructure spending would be made and by whom: issues critical to any coherent assessment of Norfolk Island's future. And as pointed out by Professor Common, the CIE reports made no mention of social costs and benefits, or of environmental issues.

DIRDC made no attempt to respond to these criticisms when they were made, and as far as is known there has been no subsequent attempt by DIRDC to reconsider its economic methodology or predicted outcomes in response to this report. A particularly glaring omission from this modelling is noted in the next section.

2.3 Introduction of the Australian Modern Award System

The Australian Modern Award System (MAS) is slated for introduction on Norfolk Island on 1 July 2018. Amongst other things the MAS introduces the concept of a specified minimum weekly wage for different levels of work responsibility above the basic minimum wage, in each of several different industry categories. All of these specified wage rates change over time by the same percentage as the minimum wage rate does (over recent years approx. +2.7 per cent per annum). The MAS introduces penalty pay rates for overtime, which will have very serious implications for Norfolk Island where tourist air service arrivals often occur at weekends. The MAS also introduces specified minimum working hours for part-time employees (who on Norfolk Island are naturally restrained to live within 10 minutes travel time from work, and who due to other commitments can be quite comfortable with shorter and more flexible working hours).

For an island struggling to adjust to a wide range of economic imposts including the introduction of Australian taxes, superannuation, land rating, a plethora of NSW-based regulatory requirements, and changes in health services provision, the introduction of the MAS will deal an immense shock to the economy of the island. Although employees may benefit, the imposition of overtime and weekend penalty rates in particular will increase business costs and prices on the island very substantially, and reduce employment, as has been pointed out previously. High overheads are not readily recouped in such a small market as Norfolk Island has. One small retail store estimates a 35 per cent rise in wage

costs on current practices; others have announced weekend closures commencing 1 July; some will undoubtedly close doors permanently. (Nobbs, 2017a) This situation is doubly problematic for a small island dependent almost totally on a competitive tourism market, and where many passenger flight arrivals occur at weekends.

Although the MAS introduction will represent the largest single one-off shock to be put upon the island's economy in recent times, it was not studied in the CIE modelling exercises, and there is no public evidence that its effects have ever been studied by the Department.

At its ordinary meeting of 16 May 2018 the NIRC passed unanimously the following motion:

Council requests that the Mayor make Minister McVeigh aware of the many representations and serious concerns held by the Norfolk Island business community relating to the imminent introduction of the Australian Awards System under the Fair Work Act 2009 (CTH) in its application to Norfolk Island; and Council's support for progression as a matter of urgency of the review and monitoring of the impact of Commonwealth reforms on Norfolk Island as foreshadowed by the Minister in his letter to the Mayor of 20 February 2018 and endorsed by Council at its March 2018 meeting.

In speaking to the motion and with particular reference to the coming introduction of the MAS, councillors expressed deep concerns for the stresses in the community which had been brought to their attention by the public, and for the viability of some businesses now providing services for tourists. Mayor Adams pointed to the need for understanding from the Commonwealth "that this is a community that has evolved separately of the rest of Australia and it is only in the last two years that the whole raft of legislation from which we have been removed for so long, is coming over the top of us. I use the words 'Too much too soon'."

In response to the impending introduction of MAS large hotels have already started laying off staff, and other shops, cafes and tour operators have announced their inability to provide weekend services under the new regime, although some may still provide services at weekends but apply surcharges.

But Norfolk Island also faces additional and immediate shocks to its economic survival. The introduction of the MAS system itself on Norfolk Island on 1 July 2018 is accompanied by a 3.5 per cent increase to the Australian national minimum wage and award rates, as announced by the Australian Fair Work Commission on 1 June. Furthermore as a consequence of the withdrawal of Air New Zealand from providing direct Auckland to Norfolk Island services, total visitor numbers to Norfolk Island in March 2018 recorded -7.8 per cent drop from previous year, in April a -16.6 percent drop from the previous year, and in May an 8.1 per cent drop. (Norfolk Online News, 2018) Direct flight arrivals from Sydney and Brisbane to Norfolk Island over the months July-September 2018 will average only 3.5 per week, with 30 per cent of those flights arriving on weekends. This slump also presages a bleak winter for Norfolk Island tourism.

While the above issues are immediate threats to the island economy, it is important also to flag the decimating of the Norfolk Island agricultural and horticultural sectors of the economy being carried out by ill-judged and unsupportable decisions of the Biosecurity Division of the Commonwealth Department of Agriculture and Water Resources (DAWR), and which have yet to impact the island economically. These decisions will be the subject of a subsequent analysis by the present author.

2.4 Business impact report and business confidence survey

In November 2017 an unsolicited private study of the impacts of the Australian Government reforms on Norfolk Island businesses was provided to the then-Minister responsible for Norfolk Island, and the report was also made available to the media. (Nobbs, 2017a) It is to all knowledge the only such study that has been carried out in relation to the island. The report concluded that on the evidence available:

(1) The Norfolk Island economy is in a state of crisis and on its current trajectory is heading towards a disaster in which many businesses and families will suffer substantially; and that

(2) This crisis is a result of the manner of intervention by the Australian Government in the island's government and economy commencing 1 July 2016. By requiring both that Norfolk Island pay its own way and that Norfolk Islanders become like mainland Australians in terms of their obligations and expectations, the Australian Government is by its decisions crushing the island's economy in a vice from which few groups will escape unscathed.

The report was discussed in *The Australian* on 20 November 2017. In response both the Minister and "agency sources" (i.e. DIRDC) were reported as making a series of comments on the report (*The Australian*, 21 November). In their comments to *The Australian*, neither the Minister nor the Department addressed the core issues raised by the report, but merely provided a few alternative dot points from their own perspectives. These were responded to by the present author in a brief letter published in *The Australian* and at greater length in an article in the Norfolk Island media which was widely distributed (Nobbs, 2017c: reproduced here as Appendix II).

Since that time no contact with the author of the report has been made by the Department, no attempt made to point out any failings in the report in an analytical sense, and no alternative propositions advanced. It was in this context that the Norfolk Island Regional Council (NIRC) put forward the proposal to approach the Minister to request a public inquiry by the Australian Productivity Commission, as noted in the Preamble.

As part of the preparation for the business impact report, the author carried out a questionnaire study of the levels of business confidence on the island amongst members of the Norfolk Island Chamber of Commerce and the Norfolk Island Accommodation and Tourism Association. The results showed that business confidence on the island was low and heading lower. (Nobbs, 2017d) In the case of this study also, the public release of the results was greeted by silence from DIRDC.

2.5 Lack of support for locally determined initiatives and needs

While imposing their own developmental view on Norfolk Island, DIRDC and its representatives have shown a decided tendency to ignore or reject economic initiatives proposed or promoted on Norfolk Island. Recent examples include:

(i) Medicinal cannabis. Given the island's severe isolation, biosecurity status and climatic conditions, commercial research showed that this could be a very valuable crop for the island. On two occasions (2014 and 2015) the Norfolk Island Government issued separate licences under Norfolk Island law to Australian companies to import to, cultivate and harvest cannabis in, and export cannabis from, Norfolk Island. On both occasions the licence was cancelled by the Norfolk Island Administrator on instructions from Canberra. (Hardgrave, 2014a; Adams, 2015a & b).

(ii) international communications cable. During 2016 Norfolk Island was given the opportunity of connecting to a state of the art undersea trans-Pacific fibre optic telecommunications cable. The 15,000km cable, being installed by the New Zealand-based consortium Hawaiki Cable, connects Australia, New Zealand, American Samoa, Hawaii, and mainland USA, and includes stubbed branching units to facilitate future connections to New Caledonia, Fiji, and Tonga. The cable route passes within 90km of Norfolk Island. Hawaiki Cable offered a number of options to Norfolk Island to connect to the cable network, from a completed connection (\$15 million USD) to a stubbed branching unit to facilitate future connection (\$2 million USD). With the final splice and all cable station installations now complete, the Hawaiki Cable System is due to enter service in June 2018.

From Norfolk Island's point of view, a submarine cable connection would have provided state of the art Internet connectivity offering benefits to business, tourism, education, remote access, and online medical services, all vastly superior to the quality offered by satellite-based options and providing a quantum leap in technology likely to be of generational significance. Linking with Norfolk Island's underutilized cable station at Anson Bay, an undersea telecommunications cable would feed directly into the island's existing infrastructure and help modernize Norfolk Island's extensive but aging land-line and mobile networks. (Howard, 2016; McDonald, 2016)

The NBN Sky Muster geostationary satellite system, to which Norfolk Island has been assigned dedicated capacity by the Australian Government – although being well-suited to minimal broadband Internet access to remote Australian homesteads – is not designed to meet the complete spectrum of telecommunications needs of a geographically concentrated and tourist-centric community such as Norfolk Island. For example, professional opinion has it that NBN Sky Muster cannot provide international connectivity for Norfolk Island's telephone or mobile networks, nor sufficient capacity to cover the needs of the Norfolk Island Airport and Central School, nor provide for the requirements of emergent applications such as telemedicine and cloud services.

Despite urging by the NIRC, all offers by Hawaiki Cable were declined by Minister Nash.

(iii) Norfolk Island tourism. The former Norfolk Island Government over many years provided steady base funding for Norfolk Island tourism organisation and promotion (around \$1.3m per annum), as a foundation for forward planning by island businesses. Following the initiation of the reform process in July 2015, the Commonwealth's administration froze such funding, chose not to renew the contract of the Tourism Manager and disbanded the Tourism Advisory Board, with the then-Administrator recording that tourism advertising, relative to other calls on the tourism budget, was "a waste of money". This period was followed by a decline in New Zealand bookings and the withdrawal of Air New Zealand from the Auckland to Norfolk Island route. (Nobbs, 2018)

Under the Australian Government's intervention the Commonwealth agreed to fund state functions. Because tourism promotion in Australia is a state function, it is contended on Norfolk Island that it is the Commonwealth's responsibility to provide stable and reliable funding for tourism promotion on Norfolk Island – as Australian states do for their own tourism. So far the Commonwealth has refused to do this. All it has done is to propose (May 2018 Budget) to provide \$776,000 over the next two years. While this money is welcomed it is far less than what experience has found necessary, and much less than the Norfolk Island Government provided.

Furthermore, in this Commonwealth-state entanglement in which Norfolk Island finds itself, the island does not have access to NSW state tourism funding, such as the \$300million Tourism Fund or Destination NSW.

2.6 Note on the Cascade Pier project

As a significant element of the Commonwealth's contribution to the economy of the island, the Commonwealth has committed a very substantial amount of money to upgrade the Cascade Pier and related equipment with the objective of improving freight handling (including container freight), and access to the island for cruise ship passengers. [Note 3] This work has involved the extension of the pier into deeper water and adding curvature and a wave deflector to the pier to reduce wave action; the addition of a new heavy-lift crane; and the construction of barges designed one for carrying ship-to-shore freight, and three for ship-to-shore passenger transfer.

This has been a munificent infrastructure investment by the Commonwealth to Norfolk Island, reaching an estimated cost of around \$18-20m overall. The Cascade Pier reconstruction is now complete and was available for use from 21 April 2018.

Along the way there have been several complications to the project that have been overcome, and there remain others for the future. A major problem is that no freight ships servicing Norfolk Island can safely handle containers on board or in lowering them over the side, on account of their height above sea (wharf-level unloading being the norm). Furthermore the practice of unloading a ship in sea conditions experienced some hundreds of metres off-shore can be difficult. The construction of the freight barge has now been put on hold.

There are also concerns about the use of the passenger barges. Because of their weight, they can only be launched at Cascade with use of the heavy-lift crane. However if weather conditions are such that a cruise ship anchors at Kingston, the barges have to be driven by sea to Kingston (10km in open water) to service cruise ship passengers, because the barges are too big for road transportation. The barges then have to be returned to Cascade for landing and storage.

Both these issues were raised during the project design phase. There remain other issues to be sorted out, including the cost of operation and maintenance of the heavy-lift crane, and lighterage workers' remuneration. Freight rates to and from the island are very dependent on the price of oil, and it is not clear whether freight costs to the island will rise or fall in the future.

It must be said that for now, despite the quality of construction that has gone into the project, the true benefits of the pier remain to be revealed.

2.7 Summary

Norfolk Island stands on the brink of a deep and abrupt economic decline as it tries to come to terms with Australian Government imposed taxes, superannuation, land rates, compliance with a plethora of NSW-based regulatory requirements, the introduction of the MAS, and ill-judged agricultural and horticultural decisions by the Commonwealth, while at the same time facing straitened times for the tourism industry. Substantial rises in prices across the board appear inevitable. These huge changes cannot reasonably be absorbed in a small community in a short period of time.

The evidence above demonstrates that in recent years DIRDC has:

- ◆ imposed its own model view of what the Norfolk Island economy requires;
- ◆ conducted inadequate economic analysis of the effects of changes consequent on the intervention;
- ◆ remained silent on important and unresolved economic issues;
- ◆ failed to engage adequately on the ground with commercial and other interests on the island; and
- ◆ not supported major projects promoted by Norfolk Island governments.

This type of approach has for many on Norfolk Island led to a lack of confidence, a lack of trust, and the questioning of the motives and competence of DIRDC.

Economic issues will be further discussed in Section 5. Meanwhile Chapter 3 approaches some of the issues just referred to from an alternative perspective.

3. DIRDC on Norfolk Island: Social Matters

3.1 "We want to hear from you ..."

DIRDC's failure to answer correspondence or respond to criticism (Section 2.1 above) has been paralleled by the island's experience of DIRDC representatives' visits to Norfolk Island over recent years. Many on the island consider these to have been characterised by avoidance, pseudo-consultation, and/or the ignoring of Norfolk Island opinion and advice. This view is widespread on the island and comes from the direct experience of many.

Pseudo-consultation can be considered to take place when DIRDC representatives visiting the island talk only with selected individuals and/or groups pre-selected for them, or alternatively meet with broader groupings but do not listen to, or ignore, the input they receive. Returning to Canberra these representatives appear to do exactly what they proposed in the first place. Consultation as box-ticking.

One departmental approach has been along the lines of "We are on-island and we want to hear from you...". However it is important to distinguish between "hearing", and "listening", and "doing". "Hearing" is merely the act of perceiving sound; "listening" requires conscious engagement of hearer with speaker with the intention of absorbing information and in some manner adding it to the understanding of the situation. "Doing" suggests that in some way the listening has induced an observable change in conduct or policy. The complaint is made however that even after meetings are held, nothing is observed to change in the Department's conduct or intentions. This is doubly frustrating because the Department neither attempts to justify what it is doing nor give reasons for rejecting the proposals put to it.

One Norfolk Island businessman said to the author in frustration: "I've pleaded to talk with them but I've been absolutely ignored. They're just unwilling to engage with the community. How can they validate their policies if this is the case?" This is a commonly reported experience on the island.

3.2 Selections for committees and boards

The selection of members for the Norfolk Island Advisory Council (NIAC) (2015-16) provides a prime example of concerns on this matter. Membership of the NIAC was established by confidential self-nomination, with five applicants being chosen by then-Minister Jamie Briggs. Former Chief Minister and Speaker in the Norfolk Island Legislative Assembly David Buffett, initially invited to be a member of NIAC, had his invitation withdrawn by Minister Briggs for 'disruption' following his (Buffett's) presenting a 'remonstrance' to the Commonwealth Parliament which he was obliged to do as Speaker on instruction of the Norfolk Island Legislative Assembly (NILA). (Lawson, 2015)

Following the abolition of NILA members of committees and boards established by Norfolk Island legislation – volunteers all and chosen by the community as their representatives – were required to reapply for their positions in writing to the Administrator. Not all were successful. Such conduct provides opportunities for Commonwealth-led triage in favour of the Commonwealth but not necessarily in favour of the interests of Norfolk Island or its community. It also provides the Commonwealth with a means of avoiding criticism. Some boards, such as the successful and important Norfolk Island Tourism Advisory Board were disbanded. The Norfolk Island Government was relieved of any management responsibility for KAVHA, and Norfolk Island interests reduced to minority membership on an advisory only body, chaired by the Administrator.

3.3 Spin

When a person makes a statement that bends the truth in order to persuade a listener or reader to adopt a particular attitude or act in favour of a particular theme, this is commonly referred to as "spin". Some "spin" is socially acceptable as it provides the basis of advertising, but some is unacceptable. The use of spin in public life is pernicious because when it is seen for what it is it breeds suspicion and undermines trust. Spin can also cross the borders of truth.

Norfolk Island has been regularly subject to spin by the Australian Government. In introducing the second reading of the Norfolk Island Legislation Amendment Bill 2015 in the Australian House of Representatives (26 March 2015), Minister Briggs made a number of inflated claims, such as: "In fact, there is almost a complete absence of health and social services most Australians take for granted", and: "From 1 July 2016 the Norfolk Island community will have access to social security payments. Older Australians will be able to access the age pension". (Briggs, 2015)

The facts of the matter were, with regard to pensions, that under the Norfolk Island Government Norfolk Island pensioners on-island received a similar payment to that received by Australian pensioners, free or heavily subsidised hospital and medical care, together with free medications for all PBS listed products. No co-payments were required by pensioners and they were not liable for any prescription fees. Any person on the Norfolk Island pension was able to access long term aged care at the hospital at a total cost of 85 per cent of their pension, providing them with 15 per cent for personal incidentals. Norfolk Island pensioners were also able to immediately access specialist medical services including surgical services in Australia without having to be on any waiting list at no cost to them. Members of the Norfolk Island Health Care Scheme (compulsory for all non-pensioners) also received free PBS-listed medications on the basis of their financial membership of the Scheme and after reaching a total for all medical expenses of \$2,000 for a single or \$2,500 for a family.

Previously in a radio interview with the ABC Western Plains on 20 October 2014, Minister Briggs had also made a number of claims, amongst which were that: "... when it comes to broader issues of for instance child protection laws, child protection laws do not exist on Norfolk Island" and "... drink driving laws do not operate on this island. These are anomalies which need to be fixed." In both cases the claims were not merely spin, they were false.

Norfolk Island Administrator Hon Gary Hardgrave, in his report to Minister Briggs in December 2014 stated that the change in governance arrangements proposed by the Australian Government was supported by a majority of Norfolk Island residents (Hardgrave, 2014b). This statement remains unsupported by any information available in the public arena and is contradicted by much: including a public referendum held on the island. (Nobbs, 2016b) The denigration by Administrator Hardgrave of the Norfolk Islanders who walked to Government House on 17 June 2015 to mourn the passing of their Legislative Assembly, is well-known and detailed elsewhere. (Nobbs, 2015)

In November 2017 the then Minister Senator Fiona Nash visited the island and met *inter alia* with a small group of the island's prominent business people who described to her what they saw as the very worrisome current state and future prospects of the island's economy. Following her departure from the island a statement which appeared over her signature in *The Norfolk Islander* of 15 October 2016, opened with: "It was important for me to visit and see and hear with my own eyes and ears." There followed a statement of praise for Norfolk Island and a list of things that the Commonwealth was spending money on in the island. No mention was made of any issue or problem that might exist or which might have been raised with her. Such disguise of the truth benefits no one except in the inflation of the Australian government's own image. As Norfolk Islanders are very aware of their own circumstances, this breeds mistrust and resentment. (Other examples of spin abound: see for example Appendix II.)

It is extremely difficult for a small community such as on Norfolk Island to counteract these types of statement, often broadcast on Australian media, and designed presumably to persuade all and sundry that what the Commonwealth is doing on Norfolk Island is all good, all benevolent, immaculate.

3.4 Patronising impositions

And there is a further consequence of spin put out by Ministers, Administrators and bureaucratic functionaries, which many on Norfolk Island find deeply disturbing. The inflation of the merits of the Australian Government's intervention implicitly denies the value of anything that preceded it: what might be called the "white colonialist approach". It dis-endorses all the many achievements of the Norfolk Island Government and the island's people over many years in the often-difficult circumstances of isolated island living. The achievements of the past are not to be celebrated but torn down. Beyond the issue of truth or falsity, many on Norfolk Island find such insensitivity patronising and humiliating. It undermines self-confidence and tears at the social fabric of the island. And it does nothing to elevate the standing of the Australian Government within the community.

3.5 The DIRDC approach: a summary on the evidence

Having discussed in this and the preceding chapter what evidence indicates as the approach of DIRDC to affairs of Norfolk Island in social interaction and economics respectively, we give a further summary.

The DIRDC approach appears as one which maintains a dogmatic insistence on its own virtue combined with sometimes a loose interpretation of the truth. It suggests a lock-step standard operating procedure inured to novelty or alternative information.

Indeed in this type of approach there is no need to listen to others because you have all the answers already. Public and community opinion can be ritualised and sidelined. Judgments already made can be reaffirmed by talking only to those on the ground who agree with you. Then the only remaining task is to find fault in the other's position (the "It's a failure" syndrome).

There are a number of damaging consequences of this approach. The first is that when one does not listen one does not learn, or to put it another way, one cannot take advantage of the bountiful local knowledge and experience of those who have lived in the environment over many years – and even generations – and who have developed economic and social mechanisms well-tuned to the exigencies of life in that environment.

The second consequence is that one does not – cannot – understand what one is dealing with. There is little more inadequate than the oft-promoted idea that "Norfolk Island is just the same as an Australian country town". This is a lazy belief, and analysis shows that it is very important ways it is false (e.g. Nobbs, 2016d). Certainly Norfolk Island displays some aspects of Australian country towns, but it has aspects which go far beyond that and it is these that are the more significant ones. There can be little understanding of the Norfolk Island economy or society without an appreciation of the consequences of Norfolk Island being a small and remote and marine-isolated settlement. (See further Section 5.2)

Third, the dis-endorsement of Norfolk Island's past experience and cultural heritage has been a recurring theme of the Commonwealth's intervention on the island (witness for example the removal of mention of Pitcairn heritage of Norfolk Islanders from the Preamble of the *Norfolk Island Legislation Amendment Act*). The continuing discounting of this experience by Commonwealth representatives is destructive of community well-being on the island. (See further Nobbs, 2016e)

The final indignity for Norfolk Islanders is the idea that desk-bound bureaucrats 1,900km away from the island, with little or no experience of living and working on an isolated island, can make optimal decisions and recommend policy for Norfolk Island to their Minister.

4. Case Study: DIRDC and the Demise of the Norfolk Island Hospital Enterprise

4.1 Background

Over its almost 100-year life, the Norfolk Island hospital was wholly funded by the community, and from 1979 to 2015 was an independent arm of the former Norfolk Island Government, the Norfolk Island Hospital Enterprise (NIHE). Throughout its life it was been the centrepiece of Norfolk Island family and community life, witness to births, illnesses and deaths, and of recent years provider of general practice, surgery, acute care, a wide range of visiting specialist services, pathology, x-ray, dentistry, physio, pharmacy, counselling, and aged care services. It has been a much loved and comprehensively supported institution, paid for and run by the community itself.

On 1 July 2016 the community's hospital ceased to exist, emasculated by the Australian Government to the status of a multipurpose 'service', now called the Norfolk Island Health and Residential Aged Care Service (NIHRACS). NIHRACS is run by DIRDC. There is a sub-contractual arrangement with South Eastern Sydney Local Health District (SESLHD) with regard to the provision of some specific services, but it is DIRDC that pays the bills, employs the director, and makes all major decisions including the recruitment of doctors.

4.2 Specific Matters

The experience of NIHRACS since the dissolution of the hospital has been tragic for the island. We consider some of the aspects below.

(i) closure of the operating theatre. In 2013 the NIHE, with the intention of improving health care services on the island, approached the Australian Council of Healthcare Standards (ACHS) to carry out an accreditation audit on the hospital. This was done in March 2014. The hospital did not come up to scratch, and accreditation was not granted. Amongst other things the ACHS recommended the closure of the operating theatre for elective surgery – but remaining operative for emergency surgery – until it was brought up to ACHS standards. (It should be noted here that over the years of its functioning the operating theatre recorded no case of hospital acquired infection.) At the time of the operating theatre closure it was a requirement that any expenditure by the NIHE greater than \$25,000 needed the approval of DIRDC, and they refused to approve the upgrading of the operating theatre.

Currently there is no operating theatre on the island, for either elective or emergency surgery. This is a serious situation for Norfolk Island given its isolation and the risk of catastrophic air accidents and emergencies on the island or in the surrounding oceans, and given the time taken for any emergency services to arrive from overseas. There are a number of approaches by which this circumstance could be reversed, for example by the rotation of surgeons on and off the island.

(ii) inability to retain doctors. Perhaps the most serious concern for all on Norfolk Island is the inability of NIHRACS to retain doctors on a permanent basis.

In the last two years, there has been a revolving door for doctors appointed to permanent positions in NIHRACS, who after brief interludes have found it necessary to seek jobs elsewhere. The count is currently three, all of whom it is understood moved to Norfolk with the intention of living and working on the island permanently. The reasons for these departures are not confirmed, although rumours persist that they are due to DIRDC's inflexibility and failure to meet promised conditions. No public discussion of this matter has taken place on the island, presumably due to non-disclosure clauses in the doctors' contracts. No admissions on the matter have been made by either NIHRACS or by DIRDC.

The DIRDC response to the doctor outflow has been to employ a procession of short term locum doctors from Australia at salaries believed to be of up to \$1,500 per day, plus travel and accommodation. This is an unconscionable waste of Australian taxpayers' money and represents a failure to provide the continuity of care needed for patients on the island, and particularly for the elderly.

(iii) loss and downgrading of diagnostic services. The quality and availability of diagnostic services on the island have declined markedly since the DIRDC takeover of the hospital on 1 July 2016. Examples include:

- ◆ radiography - In previous times a trained radiographer would record and develop the x-ray plates and take them to the doctor in place to interpret. Under the new system it is considered necessary that the radiogram, while it may be read on the island by a doctor, must be emailed to Sydney for assessment by an "official" radiologist. This currently can take up to 18 days – and this is for the *diagnosis* of bone breakages and similar issues;
- ◆ ultrasonography, a vital diagnostic tool previously provided at the hospital is now a part time service provided by a visiting sonographer, and sonogram analyses must be referred to Sydney for assessment and are also subject to delays;
- ◆ the former emergency blood donor panel for serious trauma casualties has been disbanded: a particularly serious matter in mass-casualty situations;
- ◆ many pathology services are now reduced to simple point of care (bedside) services, with more complicated diagnostic tests (e.g. liver, pancreas) having to be referred off-shore;
- ◆ dialysis services formerly available on the island (and used) are no longer so. This is a very serious issue for the future as anyone on the island needing these services on a regular basis will have to move to Australia whether they have any close or familial associations there or not;
- ◆ the availability of some visiting specialist programmes has been reduced since the 1 July 2016 e.g. gastro-enterology, gynaecology, neurology, ophthalmology, podiatry, diatetics.

Whereas under the NIHE the above-enumerated services were provided without the level of overt sophistication now deemed necessary in Australia, they operated efficiently, at relatively low cost, and without any recorded problems over many years.

On the other hand, it needs to be acknowledged that DIRDC has purchased for NIHRACS a new state-of-the-art digital mammography machine and is understood to be finalising contract terms with a successful tenderer, specialised in such procedures, to operate the machine.

(iv) rising number and cost of air medivacs. The availability of medical evacuation (medivac) flights from Norfolk Island is a great boon and can mean the difference between life and death for those involved. However a consequence of not providing an operating theatre on the island, of reducing acute care services, and the employment of locum doctors, there has been a rise in need for medivacs, at substantial cost to the Australian taxpayer.

In the decade prior to July 2016 there was an average of 12-13 medivacs per year. The NIHE was able to manage in a safe therapeutic environment the remaining acute cases with good results. The number of medivacs has now risen annually to more than three times that figure, with each costing over \$45,000 or more depending on the origin of the aeroplane. A part of this rise may have been due to older Australians relocating to live on Norfolk Island, and individual expectations in regard to health care, but is fundamentally due to the withdrawal of on-island services. The total cost of medivac services from Norfolk Island since 1 July 2016 is \$3,441,798. (DIRDC, 2018)

(v) privatisation of the hospital pharmacy. Before the DIRDC takeover of the hospital there were two pharmacies on Norfolk Island accessible openly to the public, one in the hospital and one privately operated in the shopping precinct, and happily co-existing. Now there is only one, that in the mall, which among its functions provides pharmaceutical products to the hospital under an imprest system to serve patient needs, including acute and emergency care. Previously, with a dispensing pharmacy at the hospital, GP patients had immediate access following consultation (a consideration particularly important for the aged), the hospital had the capacity to stock a wide range of drugs including very expensive ones, secure storage for Schedule 8 drugs, provided 24x7 availability (holidays included), and ever-present vigilance.

Under the present regime there is only one private pharmacy that must inevitably act on commercial principles regarding its costs, inventory, and opening hours. Any idea that both pharmacies could continue to cohabit was stymied with the *Norfolk Island Legislation Amendment Act Transition Rule (Approved Pharmacists) 2016* written expressly by DIRDC to exclude a dispensing pharmacist being engaged at the hospital. Privatisation (here in combination with monopoly) has substantially decreased the benefits available to the Norfolk Island community.

(vi) wastage of money on contracts. In a letter published in *The Norfolk Islander* on 15 October 2016, the then Minister responsible for Norfolk Island stated that the Australian Government has “invested \$700,000 on urgent repairs for the NI health service, which we look forward to improving”. (Nash, 2016) This was a fanciful claim, and one that has never been itemised. And if indeed it were true, it would likely multiply the extent of wastage that was apparent in some of the expenditures visible to the public eye.

Known repairs carried out at the hospital included providing fire doors, ramp access, water storage tanks, and upgrading the electrical system. Unfortunately the fire doors only extend internally from floor to ceiling. The new concrete disability ramp was installed to replace an old concrete disability ramp judged to be too steep. However the new railings appear dangerously inadequate, the cornering is too sharp for motorised scooters, and at its top the ramp meets an outward opening door which cannot be manipulated by wheelchair-bound patients. And then there was the hospital ward which had new windows installed but none were capable of opening. And then there was the hospital kitchen which was stripped for refurbishment before the job was declared to have “run out of money”, so that all hospital meals were having to be bought in commercially (a situation which continued for 12 months). All these “urgent repairs” were or still are visible to any casual visitor to the hospital.

In the face of such Commonwealth largesse, it might appear to the observant Australian taxpayer that there has been on Norfolk Island a lack of control and substantial wastage by DIRDC. And Norfolk Island itself has a significant interest in these matters, both because efficient spending would free up funds for other projects, and because the island has never ever wanted to be seen merely as the recipient of alms.

(vii) NIHRACS and health insurance funds. Prior to the dissolution of the NIHE, local patients admitted to the Norfolk Island hospital were covered to some degree by Norfolk Island Healthcare fund, and tourists by recommended travel insurance. Since 1 July 2016 the local Healthcare fund has been shut down, and Norfolk Islanders encouraged – not to say coerced – into taking out private health insurance. However with the degrading of the hospital to the status of a “health service”, patients admitted to NIHRACS – be they Norfolk Island residents or tourists – while being supported by Medicare cannot make claims against their private health insurance for “hospital-based” procedures. This exclusion includes doctors' fees, day surgery, consultations with specialists, medical tests and scans, and being admitted as a private patient in a single room. (BUPA, 2018)

(viii) DIRDC management and staff. Under the NIHE, the management team consisted of a Director, Medical Superintendent, Nurse Unit Manager and Accounting Officer/Deputy Director. Now, for a service with reduced responsibilities the management team consists of a Director, Medical

Superintendent, Finance Manager, Practice Manager, a Health and Wellbeing Coordinator, a Child and Family Unit Manager, a Business Manager, and a Nurse Unit Manager. It is not clear how this magnification in management, at the cost of primary services, can be justified.

(ix) the hospital rebuild. The Norfolk Island Government and other bodies (e.g. ACHS) had recognised that the buildings occupied by NIHE and NIHRACS were coming to the end of their lives and needed to be replaced. Community fundraising was carried out over many years for this project. Design proposals had been provided. The Commonwealth appears to have now withdrawn any interest in this project, and furthermore has resumed the land purchased for a new hospital by the Norfolk Island Government on behalf of the community.

Note on maternity services on Norfolk Island. It needs to be noted that despite common claims to the contrary, the Commonwealth is not responsible for the curtailment of birthing on Norfolk Island. Up until 2014 the NIHE was able to provide maternity services because of the GP/surgeon/obstetrician and GP/anaesthetist/obstetrician skills of the two then-resident medical doctors. Upon their retirement and despite a very wide-ranging and expensive recruitment campaign, NIHE was unable to recruit appropriately qualified and skilled doctors to enable the hospital to continue providing maternity services. The cessation of maternity services in small communities in Australia has also been an ongoing occurrence for many years with these services being referred to larger regional hospitals. This has resulted in a deskilling of general practitioners and a move to medical specialisation. The increase in litigation with a resultant increase in the cost of medical malpractice insurance, particularly in the area of obstetrics, has also made the practice of obstetrics by GPs less viable.

4.3 Conclusions

On the assumption that health services on Norfolk Island are to be provided for the benefit of residents and visitors, and that that provision needs to be efficient, the evidence available indicates that many unwise decisions have been taken by DIRDC in relation to these services and the manner in which they are delivered. These decisions, it appears, were taken by DIRDC without substantive consultation with the Norfolk Island community. Money has been wasted, top heavy management installed, services withdrawn, and doctors continue to come and go through the revolving door. Morale amongst staff at the hospital has suffered substantially.

What is being provided or not provided by DIRDC appears to be the result of some centralised logic and formulaic prescription held in the bunkers of Canberra and dependent on "number of consumers" rather than on a clear appreciation of the needs of a small marine-isolated community: and one almost wholly dependent on tourism. It is not known what competence DIRDC claims to have in running hospitals in isolated areas but it appears seriously deficient in this case. A new and different management approach is essential.

There is an urgent need for a detailed cost benefit analysis of health services provision on Norfolk Island. This is likely to point to a re-opening of the operating theatre, an alternative allocation of funds, a different model of provision, and in the interests of efficiency more trust in the local community and more local control. The Norfolk Island hospital has been over many years a powerful symbol of community values, of shared experiences, and of the bonds of affection which unite individuals and families in this island community, and there is immense value in it's remaining so.

5. DIRDC and some Broader Considerations

5.1 Matters of law and regulation

The Australian Government has incorporated Norfolk Island notionally as a part of New South Wales by passing Commonwealth laws applicable on Norfolk Island which mirror NSW laws. The New South Wales Acts currently in force on Norfolk Island include the *Local Government Act 1993 (NSW)* (as the *Local Government Act 1993 (NSW)(NI)*), the *Health Services Act 1997* and the *Public Health Act 2010* (together with the *Interpretation Act 1987* and the *Long Service Leave Act 1955*).

There are many examples in which Norfolk Island has been and is being disadvantaged by entanglement in complex laws inappropriate to its condition as a small isolated island remote from the Australian mainland. In Section 2.5(iii) we have seen the way this has played out in the case of tourism funding. In fact it could be argued that a major part of Norfolk Island's problems arise from an incapacity of DIRDC to think through the consequences of the welter of legislation that it decided to impose on Norfolk Island. Here are some issues.

(i) NSW regulatory compliance. In an earlier report (Nobbs, 2017a) it was argued that public health and occupational health and safety (OH&S) requirements will represent very significant cost increases for businesses on Norfolk Island. Many businesses on Norfolk are small (because the market is small), and some businesses are not full-time. For these reasons the costs of meeting regulatory provisions will be high relative to revenue and can be further increased by transportation costs to and from Australia e.g. for training, laboratory sample testing, monitoring. If the full weight of NSW regulatory provisions is imposed on businesses on Norfolk, many will close, and this has already been happening.

The *Public Health Act 2010 (NSW)* and Public Health Regulations 2012 for example require the establishment of a defined quality assurance program for all "private water suppliers" providing water to the public. (NSW Health, 2014) As there is no reticulated water supply on Norfolk Island and all businesses provide water from rainwater tanks or bores, this definition includes all individual accommodation houses, hotels, recreational and sporting facilities, community halls, schools, food preparation premises, restaurants and cafes, rented accommodation, and even private homes providing progressive dinners for tourists, *individually*. Each and every one of these businesses is being forced into compliance with the panoply of NSW water regulations. Water carters who provide water only in temporary drought periods on the island (less than 100 deliveries total per year) also come under similar regulations. Initial cost of compliance with this Act for private water suppliers is running at around \$5,000 for 10-unit accommodation property, \$15,000 for hotels, and with on-going compliance costs – for filters, testing, six-monthly council inspections, and reporting – a continuing extra.

The main point is that Norfolk Island businesses are supportive of public health and OH&S objectives, however the costs and the benefits need to be assessed in a manner which a small community is capable of sustaining. Within the ambit of World Health Organisation criteria, the current Australian state regulations do not necessarily represent a uniquely best solution to these issues. It is imperative – in water supply as in other regulatory matters – to put in place a flexible system that does not drive small businesses to the wall.

With regard to the application of other NSW legislation, Schedule 1 item 1 of the Norfolk Island Applied Laws Ordinance 2016 temporarily suspends the application of other NSW laws until 1 July 2018. As the NSW Government lists over 950 Acts currently in force in NSW, if this proposition were to be imposed on Norfolk Island it would increase costs for businesses and families, provide a feast for financial and legal intermediaries, and little or no tangible benefit for the island. However it appears that a little common sense has prevailed here, as it has been recently announced that the application of the 2016 Ordinance has been further suspended for three years. Permanent suspension would be more appropriate.

(ii) **DIRDC and statutory powers.** The control that DIRDC maintains on Norfolk Island has many manifestations, not all of which are obvious to casual observation. Here are some worth mention:

- ◆ Freedom of Information requests to DIRDC – including those which have been made by Norfolk Island residents eager to explore DIRDC conduct or the legitimacy of its actions – are determined in the first instance by DIRDC;
- ◆ If a Norfolk Island resident wants to approach the Commonwealth Ombudsman about DIRDC conduct then the initial complaint must go first to DIRDC. (The "Kafkaesque bureaucratic nightmare" experienced by Christmas Islanders in dealing with DIRDC and the Commonwealth Ombudsman has been described by Towell (2014));
- ◆ When in May 2015 a petition, signed by over 450 members of the Norfolk Island community was delivered to the Governor-General of Australia petitioning that he terminate the appointment of the Administrator of Norfolk Island, the Hon Gary Hardgrave, as they had lost confidence in the position, to whom did the Governor-General forward the petition? To DIRDC;
- ◆ Despite the fact that responsibility for KAVHA as a World Heritage site rests with the Minister for the Environment and Energy under the *Environment Protection and Biodiversity Conservation Act 1999*, management of the site is the responsibility of DIRDC;
- ◆ NIHRACS is run by DIRDC;
- ◆ The Norfolk Island Administrator, responsible to the Minister for Territories, is paid from the DIRDC budget;
- ◆ Any worker compensation complaint on Norfolk Island goes for resolution to the Employment Conciliation Board of three Canberra bureaucrats, chaired by, yes, a DIRDC employee;
- ◆ A full list of 110 delegations from the Minister to the Norfolk Island Administrator, taking over responsibilities from former Norfolk Island Acts, is contained in the Minister's Norfolk Island Delegation Instrument 2017 (No. 2)(CTH). In each case the Administrator is seconded by a senior DIRDC employee.

It is no exaggeration to say that Norfolk Island is now subject to bureaucratic strangulation by DIRDC. Given the evidence of the present report, this is a baleful situation, not in the interests of Norfolk Island, and should be considered unacceptable by the Australian Government.

5.2 Matters of administration and finance

There are around 540 local government bodies in Australia covering a diverse range of metropolitan, regional, rural, and Indigenous communities. Of these, about 60-70 per cent are classed as regional or rural.

It has been well known in Australia for many years that the financial sustainability of local governments is a serious problem, and this subject has been the focus of many enquiries. All of them show that there has been a secular decline in local infrastructure, with "own-source" revenue unable to cover necessary investment. State-based surveys suggest that between 25 per cent and 40 per cent of Australian councils are financially unstable, while a sample-based national survey by Price Waterhouse Cooper indicated a figure of between 10 and 30 per cent. Those local governments considered the least financially viable are accumulated in the categories of "rural agricultural" and "rural remote". (Access Economics, 2006; Price Waterhouse Cooper, 2006). Little appears to have changed in these respects over the last two

decades (Dollery et al., 2013). An analysis by the NSW Treasury Corporation (2013) found that in 2012 only one third of NSW councils reported an operating surplus, and that the financial sustainability position was expected to deteriorate for nearly 50 per cent of all NSW councils.

There is an important observation for Norfolk Island to be made from this situation. The persistent cry by previous Commonwealth ministers and their departments and representatives that the reason for the intervention on Norfolk Island was that the NILA could not make ends meet, is exposed as a sham. Australian local councils – particularly those that are regional or remote – have had the same problem as Norfolk Island had, and for similar reasons; and the Australian intervention on Norfolk Island has not altered that position in any way. In fact, by removing the island's general revenue-raising powers it may have made the position worse. In Australia, Commonwealth and state governments and others have put much effort into trying to resolve this issue of financial sustainability, and some proposals have been forthcoming. However in a longer-term sense the issue remains essentially unresolved.

In 2015 a group of Australian academics carried out research specifically on the position of Australia's "island councils" (Kangaroo Island (SA), Flinders Island and King Island (Tas)) in relation to financial sustainability (Sinnewe *et al.*, 2015). They pointed to the "similar social and economic challenges faced by these islands, such as limited access to services and comparatively high freight costs, together with the local challenges and opportunities which each faced in particular". Their conclusion was that: "Overall, ... summary statistics indicate that these island councils are heavily reliant on grant funding in addition to having a relatively narrow property tax revenue base – in terms of number of households – on which to levy rates."

In pointing to the "distinctive nature of these island councils" they observed:

- Firstly, local government is of far more importance to these islands than in Australia as a whole, particularly in maintaining the economic and social fabric of these small island communities, and articulating their unusual needs....;

- Secondly, the services provided by island councils are especially reliant on an intricate knowledge of local needs; information which would not be available to higher tiers of government. Consequently, service provision on island councils makes local decision making and local resource allocation even more essential than in other remote Australian local authorities.

- Thirdly, Australia's island councils deliver a range of services which would ordinarily be provided by state and Commonwealth public agencies. Put differently, in many respects local authorities on the islands represent "government of last resort" to islanders...;

- Fourthly, the "tyranny of distance" between administrative centres of mainland councils and low population densities mean that economies of scale are unobtainable in the provision of local government services regardless of which structural arrangements might be imposed on these island councils.

- Finally, the importance of local leadership in the economic development of island councils can hardly be overstated, given the special circumstances of island inhabitants." (Sinnewe *et al.*, 2015, pp. 161-2)

Here the important observation for Norfolk Island is that what these authors have drawn attention to are precisely those things that residents of Norfolk Island have been trying over and over and over again to say to DIRDC and others, but have gone unheeded.

Indeed the importance of these issues is further magnified by the severe isolation of Norfolk Island. Previously these issues were able to be responded to in large measure by the *in situ* Norfolk Island Government. Whatever failings the Norfolk Island Government may have had, it was a system that had

evolved by gradual adjustment to the exigencies of life on a small island, taking into account its severe isolation and the consequences that flowed from that. This is what is being lost on Norfolk Island, now thrown into the maw of an Australian local government system lacking its own coherence and clear financial way ahead.

Other aspects of the tensions for islands between investment and revenue, between periphery and centre and the representation of the periphery's interests, have been explored in the case of Norfolk Island particularly by Wettenhall (2016, 2018). Wettenhall (2016) notes that: "What appears totally absent from the current generation of Australian policy-makers is a preparedness to recognise that there are features of island life that are different from those commonly experienced by mainland communities and that some of these features are worth preserving."

5.3 Matters of policy and method

Apart from anodyne statements about "increasing economic growth" little is clear from the Commonwealth as to the foundations of their policy concerning Norfolk Island. We may divine however that "Norfolk Island is just like an Australian country town" has been a strong element, and another has been a free market emphasis - but one placed under savage regulatory control in many instances. Following the work of Sinnewe *et al.* these stances can no longer be rationally maintained. If the purpose is to assist Norfolk Island, it appears that there has been a failure by DIRDC adequately to think through the consequences of its own actions, and/or that DIRDC comes to the process with a too-rigid mindset derived from practice in continental Australia.

While the economic approach – as discussed in previous sections – appears designed to test the Norfolk Island economy to destruction, another arm of the Commonwealth policy is providing investment in such things as the Cascade Pier upgrade, NIHRACS, and assistance to the Norfolk Island Central School. These investments are potentially of great benefit to the island and have been widely welcomed. Nonetheless as the example of NIHRACS shows, there can be a substantial gap between proposal and practice. It needs to be noted also that there is a disjunction in time frames: the dissolution of the Norfolk Island economy needs an immediate response, while any transformational outcomes from these on-island investments will take a much longer time to bear fruit.

There appears to be two major issues which need to be confronted by policy: Norfolk Island paying its own way at a fair and reasonable level, and the development and maintenance of a dynamic and capable society to ensure the economic survival of the island and its island-based way of life and culture.

As to the first of these it is clear that Norfolk Island will need ongoing Commonwealth support at least in the interim, and in the interests of both parties this support must be efficiently provided. Efficiency requires the flexibility of local control, and local control contributes substantially to the maintenance of a stable and capable society, and one to which pride has been returned. Simplicity and flexibility are the watchwords. This requires a partnership between the Commonwealth and Norfolk Island based on trust: and this requires consultation and transparency.

Sinnewe and co-workers have provided a clarification of important issues facing small islands in their reduced scale and isolation, which can provide important elements of an improved approach to the problems facing Norfolk Island. Significant elements here include: the small size of the market and the difficulties of recouping regulatory charges; economic instability and need for precaution in policy; the inevitability of monopoly in some services; limits to resources and to growth; importance of environment; loss of employment may mean emigration; the irreducibly high cost of freight; the understandings that on small islands everything is connected to everything else; and the need for close consultation as a survival mechanism.

Other more extensive suggestions for alternative approaches from the Commonwealth have been made by Nobbs (2016f). Among the suggestions here was to consider examples of other successful small island dependencies across the British Commonwealth, or alternatively "envision Norfolk Island not as 'part of New South Wales', but as a world-relevant semi-autonomous model system of 21st-century sustainable living".

5.4 Summary

If the idea of the Commonwealth intervention on Norfolk Island is to improve the economy and well-being of the island's residents, then the lockstep formulation of policy by DIRDC that heeds no novelty – given the novelty of small islands' situations – has been counter-productive and should be abandoned. The development model needs to be re-envisioned. Fortunately there are available indications as to where better models lie.

6. Proposals to Address Norfolk Island's Urgent Needs

There is an urgent need for a review and rethink by the Commonwealth Government of the developmental model being imposed on Norfolk Island. There is also an urgent and immediate need for the introduction of the Australian MAS be deferred pending analysis of its consequences for the island.

Coming at the end of a long period of immense change to the island from which many are exhausted and some overwhelmed, Norfolk Island faces a crisis winter with the abrupt imposition of Australia's Modern Award System for employment and rising prices across the board, together with a steep decline in tourism. These are putting in jeopardy businesses' ability to service tourism and even to survive, and families' ability to work and pay their mortgages and remain on the island. Furthermore there is no clear respite visible in the medium to longer term. This situation has been largely a result of actions taken by the Australian Government following the intervention commencing in July 2015.

It is therefore respectfully urged upon the Minister to:

- (1) Act immediately to delay the introduction of MAS on Norfolk Island until an analysis of its effects on the island's economy is carried out and the results made available publicly;

And in relation to the provision of health services on the island to:

- (2) Undertake a thorough cost benefit analysis of medical and health services for Norfolk Island given its severely isolated location, focusing in particular on the possible return of hospital services on the island and the reopening of the operating theatre; and
- (3) Increase the efficiency of NIHRACS service provision by providing an alternative management structure and involving shared responsibility between the Commonwealth and Norfolk Island;

And in relation to Norfolk Island's longer-term needs to:

- (4) Initiate a broad inquiry – not restricted to DIRDC and open to public participation – to determine an improved developmental model for Norfolk Island's future (taking cognisance of the evidence provided by Sinnewe *et al.*);

- (5) Acknowledge the unique position and needs of islands in the Australian local government system;
- (6) Increase the transparency of all processes involving the Commonwealth and the people of Norfolk Island in order to increase trust in these processes;

And in the interim and in relation to the adequate functioning of the Norfolk Island Regional Council to restore greater flexibility by:

- (7) Re-introducing the ability of the Norfolk Island Regional Council to approach relevant ministers directly for advice, as was previously the case for the Norfolk Island Government; and
- (8) Assisting the Norfolk Island Regional Council to develop a series of relevant economic indicators to monitor the time course of the island's economy.

Afterword

During the 1968 Tet Offensive in the War in Vietnam, the town of Ben Tre came under heavy assault by Vietcong insurgents. In response, US forces heavily bombed and shelled the town before being able to retake it, much destroyed. In a subsequent briefing to journalists one of the US officers involved explained: "We had to destroy the village in order to save it." (Arnett, 1968) It is sincerely to be hoped that the final judgement on the Commonwealth's recent intervention on Norfolk Island will have no similar ring.

Notes

1. Articles and letters, published over many months in *The Norfolk Islander*, *Norfolk Online News* and distributed overseas; variously *The Australian*, *Sydney Morning Herald*, *The Age*, *Canberra Times*, *Tasmanian Times*, etc.; New Zealand and Pacific Islands media; *The Guardian*; Facebook. See also: Nobbs, C., 2017b.
2. Previous titles of Commonwealth departments responsible for Norfolk Island include: Department of Infrastructure and Regional Development (DIRD), 2013-17; Department of Regional Australia, Local Government, Arts and Sport (DRALGAS), 2011-13; and Department of Transport and Regional Services (DOTARS), 1998-2007. In this report all are referred to under the current title, DIRDC.
3. Norfolk Island has no harbour for wharf-side disembarkation of passengers or freight from ships. Ships anchor off the island and transfer passengers and freight by lighters to piers on the island. The island has two piers, at Cascade to the east of the island, and at Kingston to the south. A visiting ship can choose its better anchorage depending on wind and wave conditions, however there are many weather conditions on the island that prohibit lighterage operations completely.

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Appendix I:

Commonwealth Ministers responsible for Norfolk Island, 2013-18

Sept 2013 – Dec 2015	Jamie Briggs MP *Assistant Minister of Infrastructure and Regional Development
Sept 2015 – July 2016	Hon Paul Fletcher MP *Minister for Major Projects, Territories and Local Government
July 2016 – Oct 2017	Senator Hon Fiona Nash *Minister for Local Government and Territories. Minister for Regional Development
Oct 2017 – Dec 2017	Hon Darren Chester MP *Acting Minister for Local Government and Territories Acting Minister for Regional Development
Dec 2017 –	Hon Dr John McVeigh MP *Minister for Regional Development, Territories and Local Government

Appendix II:

Norfolk Island Economy: the Minister, the Elephant, and seeking Win-Win

[This letter first appeared in *The Norfolk Islander* and on *Norfolk Online News*, 16 December 2017]

Dear Editor,

On 16 November I provided the Acting Minister for Local Government and Territories, Hon Darren Chester, a copy of my report on the Norfolk Island economy entitled "On the Brink of Disaster: The Impact of the Australian Government Reforms on Norfolk Island Businesses" (1). This report was then on 18 November published by *The Norfolk Islander* (TNI) and *Norfolk Online News*. On Monday 20 *The Australian* carried on its front page an article over the signature of associate editor Brad Norington "Norfolk Island 'crushed' by takeover". This was followed on Tuesday 21 by a response from the Minister – also over the signature of Brad Norington – entitled "Minister rejects Norfolk Island claim that takeover risks economic ruin". On the same day *The Australian* carried a commentary by Matthew Lesh of the Institute of Public Affairs in Melbourne entitled "So why do we fell this independent pine?". In response to the Acting Minister's claims I wrote a letter to *The Australian*, an abridged version of which appeared in the paper on Thursday 23 November under the title "Norfolk Island's future".

I was pleased to see the related report that TNI carried last week from Radio NZ dated 23 November 2017 "Canberra rejects claim it's wrecked Norfolk economy", as it provides here a base from which to re-examine the claims made by the Minister and also to raise some broader issues. (In fact the Radio NZ report carried, to a large degree, merely a subset of the content of the article that appeared in *The Australian* on 21 November.)

Let us look at what the Acting Minister is reported to have said to *The Australian* on 21 November. First, he said the "major industry of tourism had just enjoyed its best year". This is false, as consultation of Norfolk Island Annual Reports will show. The Radio NZ report had a slightly extended version of this, saying that Norfolk Island visitor numbers had previously reached 40,000 – which they did uniquely in 2000-01 – and that in 2016-17 tourist numbers had reached 30,000 "the best since the global financial crisis". This numerical claim is problematic because during the year 2016-17 there has been substantial traffic to the island by Commonwealth officials, consultants, and workers contracted on infrastructure projects, and these will not be repeated in the future.

The Minister went on to say that the Commonwealth "had 'hugely' boosted the island's potential visitor pool by scrapping passport requirements for Australians". This is dubious at best as Australians are recommended to carry passports because if their aircraft cannot land at Norfolk due to inclement weather and is diverted to New Zealand, they will not be allowed off the aircraft if they do not have passports. (As has already happened.) For the Department of Immigration and Border Protection, a passport remains the preferred means of personal documentation for travel to Norfolk Island.

Then the Minister is reported saying that the government "had invested millions of dollars in subsidies to keep flights to Norfolk Island operating" and that "The government regarded Air New Zealand's end to flights as the airline's commercial decision". The first claim of "millions of dollars" is unverifiable as Commonwealth subsidies to Air New Zealand are regarded as commercial in confidence. What we do know however is that Air New Zealand has a contract with the Commonwealth to provide air services from Australia to Norfolk Island which provides a "top up" to the airline if the average fare (revenue/passengers) falls below a specified level. So why is it that the withdrawal from the direct New Zealand-Norfolk Island service is of necessity the airline's commercial decision, while it continues to fly from Australia in a subsidised manner?

Continuing, the Minister dismissed the arguments put forward in my report that the Commonwealth "had blocked Norfolk Island from its own revenue raising", saying "Canberra had encouraged the regional council to start charging municipal rates... but it had declined." This second statement is false as anyone living on Norfolk Island will know. And the first statement could not be maintained if the Minister had read my report. Consider the rejection by his predecessor of medicinal marijuana cultivation on Norfolk, and the more recent refusal to allow ruminant imports into Norfolk. And even last week TNI carried an announcement from the Commonwealth that the import of fresh fruit and vegetables to the island is to be permitted – a move which potentially sounds the death knell for local production, particularly if dumping by mainland producers ensues. Other examples from earlier years are also documented. (See (2), pp.129-30)

Then the Minister said he had "helped businesses by abolishing a 12 per cent GST that had applied on the island", and that "wage rate increases were also being introduced gradually". The first claim is selective, because although NI GST has been removed, businesses are now paying income tax. So far there is no evidence to suggest that businesses are better off under the new arrangement. The second claim is false. By far the most serious immediate concern for Norfolk Island businesses is the introduction on 1 July 2018 of the Australian Modern Award System including penalty rates, when there will be an unprecedented large jump in island wage rates across the board. The calculations given in my report of a small business servicing tourists and locals indicates that for present practice there will be a jump in wages of 35 percent.

The Minister finally claims that "Australia was investing \$136 million to fix health, education and the port". The figure is outrageously fanciful and has never been disaggregated in such a way as to appear credible, let alone be verifiable. It is unknown exactly what has been charged to the island's account, over what period of time, how much money went into departmental travel, consultancies both useful and otherwise, or how much was money wasted – some of examples of which wastage are well documented. And furthermore, as pointed out in my letter to *The Australian*, the mere spending of money is no guarantee of achievement.

Norington in his article of 21 November also quotes "government agency sources" (read "DIRD" as the agency with responsibility for Norfolk Island) as claiming that "Norfolk Island's previous administration invested little on infrastructure and repairs during 37 years of self-rule". This is a proposition which covers many broad matters which it is not possible to deal with in detail here, but suffice to say that it is a proposition from which the Commonwealth itself does not escape culpability. (See for example (2), pp.124-34).

The "agency sources" then follow up with the gratuitous comment that "they believe protests over Canberra's takeover are led by an 'anti-Australian crowd' of eight families." This is an unacceptable statement on several grounds. First, it is fallacious in logic as "argumentum ad hominem" – you attack the person rather than the argument being presented. In that respect the statement is mere distraction and humbug. Second, the statement unacceptably conflates the ideas of Norfolk Islanders being anti-Australian – which they are not – and being anti some Commonwealth government policies – which many on the island are.

But there is an even more important issue raised by this comment. The "agency sources" appear to have chosen to interpret my report as a political statement about the Australian government intervention – which it is not – and ignored the fact that it is a commentary about the current state of the island's economy being experienced by those on the ground – which it is. And while it is possible to lob a few claims – however compromised (see above) – into the public arena in contradiction to what I set out in my report, neither the Minister nor the "agency sources" have addressed the facts of the central issue: namely the very dire prospects for the island economy overall. In contradistinction to my detailed and factual report, nowhere is the Commonwealth's set of alternative facts and analyses which establish the contrary case or anything like it, set out. Must the elephant in the room be forever ignored?

What is very clear from all this is that there are very different views held on Norfolk Island's current economic position and future economic and social outlook. With sixteen months experience of the Australian Government's intervention behind us, it seems sensible to take time out to see clearly what the position is, what has worked and what has not, to learn from any mistakes made, and make improvements for the future. The vitality and well-being of this gentle and peaceable island society require nothing less. In this context my proposal for the present imbroglio to be referred to the Australian Productivity Commission seems eminently reasonable. It would clear the air and benefit both Norfolk Island and the Commonwealth itself. That seems like a win-win to me.

Yours sincerely, Chris Nobbs.

(1) Nobbs, Chris, 2017a, "On the Brink of Disaster: The Impact of the Australian Government Reforms on Norfolk Island Businesses" (November), <http://www.norfolkonlinenews.com/impact-of-the-reforms-on-norfolk-island-businesses.html>

(2) Nobbs, Chris, 2017b, *Australia's Assault on Norfolk Island 2015-16: Despatches from the Frontline*, Amazon.

Biographical Note

The author of this report Dr Chris Nobbs is a graduate of the universities of Auckland, London and Cambridge, in natural science, economics and economic development respectively. He has had a career in both the private sector as a consultant, and as a public servant at local, state, national and international levels.

Responses to inaccurate statements in the *Norfolk Island's major problem is DIRDC* report by Chris Nobbs – June 2018

Reference	Page	Statement	Response
Executive Summary	6	Act immediately to delay the introduction of Modern Award System (MAS) on Norfolk Island until an analysis of its effects on the Island's economy is carried out and the results made available publicly	<p>The start of the Modern Awards provides Norfolk Island residents with the same rights and obligations as other Australians. Most businesses were well prepared for the introduction of the modern awards on 1 July 2018.</p> <p>The extension of Australia's workplace relation system to Norfolk Island is a significant change for local business on Norfolk Island that's why the Australian Government supported a sensible, phased transition, starting in 2016, to assist employers to get ready. The Australian Government consulted with the community in arriving at the transitional arrangements for phasing in of the Fair Work Act to ensure local businesses have sufficient time to adjust.</p> <p>The Australian Government will continue to monitor the Norfolk Island economy following the introduction of the modern awards from 1 July. The Department of Infrastructure, Regional Development and Cities and the Department of Jobs and Small Business are progressing a comprehensive assessment of the local economy which is expected to be completed by the end of the year.</p>
Executive Summary	7	Undertake a thorough cost benefit analysis of medical and health services for Norfolk Island given its severely isolated location, focusing in particular on the possible return of hospital services on the Island and the reopening of the operating theatre	<p>Part of the challenge in maintaining an operating theatre in a remote location is attracting and retaining doctors who are qualified to perform surgery and have enough opportunity to practice their skills and maintain their registration. This is a challenge in many regional and remote Australian communities. The previous Norfolk Island Government decided to close the operating theatre at the hospital in 2014, following an accreditation survey undertaken by The Australian Council on Healthcare Standards (ACHS) on the Norfolk Island Hospital Enterprise (NIHE). The accreditation survey recommended that some services, including surgery, cease immediately.</p> <p>Since the Australian Government took responsibility for delivering health services on Norfolk Island on 1 July 2016, addressing the recommendations of the accreditation survey and delivering services in accordance with modern Australian healthcare safety standards has been of the highest priority.</p>

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			<p>Norfolk Island is not alone in facing challenges with the delivery of modern health services and many remote locations rely on medical evacuations. Medical evacuations and health services on Norfolk Island are funded by the Australian Government.</p> <p>The introduction of the Norfolk Island Patients' Travel Accommodation and Assistance Scheme (NIPTAAS) ensures Norfolk Island residents can travel to the mainland to access specialist medical or surgical treatment. NIPTAAS will cover the cost of the flight to the mainland to see a specialist and provides subsidies for accommodation and travel while seeking medical treatment.</p>
		Increase the efficiency of NIHRACS service provision by providing an alternative management structure and involving shared responsibility between the Commonwealth and Norfolk Island	<p>The Norfolk Island Health and Residential Aged Care Service (NIHRACS) was established as a multipurpose service providing acute care including emergency services, residential aged care, as well as primary and community care services. There are a number of specialists that currently visit NIHRACS including a Psychiatrist, Orthopaedic surgeon, Endocrinologist, Orthodontist, Urologist, Geriatrician, and Sonographer. Additional positions including a Social Worker and Diversional Therapist have been employed to strengthen the care available to Norfolk Island patients and aged care residents.</p> <p>NIHRACS is funded by the Commonwealth and works in partnership with South Eastern Sydney Local Health District to improve patient journeys, increase consultation liaison services, support the delivery of outreach health services and provide training and development opportunities. The Norfolk Island Community and Clinical Consultative Committee includes two local community members who advise how to best work with the community to ensure that decisions, investments, and innovations are person centred, efficient, locally relevant and aligned to local care experiences and expectations.</p>
		Initiate a broad inquiry – not restricted to DIRDC and open to public participation – to determine an improved development model for Norfolk Island's future (taking cognisance of the evidence provided by Sinnewe and co-workers)	<p>The problems with the sustainability of the previous governance model on Norfolk Island have been well canvassed and the community were consulted extensively in the lead up to the 2016 reforms and had ample opportunity to contribute their views.</p> <p>The previous Minister wrote to Norfolk Island residents following a visit in March 2014 noting that almost everyone he met during that visit believed that things need to change. The Minister sought the community's views on the best ways to deliver real changes to make a difference, including the identification and promotion of economic</p>

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			<p>opportunities, best delivery of essential services and best governance model for the future</p> <p>There have been a number of reports prepared that cover economics on Norfolk Island.</p> <ul style="list-style-type: none"> • In 2006, the Department commissioned the Centre for International Economics (CIE) to prepare a report on the effects of an extension of all Commonwealth legislation to Norfolk Island (this is referenced on page 10 of the report). • In 2014, the Department commissioned the CIE to prepare a follow up report on the same issue. • SGS Economics and Planning was engaged in 2015 to formulate a Norfolk Island Economic Development Strategy. The report outlined a number of indicators to be monitored to show economic development success on Norfolk Island.
		Acknowledge the unique position and needs of islands in the Australian local government system	<p>The Norfolk Island Regional Council received an increased operating budget of \$8.3 million in the 2018-19 budget. Extra funding has been allocated in recognition of the increased costs and wider range of services the Council provides due to the Island's remote location.</p> <p>The Western Australian Local Government Grants Commission estimated how much the Norfolk Island Regional Council would likely receive if calculated under the Western Australian Financial Assistance Grants (FAGs) methodology.</p> <p>Each year the staff of the WA Local Government Grants Commission calculate the FAGs for the Indian Ocean Territories (Christmas Island and the Cocos (Keeling) Islands) as per the Service Delivery Agreement between the Department of Infrastructure and Regional Development and the State of Western Australia.</p>
		Increase the transparency of all process involving the Commonwealth and the people of Norfolk Island in order to increase trust in these processes	<p>All community members are encouraged to contact the Administrator, Mr Eric Hutchinson, as the Australian Government representative on Norfolk Island. Eric's door is always open, and anyone interested in the Australian Government programs and services should contact his office.</p> <p>As part of a commitment to consulting with the Norfolk Island community on proposed legislative changes a Legislation Consultation Framework was released by</p>

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			Administrator Eric Hutchinson on 9 May 2017, and future legislative changes on Norfolk Island will be consulted on in line with this framework.
		Re-introducing the ability of the Norfolk Island Regional Council to approach relevant Ministers directly for advice; as was previously the case for the Norfolk island Government	The Administrator, Mr Eric Hutchinson, as the Australian Government representative on Norfolk Island. Eric's door is always open and he meets regularly the Council.
		Assisting the Norfolk island Regional Council to develop a series of relevant economic indicators to monitor the time course of the island's economy	<p>SGS Economics and Planning was engaged in 2015 to formulate a Norfolk Island Economic Development Strategy. The report outlined a number of indicators to be monitored to show economic development success on Norfolk Island.</p> <p>The Economic Development Strategy:</p> <ul style="list-style-type: none"> ○ Identified opportunities to diversify and broaden Norfolk Island's economic base by utilising local experience and the existing skill base of persons on the Island; ○ Identified private investment opportunities in current and emerging industries such as tourism, heritage and cultural precincts, cottage industries, agriculture, and aquaculture; ○ Determined the infrastructure investment opportunities to improve access by tourists and enhance supply chain connectivity; ○ Developed an action plan identifying key short and long-term projects, including costings, to underpin the Economic Development Strategy for Norfolk Island; ○ Identified barriers to tourism, investment and increased local production and brand development, and strategies to overcome them.
Lack of support for locally determined initiatives and needs	12	Medicinal Cannabis – Given the Island's severe isolation, biosecurity status and climatic conditions, commercial research showed that this could be very valuable crop for the Island. On two occasions (2014 and 2015) the Norfolk Island Government issued separate licences under Norfolk Island law to Australian companies to import to, cultivate and	The licence to export cannabis issued under Norfolk Island law was undertaken without an established regulatory framework to support the proposal. This put Australia in contravention of its obligations under the United Nations Single Convention on Narcotic Drugs 1961.

		<p>harvest cannabis in, and export cannabis from, Norfolk Island. On both occasions the licence was cancelled by the Norfolk Island Administration on instructions from Canberra (Hardgrave, 2014a; Adams, 2015 a & b).</p>	<p>The proponent licenced by the Norfolk Island Government had not adequately consulted with the Department of Health on their proposal and could not demonstrate it had the approval to export cannabis to the destination country.</p> <p>The 2015 proposal was also inconsistent with Australian Government biosecurity and border control legislation.</p>
		<p>International communications cable – During 2016 Norfolk Island was given the opportunity of connecting to a state of the art undersea trans-Pacific fibre optic telecommunications cable. The 15,000km cable being installed by the New Zealand-based consortium Hawaiki Cable, connects Australia, New Zealand, American Samoa, Hawaii, and mainland USA, and includes stubbed branching units to facilitate future connections to New Caledonia, Fiji, and Tonga. The cable route passes within 90km of Norfolk Island. Hawaiki Cable offered a number of options to Norfolk Island to connect to the cable network, from a completed connection (\$15million USD) to a stubbed branching unit to facilitate future connection (\$2 million USD). With the final splice and all cable station installations now complete, the Hawaiki cable system is due to enter service in June 2018.</p> <p>From Norfolk Island's point of view, a submarine cable connection would have provided state of the art Internet connectivity offering benefits to business, tourism, education, remote access, and online medical services, all vastly superior to the quality offered by satellite-based options and providing a quantum leap in technology likely to be of generational significance. Linking with Norfolk Island's underutilized cable station at Anson Bay, an undersea telecommunications cable would feed directly into the island's existing infrastructure and help modernize Norfolk Island's extensive but aging land-line and mobile networks. (Howard, 2016; McDonald, 2016).</p> <p>The NBN Sky Muster geostationary satellite system, to which Norfolk Island has been assigned dedicated capacity by the</p>	<p>The Australian Government is investing in improving broadband services on Norfolk Island through NBN Co's Sky Muster satellite network. Sky Muster satellites are optimised for broadband and are among the highest capacity internet-providing satellites ever built, with the second satellite launched successfully on 6 October 2016. From June 2018, over 520 residents were connected to the Sky Muster.</p> <p>The Hawaiki Cable proposal has a significant cost – around \$15 million capital. At this price, it will deliver less than a quarter of the capacity that Sky Muster was already providing on Norfolk Island. Increasing capacity to match Sky Muster would require a substantial amount of additional operational funding each and every year.</p> <p>Norfolk Island's relatively small population would make it extremely difficult to recoup these costs and the Hawaiki cable would only be able to operate with a significant and ongoing subsidy from the Australian Government.</p> <p>The Government welcomes commercially sound investments in international submarine capacity but is not proposing to fund Norfolk Island's connection to the Hawaiki cable. The Norfolk Island Regional Council, at its meeting on 28 September 2016, also agreed not to support the Hawaiki proposal using its own funds or borrowings.</p>

		<p>Australian Government – although being well-suited to minimal broadband Internet access to remote Australian homesteads – is not designed to meet the complete spectrum of telecommunications needs of a geographically concentrated and tourist-centric community such as Norfolk Island. For example, professional opinion has it that NBN Sky Muster cannot provide international connectivity for Norfolk Island's telephone or mobile networks, nor sufficient capacity to cover the needs of the Norfolk Island Airport and Central School, nor provide for the requirements of emergent applications such as telemedicine and cloud services.</p> <p>Despite urging by the NIRC, all offers by Hawaiki Cable were declined by Minister Nash.</p>	
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- On the Brink of Disaster -

The Impact of the Australian Government Reforms on Norfolk Island Businesses

An Independent and Unsolicited Report provided to
The Norfolk Island Community
and to

The Hon Darren Chester MP
Minister for Infrastructure and Transport
Acting Minister for Regional Development
Acting Minister for Local Government and Territories

by

Chris Nobbs

Norfolk Island
November 2017

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Biographical Note

Dr Chris Nobbs is a graduate of the universities of Auckland, London and Cambridge, in natural science, economics and economic development respectively. He has had a career in both the private sector as a consultant and as a public servant, at local, state, national and international levels.

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Preface

The third settlement of the British territory of Norfolk Island commenced in 1856 with the resettlement on the island of the descendants of the HMS *Bounty* mutiny, then over-populating Pitcairn Island. Currently Norfolk Island is an external territory under the authority of the Commonwealth of Australia. In recent years Norfolk Island has been subject to changes wrought by the Australian Government that have been the most sweeping on the island since its settlement by the Pitcairn Islanders. These changes have included changes in representation and governance, and in the economic and financial regime on the island.

From 1979 until 2015 the island enjoyed a degree of self-government, but this was terminated in June 2015 by the Australian Government in actions that saw the closure of the Norfolk Island Legislative Assembly and the disbanding of the Norfolk Island Government and Public Service. The Legislative Assembly was replaced by a "regional council", constructed under Commonwealth legislation, and modelled on a New South Wales local authority template.

The centrepiece of the new economic and financial regime is the absorption of Norfolk Island into the Australian taxation and welfare systems. The activities of the new Norfolk Island Regional Council (NIRC) are regulated by the Commonwealth-enacted *Local Government Act 1993 (NSW)(NI)*, and by other Commonwealth Acts and Norfolk Island Acts still applicable to Norfolk Island.

The purpose of this report is to identify major changes that these recently introduced measures (and others that have been foreshadowed) have wrought on businesses on Norfolk Island, and to point to some of their consequences. In doing so it recognises the critical importance of tourism for the Norfolk Island economy. The report describes an island in economic crisis, and goes on to suggest actions that need to be taken to resolve it.

All the figures quoted - where not referenced - are current and in general circulation. Commonwealth Government departments, departments of the New South Wales Government, and the Norfolk Island Regional Council have all provided information. I have discussed the matters which are raised in this report over several months with many engaged with the economy of Norfolk Island, including successful business people. I thank them all for their contributions and advice. However responsibility for the content of this report rests with me.

The report is based on evidence and analysis. The conclusions follow from these. To deny the conclusions requires at least equally compelling other evidence and alternative analysis.

There does not appear to be any study of the prospects for the Norfolk Island economy, comparable to this one, carried out by the Australian Government or any other body.

Individuals and groups will make up their own minds as to the relevance of this report for their own purposes and for the Norfolk Island community more generally. Those who wish to discuss the content of the report, or who would like to provide alternative or additional information, are invited to contact the me at: nobbs298@gmail.com.

Chris Nobbs
Norfolk Island

Executive Summary

1. The Norfolk Island economy is in a state of crisis and on its current trajectory is heading towards a disaster in which many businesses and families will suffer substantially.
2. This crisis is a result of the manner of intervention by the Australian Government in the island's government and economy commencing 1 July 2016. By requiring *both* that Norfolk Island pay its own way *and* that Norfolk Islanders become like mainland Australians in terms of their obligations and expectations, the Australian Government is by its decisions crushing the island's economy in a vice from which few groups will escape unscathed.
3. Critical factors in this crisis include:
 - ◆ the imposition of Commonwealth and NSW regulatory regimes which have raised, and will inevitably continue to raise, business costs and prices substantially;
 - ◆ the planned introduction of Australia's Modern Award System for employment (which in some instances will see an overnight 30 per cent rise in small business wage costs);
 - ◆ the failure of the Australian Government to take up the responsibilities previously held by the Norfolk Island Government for the promotion of tourism on the island;
 - ◆ the loss of direct passenger airline services between New Zealand and Norfolk Island;
 - ◆ restrictions on island agricultural pursuits due to biosecurity preconditions;
 - ◆ the removal of general revenue raising powers previously held by the Norfolk Island Government; and
 - ◆ the little evidence of any "upside" for Norfolk Island's future economic development.
4. It is projected that the combination of these factors along with others will cause a very large increase in Island prices, a steep downturn in tourism, a slump in business, a rise in unemployment, and widespread community distress.
5. The Australian Government has given insufficient thought to the genuine requirements of a very small and marine-isolated economy such as Norfolk Island has. (Given that Australia comprises almost *in toto* one vast continent, this may not be surprising.) The "development" model currently in place for Norfolk Island is grossly inappropriate.
6. As a result of the analysis provided here, the Australian Government is urgently enjoined to:
 - ◆ halt for the meantime any further Commonwealth or state impositions on Norfolk Island under current arrangements;
 - ◆ commission the Australian Productivity Commission to carry out research and conduct a public inquiry to determine the real financial capacity of the island and how it can survive economically, socially and culturally at reasonable cost;
 - ◆ restore some general revenue-raising powers to the Norfolk Island Regional Council;
 - ◆ specify clearly and in much greater detail than has been done hitherto, exactly what its objectives on Norfolk Island are, and specify indicators to measure their achievement.

1. The Australian Government's Legal Changes and their Economic Consequences for Norfolk Island Businesses

1.1 Commonwealth level changes

All of the changes introduced by the Commonwealth Government under its "reform programme" impact businesses on Norfolk Island either directly or indirectly. These changes have come in the wake of the modest performance by Norfolk Island businesses in the years following the global financial crisis of 2007-09. Many of these changes impose substantial new and increasing costs on Norfolk Island businesses, which are enumerated in the following:

(i) The Australian minimum wage applicable to Norfolk Island rose 16 per cent on 1 July 2016, 22 per cent on 1 July 2017, and is set to increase by two to three per cent per year in following years

The Norfolk Island minimum wage administered by the Norfolk Island Government (NIG) stood at A\$13.00 over FY2015-16. The Norfolk Island minimum wage from 1 July 2016 was set by the Australian Government at 85 per cent of Australian national minimum wage i.e. $0.85 \times \$17.70 = \15.05 , a 15.8 per cent increase. As of 1 July 2017 the Norfolk Island minimum wage was increased to 100 per cent of Australian national minimum wage (\$18.29), a 21.5 per cent increase from the previous year [viz. $100(18.29-15.05)/15.05$]. The Australian Fair Work Commission commonly resets the minimum wage on an annual basis: the average annual increase over the last three years has been 2.7 per cent. Thus, beyond 30 June 2018 the Norfolk Island minimum wage is likely to continue to rise at about this rate – over and above the 41 per cent rise sustained over the last two years [viz. $100(18.29-13.00)/13.00$].

(ii) Employee entitlements under the National Employment Standards (NES) from 1 July 2016 have increased costs by reducing the standard working week on Norfolk Island by two hours and increasing employee leave entitlements

Prior to 1 July 2016 employment on Norfolk Island was regulated under the *Norfolk Island Employment Act 1988*, which provided for a standard working week of 40 hours and 10 days holiday leave, and a minimum of 5 days sick leave. The Australian National Employment Standards (NES) have introduced a maximum standard working week of 38 hours for full-time employees, twenty days paid annual leave per year, and up to ten days paid personal/carer's leave. These entitlements are available to all employees (including permanent part-timers).

(iii) Employee entitlements under the Australian Modern Award System(MAS) from 1 July 2018 will increase business costs very substantially, particularly as they relate to penalty rates

Under the *Norfolk Island Employment Act 1988* all overtime hours beyond the 40-hour standard, were paid at 150 per cent of the rate for regular hours; public holidays were paid days, and if worked were doubly paid (i.e. 200 percent the rate for regular hours).

It is proposed by the Australian Government that the Modern Award System (MAS) administered by Fair Work Australia will extend to Norfolk Island from 1 July 2018. Amongst other things the MAS introduces the concept of a specified minimum weekly wage for different levels of work responsibility above the basic minimum wage, in each of several different industry categories. All of these specified wage rates change over time by the same percentage as the minimum wage rate does (approx. +2.7 per cent per annum).

The MAS also introduces penalty pay rates for overtime, which will have very serious implications for Norfolk Island where tourist air service arrivals occur on four days of the week, two of which are on the weekend. The MAS also introduces specified minimum working hours for part-time employees (who on Norfolk Island are naturally restrained to live within 10 minutes travel time from work, and who due to other commitments may be quite comfortable with shorter and more flexible working hours).

Appendix I sets out the wage calculations for a small Norfolk Island retail business open during the week and on weekends in order to serve both tourists and local residents, before and after the introduction of the MAS. Wage costs are set to rise abruptly by 35 per cent per employee. Assuming that current opening hours are in some sense optimal for the business and its customers, such a wage increase would be inconceivable for future economic viability.

(iv) Employee superannuation is increasing at one per cent of employee normal earnings per year

Over many years the NIG operated a provident fund (superannuation) scheme for its employees, with superannuation provision for others in the community left for individuals to organise. It is probably true to say that up until the present the issue of retirement has not been the major issue on Norfolk Island as it is within Australia, as a result of the island's bounty, simple lifestyle, and supportive community.

Payment by businesses of employee superannuation under the Australian superannuation guarantee commenced 1 July 2016 at one per cent of employee normal earnings, moved to two per cent on 1 July 2017, will move to three per cent on 1 July 2018, and increase by one per cent annually after that. The current Australian rate of 9.5 per cent is fixed by Commonwealth legislation until 2020/2021, after which it will rise by 0.5 per cent per annum until it reaches 12.0 per cent p.a. in 2027. However in 2020/2021 the rate on Norfolk Island will have reached only 5.0 per cent p.a., so it will need to continue rising at 1.0 per cent p.a. until 2027/2028.

(v) Cost of compliance with Commonwealth legislation relating to employment and taxation (from 1 July 2016) is high

Set-up costs for businesses have included comprehension and training in relation to the changes introduced, computer hardware and software purchases, and payments for financial consultants and accountants. Advice from chartered accountants in relation to business structure options can run to many thousands of dollars. (Chartered accountant fees in Sydney commonly being well above \$400/hr.) Initial establishment of money value for depreciation scheduling and allowances on existing capital assets can require the hiring of registered quantity surveyors (cost for a 10-unit accommodation business around \$5,000).

On-going increased costs include the use of accountants in BAS preparation, and in taxation and superannuation matters.

(vi) Effects on businesses of general taxation changes from the Norfolk Island Government regime to the Australian Government regime appear so far to be small or negative

Prior to the 1 July 2016 changeover, businesses paid taxes to the NIG, particularly Norfolk Island GST and import duties. Goods imported into Norfolk Island for on-selling were not subject to import duty (a waiver not granted to imported vehicles, liquor, and tobacco products) but were subject to NI GST at the rate of 12 per cent of dollar value. Goods imported into Norfolk Island for the importer's use – and of value greater than \$500 – paid import duty at 18 per cent but were NI GST free.

From 1 July 2016, NI GST and import duties were abolished. The Australian Government has stated that goods and services provided on Norfolk Island will be Australian GST-free in future.

Based on Australian taxation law a business needs to be declared as either a sole trader, partnership, company or trust. These entities have different tax obligations and allowances. Most businesses on Norfolk Island operate as sole traders or partnerships (often husband and wife).

Claims for depreciation allowances for small businesses can cover capital works, plant and equipment, and renovations and improvements. Over the 2016-17 financial year the Australian Government provided 100 per cent instant depreciation for individual capital goods purchased at a cost of less than \$20,000 (including freight charges). This has now been extended for FY2017-18.

There is a range of other tax deductions claimable against expenses incurred by business entities and against personal income for sole traders and partnerships, incurred in running the business. These are

set out on the ATO website. Partnerships do not pay tax as such, but the business profits are divided amongst the partners who pay tax individually on their income. Norfolk Islanders paying income tax benefit from the special area zone tax offset allowable on Norfolk Island as a remote area (allowable to individuals who have lived or worked in the remote area more than 183 days in the tax year). Currently this offset is set at \$1,173.

The question that arises is whether the Australian taxation changes represent a nett positive or nett negative stimulus for Norfolk Island businesses. This is not easy to estimate, but the results of a business confidence survey carried out on Norfolk Island recently (see section 3.2) suggest overall that businesses have been disadvantaged by the taxation changes introduced by the Australian Government relative to their previous circumstance. Anecdotal evidence appears also to support this observation.

(vii) Commonwealth's extension of NSW legislation to Norfolk Island

The Australian Government has incorporated Norfolk Island notionally as a part of New South Wales, by passing Commonwealth laws applicable on Norfolk Island which mirror NSW laws. The New South Wales Acts currently in force on Norfolk Island include the *Local Government Act 1993 (NSW)* (as the *Local Government Act 1993 (NSW)(NI)*), the *Health Services Act 1997* and the *Public Health Act 2010* (together with the *Interpretation Act 1987* and the *Long Service Leave Act 1955*).

With regard to the application of other NSW legislation, Schedule 1 item 1 of the Norfolk Island Applied Laws Ordinance 2016 temporarily suspends the application of other NSW laws until 1 July 2018 (see Appendix II). As the NSW Government lists over 950 Acts currently in force in NSW (NSW Government, 2017), if this proposition is imposed on Norfolk Island it is likely to provide a feast for financial and legal intermediaries, increased costs of business, but with little or no tangible benefit for the island.

See further section 1.2(i) on the extension of NSW regulatory provisions to Norfolk Island.

(viii) Effects on employment opportunities

The negative consequences of the charges accumulating on businesses over time on the future *level* of employment are likely to be very serious, but unpredictable in precise terms. There are however other aspects of the Commonwealth changes that are having negative influence on island employment.

The NIG operated a Temporary Entry Permit (TEP) programme, under which businesses wishing to hire a skilled employee and having found no one suitable after advertisement on the island, could support someone to come to Norfolk Island (from Australia as from elsewhere) as a TEP worker. These permits were renewable every 12 months, and provided a path to permanent settlement on the island for those so-disposed. The programme provided a flexible but controlled labour market on the island.

Under the NIG regime skilled workers could often be attracted to work on Norfolk Island on account of the better conditions and tax advantages on the island. This opportunity has now been lost as New Zealanders now require visas to work on Norfolk Island, and there is no comparable financial advantage for similarly skilled Australians to work on the island. Currently, a Norfolk Island business cannot sponsor skilled employees to come to the island to work. The Commonwealth's Regional Sponsored Migration Scheme has no regional certifying body responsible for Norfolk Island.

Also for residents of Norfolk Island the NIG regime provided a means by which they could find part-time work in tourism and other industries as seasonal and other variables required. This flexibility has now been lost to a large degree on account of: individuals receiving welfare support from the Australian Government are who likely to be penalised if they take part-time employment, and individuals taking a second job being penalised by withholding tax taken out of their secondary employment pay (and which is returned later by means of their income tax assessment).

1.2 NSW State (NSW) level changes

As noted above, the Australian Government has replaced, under Commonwealth legislation, the Norfolk Island Legislative Assembly with a "regional council" modelled on a NSW local government template. (The concept of "regional council" does not exist in NSW.) In comparison to NSW local governments Norfolk Island is unique in NSW, and perhaps in Australia, in that it is responsible for a very wide range of services, including the island's telecommunications, lighterage and ports, electricity utility, and an international airport.

In previous years the NIG had the ability to raise general revenues, particularly from the NI GST and import charges. The NIRC no longer has this power, and is limited to revenue raising methods specified in the *Local Government Act 1993 (NSW)(NI)*. This has placed an immense burden on the 1,200-odd ratepayers of the island and has undermined the ability of the island to respond adequately and flexibly to needs as they arise. These changes are also reflected in the increasing imposts being made on businesses. The Australian government has enforced on Norfolk Island the requirement of raising an annual minimum in rates of \$1million (see Appendix II) (and see further section 1.2(vii) below).

There is a misplaced optimism that local authority funds-raising can support a community of around 1,200 ratepayers on an isolated island in a manner similar to mainland Australia, given the breadth of responsibilities that the NIRC has, and the usage of the island's infrastructure by 30,000 tourists per year. A further difficulty for the NIRC is that the current Council's senior management were appointed by the Australian Government not the NIRC.

(i) NSW regulatory compliance

Public health and occupational health and safety (OH&S) requirements will represent very significant cost increases for businesses on Norfolk Island. Many businesses on Norfolk are small (because the market is small), and some businesses are not full-time. For these reasons the costs of meeting regulatory provisions will be high relative to revenue, and can be further increased by transportation costs to and from Australia e.g. for training, laboratory sample testing, monitoring. If the full weight of NSW regulatory provisions is imposed on businesses on Norfolk, many will close, and this has already been happening.

Consider the implications of the *Public Health Act 2010 (NSW)* and Public Health Regulations 2012, which require the establishment of a defined quality assurance program for all "private water suppliers". As there is no reticulated water supply on the Norfolk Island and all businesses provide water from rainwater tanks or bores, this definition includes individual accommodation houses, hotels, recreational and sporting facilities, community halls, schools, food preparation premises, restaurants and cafes, rented accommodation, and even private homes providing progressive dinners for tourists (NSW Health, 2014). Each and every one of these businesses individually will be forced into complying with the panoply of imposed regulations. Water carters who provide water only in temporary drought periods on the island (less than 100 deliveries total per year) also come under similar regulations. (Initial cost of compliance with this Act for private water suppliers is running at around \$5,000 for 10-unit accommodation property, \$15,000 for hotels; on-going compliance costs extra.)

Again, consider red meat (cattle) slaughter. The NSW legislation, and regulations administered by the NSW Food Authority are drafted with large scale plant operations e.g. abattoirs, in focus, a quite different situation to Norfolk Island where a mere dozen or so cattle beasts are slaughtered each week. If the full NSW specified requirements for licencing and registration, meat safety inspection, facilities construction, hygiene and handling, labelling, inspection and audit were applied on Norfolk Island, it is possible that they would wipe out the local industry, and in addition raise the cost of red meat through necessary importation. In contrast the previous *Norfolk Island Slaughtering Act* is a short Act and gives considerable discretion to the Stock Inspector, and its success is demonstrated by the high public health and OH&S standards achieved under it. It is flexibility of this sort which is far more appropriate to Norfolk Island conditions than high-cost regulations appropriate for different circumstances.

The main point is that Norfolk Island businesses are supportive of public health and OH&S objectives, however the costs and the benefits need to be assessed in a manner which a small community is capable of sustaining. It is imperative to put in place a flexible system that does not drive small businesses to the wall. Within the ambit of World Health Organisation criteria, the current Australian state regulations do not necessarily represent a unique best solution to these issues. As Danny Gilbert, former director of National Australia Bank and Chair of the Business Council of Australia's Ease of Doing Business Committee stated in a recent essay (Gilbert, 2017):

This is not a call to blindly slash regulationbut to take a culturally thoughtful, systematic, evidence-based approach to reforming our nation's insidious regulatory culture and deliver the best outcome for Australians.

If regulation is necessary, it should be fit-for-purpose. It shouldn't be too complex or excessive for the risks involved....

(ii) increasing tradesperson rates

Tradespersons (electricians, plumbers, carpenters) are both businesses in their own right, and provide a direct input cost to the proper functioning of other businesses. They have their own regulatory compliance requirements. In 2014-15 prior to the reform process, rates on Norfolk Island for tradespersons ranged around \$35-\$40 per hour. Current rates on Norfolk Island have risen to \$45-\$50 per hour (a 25-30 per cent increase). These rates are still below rates current in NSW, and will inevitably rise substantially as new regulations come into force, and new employees expect Australian levels of allowances and superannuation. Unless an alternative decision is taken by the Commonwealth, NSW regulatory requirements for tradespersons in relation to OH&S, compulsory insurance etc. will be extended to Norfolk Island from 1 July 2018. This is likely to occasion significant cost increases for all businesses.

(iii) Commonwealth and NIRC airport charges

Under the Norfolk Island Government regime, Australian federal departure tax did not apply to flights from Norfolk Island to New Zealand. From 1 July 2016 the Australian Government introduced a passenger movement charge for people departing from Norfolk Island to New Zealand, of A\$55. This was increased to A\$60, from 1 July 2017.

The NIRC has also announced an increase of its passenger movement charge (levied on all arrivals and departures) at the Norfolk Island airport from January 2018, from \$25.70 to \$45.60 (an 85 per cent increase). From 1 January 2018 these imposts will raise the total passenger fees payable on an airline ticket to Norfolk Island to A\$158.94 ex Brisbane, and A\$214.10 ex Auckland. These are extremely serious increases for Norfolk in a very competitive tourist marketplace: the price elasticity of demand for short-haul holiday flights being very elastic i.e. < -1.00 .

See further Section 2.1(ii) below, on airline services' response to these issues.

(iv) NIRC "fee unit" increased 12.7 per cent from 1 July 2017

Charges for many NIRC services are determined in terms of a "fee unit". The fee unit for 2016-17 was set at \$25.20, and this has been increased for 2017-18 to \$28.40, an increase of 12.7 per cent.

The influence of this increase will be pervasive. Services which are set in relation to the fee unit and which are relevant for businesses include conveyancing, register searches and provision of documents, lodging of documents, licence issuance, examination of stock, water assurance and so on, contained in NSW Acts and Regulations including the *Sale of Food Act*, *Electricity Supply Act*, *Water Assurance Charges Act*, *Companies Regulations*, *Electricity Supply Regulations*, *Liquor Regulations*, and *Planning Regulations*.

(v) Other NIRC fees and charges have also increased from 1 July 2017

These increases include the following:

- ◆ Norfolk Telecom landline and mobile charges increased by 15 per cent;
- ◆ lighterage charge per cubic metre/tonne increased by 13 per cent, and it is understood that a further increase is projected;
- ◆ the electricity tariff remains at 62c/kWh however new charges effective 1 October 2017 include: a general infrastructure charge to all electricity consumers for grid access of \$37 per quarter; and a solar infrastructure access and development charge for consumers with photovoltaic arrays, of \$26 x Kw capacity per quarter.

(vi) wastes management

Under the NIG all Norfolk Islanders, including Norfolk Island businesses, paid a waste management levy at the rate of \$32/tonne on the import of all goods (incoming mail the only exemption). On 1 July 2017 the NIRC increased this levy to \$35/tonne (a 10 percent increase). The NIRC has now introduced from 1 August 2017 an additional waste management fee for disposal of non-recyclable waste, with the cost dependent on the volume of waste. This is set at \$15 per medium truck (1 cubic metre), \$20 per large truck (2 cubic metres).

In 2012 the Commonwealth declared the Norfolk Marine Park under the Australian Environment Protection and Biodiversity (EPBC) Act. This includes a sea area completely circumscribing Norfolk Island. Under the EPBC Regulations the disposal of wastes into a marine reserve is prohibited without the approval of the Director of National Parks, and the Director has made her view known to the NIRC that current disposal practices are inconsistent with the conservation objectives of the park and that current practices must cease. The NIRC supports this objective and is working towards this goal. The point requiring emphasis in the present context is that this represents a further, however unintentional, impost by the Australian Government on Norfolk Island businesses and the community. (Further on the Marine Park, see section 2.1(iv))

(vii) property rates

The Australian Government has imposed on the NIRC the requirement of raising from property rates a minimum of \$1,000,000 from property rates in the year ending June 2018, and thereafter (see Appendix II). This imposed further new costs on island businesses. (See further section 2.2(vi))

1.3 Summary

Businesses on Norfolk Island are being subject to an avalanche of cost increases imposed directly and indirectly by the Commonwealth, which many businesses will not be able to sustain.

It should be recalled that the downturn of economic activity experienced by many economies around the world over the years 2007-09 – when national GDP figures fell by around only 5 per cent – was characterised as a "financial crisis". With the Norfolk Island economy bracing for a plunge in activity much greater than that, the description of "crisis" is also applicable here.

The changes in imposts to which Norfolk Island businesses are subject in 2016-17, and will be subject in coming years are summarised in Table 1. Invariably these represent cost increases. Wage costs alone for some small businesses are set to rise over 30 per cent immediately on 1 July 2018 (see Appendix I). (And it is important to recall in relation to Table 1 that small percentage increases on large money amounts can also represent substantial cost increases e.g. the superannuation levy.)

Table 1.
Cost Increases for Norfolk Island Businesses since FY2015-16
as a result of the Commonwealth Intervention

NB: For each issue (as discussed in the text) this Table gives the chosen baseline measure and cost increases (in dollar or percentage terms) subsequent to FY2015-16. There are no known cost decreases that can be identified. Symbol (+) refers to estimated increases: the more symbols the larger the change. See text for full explanation.

Issue	Base	Cost Increase for Financial Year			
		2016-17	2017-18	2018-19	2019- (best knowledge)
Commonwealth					
Minimum wage	NI min. wage	+16%	+18%	+3%	Continues to increase at ~3% pa
Employee entitlements	NI min. wage	+11%	—	—	Continues at this higher level
MAS	NI wage, penalty rates	—	—	>25%	Continues at this higher level
Superannuation guarantee	NI wage/salary	+1%	+1%	+1%	Continues to incr. annually to 12.0%
Compliance costs Cwlth (tax, emp.)	Business turnover	+++ \$	—	—	After setup, cont. at const. level
Income tax (compliance, profit)	NIG tax level (w. allowances)	(+) \$	(+) \$?	
State level					
Compliance NSW (Public health etc.)	Equipm't, training, registr'n etc	++ \$	++++ \$?	
Tradespersons (as inputs)	Hourly rate	+12.5%	+12.5%	?	
NIRC services	NI fee unit 2016-17	—	+12.7%	?	Continues this higher level?
NI Telecom - landlines & mob	Charges 2016-17	—	+15%	?	Continues this higher level?
Lighterage	Charges 2016-17	—	+13%	?	Further increase foreshadowed?
Electricity	Fees & charges 2016-17	—	+ \$?	
Wastes management	Fees at 2016-17	—	+ \$?	
Property rates	Rates at 2016-17 (min. \$500k)	Introduced	+100% (min.)	?	Continues this level or higher
Cwlth & State					
Airport & passenger fees	(i) Cwlth pass. tax ex NZ prev. nil (\$)	+\$55	+9%	?	
	(ii) NIRC pass. levy 2016-17 (\$25.70)	—	+85% (>Jan '18)	?	

2. Uncertainties and Complicating Issues

Quite apart from the issue of known cost increases as discussed in previous sections, there is a further number of issues which have increased uncertainty for Norfolk Island businesses. Some of these are of major significance and represent substantial impediments to business investment on the island.

2.1 Aggravating Uncertainties

(i) tourism budget

The former Norfolk Island Government over many years provided steady base funding for Norfolk Island tourism organisation and promotion (around \$1.3m per annum), as a foundation for forward planning by island businesses. Under the NIRC such reliable funding no longer exists. Under the Australian Government reforms, the Commonwealth agreed to fund state functions. Because tourism promotion is a state function, it is contended that it is the Commonwealth's responsibility to provide stable and reliable funding for tourism promotion on Norfolk Island – as Australian states do for their own tourism. So far the Commonwealth has refused to do this, although the Commonwealth has provided some emergency funding over 2016-17 (\$100,000).

Norfolk Island does not have access to NSW state tourism funding, such as the \$300million Tourism Fund, or Destination NSW.

(ii) airline service reduction

Norfolk Island has been served over many years by scheduled air services from Brisbane, Sydney, and Auckland. In recent years Air New Zealand has provided all these services, of which those from Australia are underwritten by a contract with the Australian Government which provides a "top up" to the airline if average fare (revenue/passengers) falls below a specified level. On 16 December 2016 Air New Zealand announced that it would be withdrawing direct air services between New Zealand and Norfolk Island from May 2017, and it did. In early 2017 the company Norfolk Island Airlines indicated that it would provide an Auckland–Norfolk service, and additional flights between Norfolk and Brisbane. These flights commenced in May 2017. However, on 11 September 2017 Norfolk Island Airlines announced it would be withdrawing from the Norfolk Island-Auckland route from 14 January 2018, citing the impact of tax increases imposed by both the Australian Government and the NIRC (see section 1.2(iii)), and higher than planned operating start-up losses due to the delay in the NIRC destination marketing campaign. (Norfolk Island Airlines, 2017)

The New Zealand tourist market represents 16-20 per cent of Norfolk Island's tourism. This reduction will hit not only the New Zealand market but also the Australian: Norfolk Island is a well-known location for international events e.g. jazz festival, country music festival, food festival, Norfolk theatrical festival, and these will be compromised if in future they are seen as without international flavour. Sports teams from New Zealand will also be discouraged from visiting if they can only get to the island by travelling via Sydney. The service withdrawal also represents a substantial loss of freight capacity for island businesses.

(iii) reduced multiplier effects of off-shore ownership

The absorption of Norfolk Island into the Australian taxation system, the unrestrained immigration of those with Australia-based interests to the island, and the contracting of services to off-island companies, have reduced the multiplier effects of economic activity on the island, with negative but unmeasured consequences. (For example the petrol supply contract, formerly held by a local firm, has been awarded by the Australian Government to an international company.)

(iv) recreational fishing around Norfolk Island

Recreational fishing in the waters around Norfolk Island is an important asset for Norfolk Island tourism, and in addition provides fresh fish for the tables of island families.

Norfolk Island is situated wholly within the Norfolk Marine Park, established by the Australian Government in 2012. The Park covers a somewhat rectangular area of around 188,000km² (almost one quarter the area of NSW) with Norfolk Island at its core. The Norfolk Island Government's *Norfolk Marine Reserve Act* remains in operation however the supporting regulations were not completed prior to the Australian takeover on 1 July 2016. The Park is managed by Parks Australia on behalf of the Commonwealth, with fishing under the control of Australian Fisheries Management Authority (AFMA). Within the Park is a rectangular area of 67x40 nautical miles around Norfolk Island referred to as the "MoU Box", within which tourist and local recreational fishing by Norfolk Island-based vessels is permitted under a Memorandum of Understanding entered into in 2010 by the Norfolk Island Government and AFMA. (NIG and AFMA, 2009) The Box is defined as a "multiple use zone" in the marine park plan. (Australian Marine Parks, 2017)

For many years the Norfolk Island Government and its successor the Norfolk Island Regional Council, together with NI Fishers Association, have petitioned the Commonwealth to identify the Box on all planning maps, including those of the Temperate East Commonwealth Marine Reserves Network, in order to confirm the status of the Box in relation to Norfolk Island and its economy. So far this request has been denied.

2.2 Other matters

(i) biosecurity and agriculture

Under the NIG regime the importation of live animals into Norfolk Island was controlled by the NIG under the *Norfolk Island Animals (Importation) Act 1983*. On 1 July 2016 control passed to the Commonwealth Department of Agriculture and Water Resources (DAWR) acting under the requirements of the *Biosecurity Act 2015*. Norfolk Island is now designated as a distinct region within Australia for biosecurity purposes (as some regions within Australia are also so-recognised).

In February 2017 an application was made by a Norfolk Island resident family to DAWR for a permit to import live milking goats from Australia. Following an exchange of information with the applicant the Department informed the applicant in July 2017 of its decision to deny the granting of the permit on the basis of the biosecurity risk. This decision is now the subject of an internal departmental review at the request of the applicant. Concurrently and independent of this application, the Department made it clear that they intended to refuse all applications to import ruminants (cattle, sheep, and goats) to Norfolk Island.

The issue of the importation of ruminants is a very important one for Norfolk Island both because of the status of the island's current stock, and because of Island's high agricultural potential and its potential to provide viable economic activity alternative to the Island's reliance on tourism – and indeed as an adjunct to tourism itself.

The reasons given by DAWR for the permit refusal referred to the results of the quarantine survey carried out on Norfolk Island over 2012-14 (Department of Agriculture, undated), which demonstrated the high biosecurity status of the island and the absence of ruminant-specific diseases on the island at that time. In any proposed importation the primary concern is for the potential introduction of disease, and in the case of ruminants particularly, Johnes's disease: a chronic and debilitating ruminant disease which exists in Australia and is difficult to eradicate once established in a herd. However up until 30 June 2016, cattle, sheep and goats imported to Norfolk Island under the strict biosecurity protocols provided under the Norfolk Island legislation were subject to no known incursions.

As an alternative to the import of live animals DAWR has suggested the use of artificial insemination for ruminants on Norfolk Island. This has disadvantages due to the fact that it provides only half the genetic material as new, and which is a particularly significant impediment on Norfolk Island due to the small ruminant numbers currently on the island. In the case of the proposed goat importation this approach also presumes that goat does are available to the importer, which they are not. Furthermore the denial of live imports may well signal the gradual demise of the existing ruminant-based industries on the island, including the existing single goat-owner's fledgling business. (Currently Norfolk Island is home to around 1,500 cattle, 100 sheep and not more than 10 goats.)

For DAWR, when it is proposed to import a good (including animals) into Australia from overseas – and now equally into Norfolk Island from Australia – the *Biosecurity Act* provides for the Director of Biosecurity to conduct a Biosecurity Import Risk Assessment (BIRA) in relation to that particular good. This is then assessed against a criterion called the "appropriate level of protection" (ALOP), in which an investigation is made to determine whether risk management measures exist which can reduce the assessed risk to achieve the relevant ALOP level, which is not of necessity zero. If it is considered that the appropriate level of protection cannot be achieved, then importation is refused. (DAWR, 2016)

In the case of the application for a permit to import the goats to Norfolk Island, it appears that a BIRA has not been undertaken and that the decision has been made on less comprehensive grounds. For their part the applicants did in fact propose a number of risk-reducing strategies, and that the goats be subject to comprehensive testing and screening prior to departure and after arrival on Norfolk Island. Furthermore the decision by the Department to intend to refuse all live ruminant imports to Norfolk was not preceded by any consultation with the Norfolk Island community, nor in particular with the island's veterinarian or the Norfolk Island Cattle Association (NICA). The NICA in fact supports the continued importation of ruminants under strict quarantine conditions such as those in place under the previous regime.

Furthermore it appears that under BIRA procedures, the potential benefit to Norfolk Island of an expanded goat (or other ruminant) industry could not be taken into account, because that would apparently transgress World Trade Organisation international trade rules which allow only for the consideration of the *dis-benefit* of a disease outbreak in risk assessment procedures (DAWR, 2016, p.8). This would be truly ridiculous, and is a further example of the Commonwealth's entanglement of Norfolk Island in laws and rules and protocols not designed for small isolated islands and which are largely irrelevant, inhibitive, and decidedly costly for the island itself.

We need to be very clear what is happening here: namely that DAWR is – with the stroke of a pen – making a decision about how it thinks it should save Norfolk Island agriculture from itself, for no benefit to the Australian mainland, and for a great dis-benefit to Norfolk Island. This approach needs urgently to be reviewed.

The stringency so-far accorded by DAWR to the import of ruminants to Norfolk Island stands in stark contrast to the apparent relaxing of biosecurity protocols for horses, dogs and birds, and to the apparent unwillingness of DAWR to inspect marine consignments arriving at Norfolk Island on board ship and prior to physical landing on the island – as was done under the previous regime. On at least one occasion a ship has been turned away from the island in the past due to infected cargo.

(ii) new industries? The example of medicinal cannabis

The Commonwealth does not have a good record in assisting the promotion of new industries on Norfolk Island. One recent episode relates to the possible commercial cultivation of medicinal cannabis on the island. Given the island's severe isolation, biosecurity status and climatic conditions, commercial research showed that this could be a very valuable crop for the island. On two occasions (in 2014 and 2015) the Norfolk Island Government issued separate licences under Norfolk Island law to Australian companies to import to, cultivate and harvest cannabis in, and export cannabis from Norfolk Island. On both occasions the licence was cancelled by the Norfolk Island Administrator on instructions from the Commonwealth Minister. (Hardgrave, 2014; Adams, 2015a & b).

In 2016 the growing of medicinal cannabis became legal in Australia, and a number of companies both Australian and from overseas have expressed substantial interest in investing in the industry in Australia.

(iii) loss of government buffer

Island economies are naturally subject to quite wide swings in economic fortunes as a result of their very small size, and their being price takers in the economic arena and having to respond to economic conditions elsewhere. The loss of the ability to raise general revenues inhibits the ability of the NIRC to respond promptly and adequately to economic downturns (or upturns) effecting the island and its citizens. Furthermore under the NIG regime public funds available from the NI-GST increased naturally with increasing economic activity, but this link has now been broken.

(iv) loss of economic and tourism statistics

During the period of its existence the NIG maintained a number of statistics by which to monitor the island's economy. NI Customs kept records of goods imported, and whether they were for resale or not; NI Treasury had records of GST payments; and visitor arrival cards on arriving passenger aircraft provided a range of data about island visitors, particularly tourists, for tourism planning purposes. NI CPI figures were regularly calculated according to an Australian Bureau of Statistics (ABS)-derived and locally-relevant formula.

Under the new regime the NIRC has lost access to monitors of almost all its key economic indicators. There are no records of imports; no GST is payable; the Australian Border Force administers the Australian Government's passenger arrival cards system and although some information on tourist arrivals is now provided to the NIRC, this is circumscribed in content and at the discretion of the ABF.

There is no simple means available to make up these losses. Statistics available from the ABS are only rarely adequate and timely for island purposes due to factors including: long time intervals between collections; the time interval between collection and publication; Norfolk Island not necessarily being separately identified; confidentiality issues requiring the suppression or rounding of small numbers; and data collected not necessarily being locally relevant. And special data requests to the ABS have to be paid for.

(v) cruise ships

In recent years Norfolk Island has received visits from smaller-sized cruise ships which may carry their own inflatable boats for disembarkation. An increase in the number of visits to Norfolk Island by cruise ships represents one of the few positive opportunities on a bleak economic landscape. (In calendar year 2015 seven cruise ships came to the island, five discharged passengers totalling 1,925 persons; in 2016 five cruise ships came, three discharged passengers totalling 154 persons. In 2017 five ships have come - up to 22 October - discharging passengers on three occasions totalling 225 persons. Two more cruise ships are scheduled to arrive before the end of the year. (Transam Argosy, 2017)) Measures are afoot to increase the number of cruise-ship based visitors. There are a number of difficulties yet to be addressed, including the probability of not landing from larger vessels due to wind and weather (finally a decision for the ship's captain), and issues relating to passenger insurance in transfer and on land. While increased cruise ship visits can benefit the island, there are cogent reasons why net benefits will be limited. (Nobbs, 2017a)

(v) small business mentoring

The NIRC has recently sponsored a consultancy group from Queensland to provide mentoring for small and start-up businesses on the island. These activities may well prove useful for the island, however any positive effects are likely to be at the margin. The issue of how to energise new and novel business sectors in order to stimulate economic growth on the island has been the subject of discussion and debate over many years, and is recognised – as elsewhere – to be a difficult issue.

(vi) community effects

It needs to be noted that the continued impositions by the Commonwealth Government, and the lack of genuine acceptance by them of community input into strategic decision-making, has led to a widespread loss of self-confidence and self-esteem by many members of the community, and this has its own repercussions on economic and social wellbeing in the community.

Quite apart from the direct business concern with the introduction of land rates, the author is constrained to emphasise the distress that the introduction of land rates is having on many in the Norfolk Island community, and in particular on the descendants of the original settlers from Pitcairn Island. These folk hold their land as part of their patrimony and cultural identity to be passed down through the generations, and not as a merely fungible financial asset. Being often land rich but cash poor, many of them are being forced to sell their patrimony to pay their rates. Such sales are also likely to have the effect of driving land out of rural uses in an era in which immigration to the island is no longer controlled and housing represents a higher money value for the land.

2.3 Summary

Uncertainty is corrosive to business confidence and the willingness of businesses to invest. It also provokes emigration of working-age people. On this matter there is very little visible upside to the situation in which Norfolk Island finds itself.

The combination of rising costs and uncertainties about the future have caused many businesses on the island to close, others to reduce their business hours, and many to be put up for sale. (See Appendix III)

3. Surveys, Models, and Commonwealth Expenditures

The serious challenges faced by Norfolk Island businesses into the future and outlined in foregoing chapters, are confirmed by other lines of evidence.

3.1 The accommodation business model (June 2016)

In June 2016 model calculations were done for a typical or average Norfolk Island accommodation house undergoing the announced legislative changes of the Australian Government over the years to come. The model was conservative in its assumptions, the results of the calculations were described in the media at the time, and the model including its assumptions made available publicly in its entirety. (Nobbs, 2016a)

Making necessary assumptions about how the business functioned, the model made profit and loss projections for the business over the coming years. The results of calculations for a conservative “base case” scenario showed that individual after-tax income would register a 33 per cent drop from 2015-16 to 2018-19 (from around \$27,600 in 2015-16 to around \$18,500 in 2018-19). In the first year of the changes (2016-17) the business showed net benefit from the effects of the removal of the NI-GST, the new depreciation allowance and special zone tax offset effects, but these were rapidly eaten away by rising minimum wages, and in the year 2018-19 by penalty rates under the MAS. These numbers raised very serious concerns not only about the future income for accommodation business proprietors, but also their ability to invest and ensure their businesses remained economically viable. (The model did not of course take into account the loss of the New Zealand tourism market due to the withdrawal of air services from January 2018 (see section 2.1(ii)).

The results of the model calculations were provided at the time to the then Minister for Territories Hon Paul Fletcher and to the Secretary of the Department of Infrastructure and Regional Development Mr Mike Mrdak, and to other members of the Department responsible for Norfolk Island affairs.

3.2 Business confidence survey (August 2017)

A survey of business confidence on Norfolk Island was carried out over 21-28 August 2017. The survey was restricted to business owners/operators who were members of the Norfolk Island Chamber of Commerce (COC) and/or the Norfolk Island Accommodation and Tourism Association (ATA). The COC and the ATA are the peak bodies on Norfolk Island representing their members' interests. (Not all businesses on the island belong to either of these organisations.) Approximately one half of the relevant membership of the COC and one third of the relevant membership of the ATA responded to this survey.

Based on the responses received, business confidence on Norfolk Island is low, and getting worse. Sixty-one percent of respondents considered the financial position of their business was worse in FY 2016-17 than it was in FY2015-16, while 21 per cent considered it was better. With regard to the outlook for FY 2017-18, 43 per cent of respondents considered the performance of the businesses would be "about the same", and 43 per cent considered they would be "worse off" (13 per cent considered they would be "better off" in FY2017-18 than they were in FY 2016-17). Furthermore about half of the respondents (48%) see no respite in the medium term (5-7 years ahead) although a minority (30%) do see such a respite. (Nobbs, 2017c)

It must also be emphasised that the responses to the survey are probably biased in the direction of optimism because of the surge of money into the community from termination payments to Norfolk Island public servants in June 2016, and from the capital works programme being undertaken on the island by the Commonwealth. Neither of these will recur in future years.

Appendix III also provides some additional data bearing on the matter of business confidence: in relation to business closures, business for sale advertisements, and empty commercial space.

3.3 Australian Government direct expenditure (2015-18)

The Australian Government has in the past year spent, and at the time of writing is spending, significant amounts of money on Norfolk Island infrastructure. These expenditures will have a positive impact on island businesses in terms of local employment and services provided to them. However these expenditures will shortly end and to all knowledge will not be repeated. Commonwealth pensions and entitlements are also paid on the island, replacing those paid by the former Norfolk Island Government (in some cases the coverage and entitlement amounts have increased, in some decreased).

Longer term infrastructure projects by the Australian Government include:

- ◆ refurbishments at the Norfolk Island Central School, and at the Norfolk Island Health and Residential Aged Care Service (formerly the Norfolk Island Hospital);
- ◆ the Cascade pier project, including the redesign and extension of the pier, and the installation of a crane designed to handle containers; and
- ◆ the construction of four barges: three for the disembarkation of cruise ship tourists, and one for the unloading of freight. (investment in pier and barges estimated at around \$18m).

This infrastructure spending will have long-term beneficial effects for the island, particularly if the Cascade improvements function to specification. The contract for the construction of the barges has now been let, with a start date of January 2018 and a scheduled completion date of April 2019. However uncertainty clouds this work in the short to medium term. Difficulties with the shipboard craning of containers particularly in moderate to heavy seas have yet to be resolved, as do occupational health and safety issues. There is no evidence to suggest that sea freight costs to the island will fall in the short or medium term.

On the other hand, requests by the NIRC to the Australian Government for assistance with regard to projects the NIRC considered as high priority – including connection to the trans-Pacific Hawaiki telecommunications cable, a waiver on the debt relating to the airport runway resurfacing in 2006, and reliable tourism funding – have been declined.

3.4 CIE econometric modelling (2004, 2014)

In 2006 the Centre for International Economics (CIE) of Canberra was asked to prepare a report for the Commonwealth Department of Transport and Regional Services (DOTARS) on the effects of an extension of all Commonwealth legislation to Norfolk Island. The report was not released by the Commonwealth, and only became available publicly in August 2015 by decision of the Administrative Appeals Tribunal (AAT) following a four-year-long campaign by Mr Brett Sanderson, opposed by the Commonwealth (CIE, 2006/2015). According to court documents DOTARS, together with the Department of Prime Minister and Cabinet, argued that release of the report would be contrary to the public interest. (Belot, 2015)

In 2014 the CIE was asked by the Department of Infrastructure and Regional Development (DIRD) to prepare a second and final report on the same issue. This report was released by the Commonwealth and gave a much more positive perspective on the merits of the intervention by the Commonwealth on Norfolk Island.

As we now know following the AAT ruling, the 2006 report forecast that following implementation of the Commonwealth changes Norfolk Island's gross domestic product (GDP) would initially fall by around four per cent before rising to around nine per cent above the "business as usual" baseline by the end of the ten-year projection period; and that consumption per household would rise some four per

cent above baseline over the same projection period. On the other hand the 2014 report forecast that the basic "core reform" with the combined application of Australian income tax, welfare payments and Medicare reforms, would see a jump in economic activity of around 14 per cent, and a large increase in household consumption of around 38 per cent by the end of its ten-year projection period (CIE, 2014, p.3). These latter figures have featured prominently in many subsequent Australian ministerial and departmental utterances.

Concerns were expressed at the time of the publication of the 2014 report as to the appropriateness of the computable general equilibrium (or CGE) model used in these calculations. (Nobbs, 2015) CGE models are commonly used to project things like global trade, and the economic performance of countries as diverse as the USA and Japan, while here it was being applied to an economy involving a population of around 1,800 (about the same size as Eumundi in Queensland or Narooma on the south coast of NSW). CGE models are extremely intensive in data requirements and if necessary data are not available, then the model requires that they be made up, and this can introduce considerable unreliability in the results obtained. The CIE reports acknowledged this issue. (CIE, 2014, pp 11-12)

The model assumes that resources will always be forthcoming to support the changes indicated, and that all change is "at the margin" (i.e. small and continuous). This latter is a particularly misplaced assumption because in Norfolk's small economy the market for many individual goods and services can adequately be provided by one supplier, so that monopoly or near monopoly is a common condition (e.g. in air transport, shipping, and in professional and technical services, quite apart from in government services such as power provision and the Norfolk Island liquor bond.) Furthermore, the model does not consider changes in the distribution of income consequent on the scenarios, nor environmental costs, nor the repatriation of money profits from the island to overseas owners rather than being reinvested locally.

Professor Michael Common, an English economist who spent ten years as a Senior Fellow at the Centre for Resource and Environmental Studies (now the Fenner School of Environment and Society) at the Australian National University in Canberra, and who was thoroughly familiar with the ORANI CGE economic model used in the two CIE reports, was engaged as an independent academic expert to compare the contents of, and the differences between, the two CIE reports. In his report Common notes that the numbers generated by the two model applications (2006 and 2014) are quite different, and concludes that due to the lack of transparency as to the data entered into the model and how it has been treated, it is not possible to discriminate amongst possible causes for this discrepancy. The usefulness of the CIE2014 report in particular was undermined by the fact that it does not make clear what the baseline is against which the economic changes are assessed, nor what infrastructure spending will be made and by whom: issues critical to any coherent assessment of Norfolk Island's future. Furthermore, Common's judgement was that given the very small size of the Norfolk Island economy, the use of the type of econometric model employed by CIE was "not a useful exercise". (Common, 2015) The CIE 2014 report makes no mention of the CIE 2006 report.

A further note from the perspective of November 2017. With the availability of both reports and the passage of time we can start to gain an augmented impression of the projections made by the CIE models. We note:

- (i) According to the 2014 model the economic impact of the reform package would be felt immediately with an initial and substantial surge in gross territory product (GTP/GDP). There is no available evidence that this has occurred, in fact the recent business confidence survey on the island suggests the contrary;
- (ii) The 2006 report indicated that prices on Norfolk Island would fall by around 5 percent, however the 2014 report makes no mention of prices. In fact following the introduction of the reforms on 1 July 2016 and except in rare instances, prices did not fall, and they have continued to rise as increased costs are placed on businesses and the community more generally;

(iii) One way of monitoring the output reliability of such CGE models is to employ "sensitivity analysis" i.e. to change slightly some key assumptions and observe what happens to the results of the model runs. Although two such analyses are recorded in the 2006 report, none are recorded in the 2014 report. The possibility therefore arises that the island is exposed to dangerously inappropriate policy choices as a result of inadequate assumptions underlying the modelling calculations.

(iv) The CIE modelling contains *no consideration of or reference* to the effects of the introduction of the MAS system into the Norfolk Island economy, scheduled for 1 July 2018, and to all available evidence *no consideration or reference to* the costs of meeting NSW and Australian regulatory provisions: two on-the-ground critical matters for business survival and profitability on the island.

3.5 Summary

The results of the accommodation house modelling (section 3.1) and the business confidence survey (section 3.2) indicate that the Norfolk Island economy is on a downward path. This is not alleviated by Australian Government direct expenditures on island infrastructure (section 3.3). The econometric modelling carried out by CIE for DIRD is compromised by its history, and at this time cannot be considered in any way legitimate as a basis for policy.

The application of abstract and mathematically sophisticated macroeconomic models to micro economies such as Norfolk's may give an impression of accuracy and sophistication, but this is illusory. Much greater attention needs to be paid to what is actually happening on the ground. (See further section 4.2(i) below.)

4. Overview of the Norfolk Island business situation

4.1 The current crisis

Norfolk Island businesses and the economy generally have been exposed to immense changes since 1 July 2016, which have brought the Norfolk Island economy to the brink of disaster. The evidence suggests that the island's economy and society is heading for collapse; tourism, upon which the island depends for its livelihood, is in disarray.

By requiring both that Norfolk Island pay its own way and that Norfolk Islanders be subject to taxes and benefits like mainland Australia, Australian Government policies are crushing the Norfolk Island economy in a vice from which few groups will escape. (Groups more likely to escape include: accountants and financial advisors whose rise is a consequence of the Australian Government's intervention, service providers to the Commonwealth and Commonwealth public servants with salaries fixed independent of conditions on Norfolk Island, and those with independent financial wealth from wherever they may come.)

The business community on Norfolk Island is very supportive of improving the wellbeing of its employees. However if the price is business closures, then no one benefits. Unemployment on a small island may mean emigration.

Norfolk Island has always been a relatively high cost-of-living economy due in particular to the high costs of freight and transport. Freight and associated costs impact heavily on the prices of imported goods – especially products such as building materials, fuel, groceries, and stock feed. Electricity prices on the island are very high relative to mainland rates. The electricity cost in South Australia, attested to be the highest power price in the world at 47.13c/kWh (Potter & Tillett, 2017), compares with the current Norfolk Island price of 62c/kWh. For Norfolk Islanders the return "bus ride" to the nearest destination starts at a minimum cost of around \$600.

In this environment the increased financial burdens put on island businesses and the community more generally by the changes being wrought by the Australian Government, as described in the foregoing pages, are likely to be crippling. Price rises, combined with the well-known price sensitivity of short haul tourism demand, the loss of direct air services to New Zealand, and the lack of institutionalised support for the island's tourist industry, are likely to result in a steep decline in tourism, a deep slump in business generally, and a rise in unemployment. The economic outlook is further darkened by great uncertainties in relation to the island's economy which diminish investment, and the apparent lack of any coherent plan or motivation by the Commonwealth to support sectoral initiatives on the island alternative to tourism.

As for those made unemployed, they will be protected to some extent by Australian welfare benefit payments, but this is an outcome that few on the island are likely to desire, and would represent a shameful outcome to the "reforms" put upon the island by the Australian Government. Eventually many of these people may be forced to leave the island with their families, as their aspirations and hopes for a life and career on the island – in many cases the island of their birth – are eroded.

We can summarise here **important causative issues underlying this crisis**:

- ◆ the imposition of the Australian Modern Award System, due to be introduced on 1 July 2018 (section 1.1(iii));
- ◆ the costs associated with compliance with Australian and NSW laws and regulations generally (sections 1.1(v) and 1.2(i));
- ◆ the failure of the Commonwealth to guarantee reliable tourism funding (section 2.1(i));

- ◆ the problems associated with achieving reliable flights to the island from New Zealand (section 2.1(ii));
- ◆ the loss of the ability of the NIRC to raise general revenues, together with the forced reliance on land rates (section 1.2(vii)).

The difficulties being experienced by businesses on the island (and by the community in general) **have been exacerbated by:**

- ◆ the overwhelming diversity and magnitude of the changes that have been and continue to be imposed on the island, coming on top of an economy that has seen only modest performance in the wake of the global financial crisis;
- ◆ the complexity of some of the changes e.g. those in relation to company structures, tax and superannuation requirements; and by
- ◆ the immediacy of the changes, many of which have been introduced with no or minimal transitional arrangements.

All these have added costs to the island of one sort or another.

The evidence more generally indicates that:

- (1) Despite the changes being wrought on the economy there is no evidence as yet that they have been of benefit to the Norfolk Island economy overall. The tax system changes show no clear evidence of net benefit (section 1.1(vi)); the Accommodation House Model of June 2016 (section 3.1) and the Business Confidence Survey of August 2017 (section 3.2) show net dis-benefits. The heavily compromised econometric modelling is without current relevance (section 3.4).
- (2) Depressed business confidence is exacerbated by the absence of evident upside to the present situation. Businesses have closed, others have gone onto shorter hours, and many are advertised for sale (See Appendix III). The increase in cruise ship visits can offer only a minimal respite to this problem.
- (3) When new sectoral economic opportunities have presented themselves on the island, they have failed to attract the support of the Commonwealth (sections 2.2(i) and (ii)).
- (4) Although not discussed in this report, there is abroad in the community an increased level of emotional distress that has its origins in the fragmentation and depersonalisation of life under the current regime, and which are eroding the fabric of Norfolk Island society. Many people on the island are exhausted and disillusioned by the imposed changes. Not all people on the island feel this way however.

4.2 Some functional elements underlying the crisis

(i) Incomplete appreciation of the attributes of small scale marine-isolated economies

There has been a failure of the Australian Government to come to terms with the nature of very small economies on very isolated islands. (In one respect this is understandable as that government deals by and large with economic life on an immense and continuous continental landmass.) This failure has been concretised by the inappropriate use of CGE modelling of the Norfolk Island economy, and the unwarranted picture it created.

Economies on very small isolated islands have some important and particular characteristics which it is important to understand if adequate economic policies are to be put in place:

- (1) They are not the same as small country towns, *inter alia* because they lack a surrounding-towns hierarchy to draw upon (see also Nobbs, 2016b);
- (2) What might be apparently small government-induced *institutional* changes in the case of larger economies, can have very major effects on small islands. (This is the lesson that can be taken from the matter of regulatory cost relative to enterprise size, and other examples given below);
- (3) Similarly, from a *market* perspective, marginal change doesn't necessarily mean marginal outcome on a small island (such as when a single supplier chooses to close his or her business and there is no replacement).

These issues entail two matters of major consequence:

- ◆ the need to pay close attention to specific island circumstances, on the ground; and
- ◆ the need for policy to allow for flexibility above all.

Australian Government policies implementing the current changes have so far shown little evidence of either of these characteristics.

In the foregoing report we have encountered a number of specific issues in this genre:

- ◆ the cost to businesses of regulatory compliance relative to revenue;
- ◆ employment penalty rates under MAS in relation to aeroplane arrival days;
- ◆ minimal hours of overtime under MAS given the characteristics of Norfolk Island living;
- ◆ a one airline default on the New Zealand route means no airline at all;
- ◆ costs to business as a result of the declaration by the Australian Government of the Norfolk Marine Reserve;
- ◆ the irreducible high cost of freight;
- ◆ with the island having no harbour there is no reliable or necessarily smooth transition of sea passengers or cargo from ship to shore despite the pier and barge improvements;
- ◆ the loss of economic and tourism statistics that cannot be replaced by ABS statistics;
- ◆ unemployment on an island versus emigration;
- ◆ tax on second jobs and their consequences for labour flexibility.

And in a more general sense the unique and problematic nature of remote island life and economy relative to metropolitan life, is exemplified by:

- ◆ the patched-up nature and derivation of laws being applied to Norfolk Island;
- ◆ the matter of requiring or not requiring passports for travel from Australia to Norfolk Island (particularly if planes from Australia are diverted by island weather to New Zealand);
- ◆ passengers from Australia having to fill in Australian Border Force passenger arrival cards;
- ◆ plant biosecurity differences with Australia;
- ◆ Norfolk Islanders being governed by NSW laws but having no vote in NSW elections.

These matters too reveal the general difficulty of fitting marine-isolated islands into standard categories.

(ii) the unnecessary characteristics of the changes applied

Quite apart from the content of the Australian Government's approach to Norfolk Island's economy, its implementation of that approach has been unnecessarily abrupt and abrasive.

One of the actions agreed in the *Norfolk Island Road Map*, signed in March 2011 between the Commonwealth Government and the Norfolk Island Government, related to processes to be involved in the transition and included the idea of introducing Australian tax file numbers to be followed by a

"dry-run" of tax returns to allow individuals and businesses time to adjust adequately to the proposed changes. A similar idea was recommended by the CIE in its 2014 report (CIE, 2014, p.54). Another idea promoted prior to the Federal Election of 2013 by Michael Keenan MP, Liberal Federal Member for Stirling and Shadow Minister responsible for Norfolk Island at the time, proposed that a Coalition government would decouple the dates of introduction of the Australian welfare system on Norfolk Island and the Australian taxation system, in order to provide some respite for people adjusting to the changes. (The introduction of Australian income tax in the Indian Ocean Territories was in fact phased in over four years.)

ACIL-Tasman in their consultant report of 2012 to the Commonwealth on the economic development of Norfolk Island stated their advice as:

In the immediate, it is not, however, necessary to resolve the final status of the integration of Norfolk Island with the Australian tax and transfer payment system. Rather, it is simply necessary to provide business with certainty regarding the operating environment. This certainty can be provided by the Commonwealth and Norfolk Island governments agreeing that company and income tax will not be extended to Norfolk Island until there is sustained evidence that the Norfolk Island economy is growing, and that the imposition of such taxes will not derail this growth; and that regardless of evidence of economic growth the extension of such taxes will not take place within the next five years. (ACIL-Tasman, 2012)

Unfortunately, none of these possibilities was activated. Economic consultants retained by the NIG also offered alternative strategies for the embracing of change (Econtech, 2006, 2008).

(iii) The Commonwealth's approach to date

Warnings of the impending crisis on Norfolk Island have been made by individuals and organisations on the island over at least the last eighteen months (e.g. NI Accommodation and Tourism Association, 2016). Even in recent months the responsible Commonwealth Minister and politicians have continued to maintain an approach in public that "all's going well" (e.g. Nash, 2017): this despite personal representations to the contrary by Island business people. It is hoped that the present report will provide the opportunity for the Commonwealth to reconsider its approach.

4.3 Immediate needs

The economic and governance model imposed on Norfolk Island is at base flawed and very damaging to the island's economic well-being. There is an urgent need for the Australian Government to take steps to avert the crisis and the impending collapse of the Norfolk Island economy. These steps include:

- (1) calling a halt to imposing on Norfolk Island any further legislative or regulatory changes under current arrangements;
 - (2) commissioning the Australian Productivity Commission to carry out research and conduct a public inquiry to determine the real financial capacity of the island and how it can survive economically, socially and culturally at reasonable cost;
 - (3) restoring some general revenue-raising powers to the Norfolk Island Regional Council; and
 - (4) specifying with much more precision than hitherto what its objectives on Norfolk Island are, and developing indicators to measure outcomes on the ground.
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APPENDIX I

Effects of the Australian Modern Award System on a Small Norfolk Island Retail Business: Wages per Employee FY2017-18 and FY2018-19

The following tables compare the wages cost per employee for a modelled small Norfolk Island retail business between the current situation in FY 2017-18 and the projected situation in FY 2018-19.

The calculations are done on the basis of those relevant to an adult employee being paid the required minimum wage under the relevant legal requirements. These requirements include:

- (1) National Employment Standards (applying on Norfolk Island from 1 July 2017)
- details 10 minimum employment entitlements, includes provisions for national minimum wage, 4 weeks annual leave, etc.
- (2) Modern Award System (applying on Norfolk Island from 1 July 2018)
- includes provisions for legal minimum wage for employees under different industry awards, and for different levels of job requirements, etc.

Different provisions are made for full time (FT) and part-time (PT) permanent employees, and casual staff.

Under Australian law the Fair Work Commission determines the legal minimum wage, normally on an annual basis. This wage for the coming financial year is announced to coincide with the first full pay period on or after 1 July. The standard working week is determined to be 38 hours. The minimum wage determinations in recent years have been as set out in Table 1.

Table 1. Australian national minimum wage rates 2014-2018

Financial year	Min. hourly rate (\$/hr)	Standard weekly wage (\$)	Percent increase on previous year (%)
2014-15	16.87	640.90	
2015-16	17.29	656.90	2.5
2016-17	17.70	672.70	2.4
2017-18	18.29	694.90	3.3
Average			2.7

Ref: Fair Work Ombudsman, "minimum wages":

<https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements/minimum-wages>

It is assumed that the increase in minimum wage for 2018-19 will be the average of the three previous determinations i.e. 2.7 per cent.

FY2017-18

The following (Table 2) refers to a single permanent staff worker employed in a small retail business on Norfolk Island serving both tourists and residents, in FY2017-18.

Table 2. Wages payable per permanent staff member (minimum wage rate) - FY2017-18

	Wage rate (\$/hr)	Ave hours per week	Gross weekly wage (\$)
Weekdays	18.29	22.5	411.52
Saturday	18.29	6.5	118.89
Sunday	18.29	6.0	109.74
	Total weekly wage		640.15
	Annual wage		33,287.80

Additional expenses:

- (i) Compulsory superannuation at the rate of 2.0 per cent annual wage
= annual wage x 0.02 = 33287.80 x 0.02 = \$665.76
- (ii) Cover by casual staff during permanent staff 4 weeks annual leave
= min. hourly rate x 25% loading x hours worked = 18.29 x 1.25 x 35 x 4 = \$3,200.75
- (iii) Allowances (clothing, meals etc.) = \$0.00
- (iv) Additional loadings for public holidays not accounted ----

Total employee expense, 35 hours work, min pay, 2017-18 = \$37,154.31

FY2018-19

It is proposed that on 1 July 2018 Norfolk Island will join the Australian Modern Award System (MAS). Under the MAS General Retail Industry Award 2010 (GRIA), the award wage for Level 1 employees over 2017-18 is \$20.08/hr. As award wages benefit from minimum wage determinations, the award wage for Level 1 employees in 2018-19 is estimated to increase by 2.7 per cent to \$(20.08x1.027)/hr = \$20.62/hr.

GRIA also specifies penalty payments: for ordinary hours worked on **Saturday** of 25 per cent loading for FT and PT employees; and for **Sunday** work penalty payment for FT and PT employees - specified for 1 July 2018 – 30 June 2019 - as a loading of 80 per cent. (GRIA S.29.4) (The Australian Parliament has recently enacted legislation to reduce penalty rates for Sunday employment.)

The following (Table 3) refers to a single permanent staff worker employed in a small retail business on Norfolk Island serving both tourists and residents, in FY2018-19.

Table 3. Wages payable per permanent staff member (MAS for General Retail L1) – FY 2018-19

	Wage rate (\$/hr)	Ave hours per week	Gross weekly wage (\$)
Weekdays	20.62	22.5	463.95
Saturday	25.78	6.5	167.57
Sunday	37.12	6.0	222.72
	Total weekly wage		854.24
	Annual wage		44,420.48

Additional expenses:

- (i) Compulsory superannuation at the rate of 3.0 per cent annual wage
= 44,420.48 x 0.03 = \$1,332.61

- (ii) Cover by casual staff during permanent staff 4 weeks annual leave (see Table 4).

Table 4. Wages payable to casual employee covering permanent staff 4-weeks annual holidays, with casual loading of 25 per cent (MAS for General Retail L1) – FY 2018-19 (estd.)

	Wage rate (\$/hr)*	Ave hours per week	Gross weekly wage (\$)
Weekdays	25.78	22.5	580.05
Saturday	27.84	6.5	180.96
Sunday	40.22	6.0	241.32
	Total weekly wage		1,002.33
	Total wage 4 weeks		4,009.32

* MAS wage rates for casual employees FY2017-18 x 1.027

(iii) Allowances (clothing, meals etc.) =	\$0.00
(iv) Additional loadings for public holidays not accounted	-----
(v) Leave loading 17.5 per cent for permanent staff on holiday = 854.24 x 4 x 0.175 =	\$597.97
Total employee expense, General Retail, L1, 2018-19 =	\$50,360.38
Increase in expenditure per employee (as specified) in dollars =	+ \$13, 206.07
Increase in expenditure per employee (as specified) percent =	+ 35.5 per cent

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(all accessed and as at 15 September 2017)

Fair Work Ombudsman, 'National Employment Standards'

<https://www.fairwork.gov.au/employee-entitlements/national-employment-standards>

Fair Work Ombudsman, 'Modern Awards'

<https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements/modern-awards>

Fair Work Ombudsman, 'Norfolk Island Reform'

<https://www.fairwork.gov.au/about-us/legislation/norfolk-island>

APPENDIX II

Norfolk Island Applied Laws Ordinance 2016 (excerpts)

Ordinance No. 9, 2016, made under the Norfolk Island Act 1979 (Compilation No. 3, date: 20 January 2017)

Schedule 1 - Suspension

1 Suspension

- (1) The operation of the legislation of New South Wales, other than an Act specified in the following table or legislation made under such an Act, is suspended in the Territory for the period:
- (a) beginning on the day this item commences; and
 - (b) ending immediately before the start of 1 July 2018.

Legislation of New South Wales that is not suspended

Name of Act

Health Services Act 1997

Interpretation Act 1987

Local Government Act 1993

Long Service Leave Act 1955

Public Health Act 2010

- (2) Subitem (1) applies to legislation of New South Wales whether the legislation is in operation on the day this item commences or whether it comes into operation after that day.

Schedule 4 - Amendment of the Local Government Act 1993 (NSW)

.....

35 At the end of Part 2 of Chapter 15

Add:

513A Minimum revenue to be raised from ordinary rates

Despite any other provision of this Act, an ordinary rate made for a year by the council must be such as to ensure that the total of ordinary rates levied on all rateable land for the year is at least:

- (a) for the year ending on 30 June 2017—\$500,000; and
 - (b) for the year ending on 30 June 2018 and any later year—\$1,000,000.
-

APPENDIX III

Some Data on Status and Changes of Businesses on Norfolk Island since mid-2016

1. Business Closures since mid-2016

NAME	DESCRIPTION
ABC Hobbies	hobbies shop
Advance Hire Cars	car hire
Automotive Service Centre	automotive repair
Bligh Court	tourist accommodation
Blue Bull	restaurant
Cameralines	photographic equipment
Colony Restaurant	restaurant
Cynthia's Garden Tours	garden tours
Diamonds Exclusive	jewellers
Gallery 2899	photographic retail
House of Scruples	variety department store
Joel's Café	cafe
Just the Thing	mixed: clothing, souvenirs etc
Karlene's Guided Snorkelling	marine sport
Leeside	mixed: clothing, souvenirs etc
Menswear International	men's wear
Milt's Joinery	window frames
MiniBar	night spot
Minischool	preschool education
Norfolk Blue	restaurant
Norfolk Optical - Now located off-island, with visits	optometrist
Norfolk Premium Holidays	bus tours
Ocean Blue	fish & chips shop
Pa Yeas	restaurant
Paton Place	gifts
Pinnacles	fish and chips shop
Rick's Personal Tours	guided island tours
Silky Oaks Horse riding	horse riding
Swiss House	Swiss-origin gifts etc
The Deli Café	cafe
The Italian Shop	gifts
The Rock	restaurant
Video Shop	video sale and hire

Note: This list refers to business **closures** for **any and all reasons**. Some island businesses continue to trade but with reduced opening hours, and/or reducing inventories.

2. Businesses (retail and others) publicly advertised for sale (19 October 2017):

Barney Duffy's	restaurant
Bounty Folk Museum	museum
Butcher in the Mall	butcher shop
Café Latitude 29	cafe
Café Tempo	cafe
Cascade Investment Park	joinery and other
Fish & Chook Shop	fish and chips shop
Iwii Paradise	offices, accommodation
Jolly Roger	restaurant, night spot
Norfolk Industries	quarrying, earth works
Norfolk Island Real Estate	real estate
Norfolk Plumbing	plumbing
Parkland Estate Villas	retirement and function centre
Prestige Auto Care	auto panel/paint, upholstery
Prouds	gifts, chemist
Rumours (lease)	café, restaurant
The Golden Orb	café

On Norfolk Island as at August 2017: there were 27 commercial spaces (shops, offices etc.) vacant or for lease in the Burnt Pine area; there were 10 businesses (excluding accommodation businesses) plus four commercial sites listed publicly for sale (industrial, auto, retail) in the real estate columns.

3. Tourist Accommodation publicly advertised for sale (19 October 2017):

<i>Name</i>	<i>no. beds</i>
Aataren Villas	16
Anson Bay Lodge	20
Bounty Lodge Apartments	12
Callam Court	27
Cascade Garden Apartments	17
Cumberland Lodge	34
Fantasy Island Resort	24
Jacaranda Park Holiday Cottages	10
Norfolk Holiday Apartments	25
Nuffka Studio Apartments	18
Panorama Court Apartments	35
Shiralee Executive Cottages	24
The White House	10
TOTAL	

Note: Others accommodation houses are known to have changed hands without public notification.

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Responses to inaccurate statements in the *On the Brink of Disaster* report by Chris Nobbs – 18 November 2017

Reference	Page	Statement	Response
Title		Independent report	The report is anything but independent, it has not been peer reviewed and is the work of a disgruntled resident.
Preface	5	Disbanding of the public service	The Administration of Norfolk Island (ANI, the public service) was continued in law on 1 July 2016, becoming the Norfolk Island Regional Council.
Exec summary	6	Economy in a state of crisis	<p>The Norfolk Island Economy is not in crisis.</p> <p>Tourism is the main industry on Norfolk Island and it experienced its best year in over a decade in 2016-17.</p> <p>The Council has advised there were an unprecedented number of Development Applications received in the past year, and there have been more new cars delivered to the island than ever before.</p> <p>This is in contrast with the economic situation prior to 2015 when most available indicators of Norfolk Island's economic performance revealed a long term decline in the economy.</p> <ul style="list-style-type: none"> • Estimates of nominal gross territory product (GTP) concluded that the economy had contracted by around 4 per cent between 2003-04- 2015/16. As prices rose since 2003-04, the contraction in real GTP would be even larger. • In 2015-16 Norfolk Island's nominal GTP was estimated to be \$66 million, which equates to an average of \$37 781 per capita. In comparison, Australian GDP per capita was \$68 587. • Other available indicators also show a fall in economic activity, including hours worked, total sales, population and visitor days on-island had all fallen. • Approximately 40% of shops had closed between 2011 and 2015; • Approximately 25% of the male population aged 25-50 left the island between August 2011 and March 2015 • Overall population dropped by 9.4% between August 2011 and March 2015.
1.1 (i)	7	Minimum wage increases	Nobbs states NI minimum wage was \$13 per hour prior to reforms, it was \$10.70 per hour.

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			Transitioned approach at 85% for first 12 months to reduce impact on employers. Policy recognised need to balance interests of employees previously on very low wages. Parity with mainland from 1 July 2017.
1.1 (iv)	8	Superannuation and little need to for retirement planning due to simple lifestyle and supportive community	Superannuation was practically non-existent outside the ANI. A significant number of residents were working well past the Australian age pension eligibility age as they could not afford to cease work (well into their 70s). The Provident fund was wound up prior to 1 July 2016 as it was not deemed a complying super fund under Australian law. Around 85 members were distributed their holdings, nearly \$8.5 million in total.
1.1 (v)	8	Cost of compliance with employment and taxation laws	All costs incurred by business from 1 July 2016 are now tax-deductible, where previously they were not. Businesses also have access to Small Business Accelerated Depreciation, allowing small businesses to claim an immediate deduction for assets they start to use – or have installed ready for use – provided each depreciable asset costs less than \$20,000. The measure was available for three years commencing at 7.30pm (AEST) 12 May 2015 and ending on 30 June 2017.
1.1(viii)	9	No Regional Sponsored Migration Scheme body responsible for Norfolk Island	Any applications are handled through mainland arrangements.
1.1(viii)	9	Individuals taking a second job are penalised by withholding tax out of secondary pay	The ATO went to great effort to communicate the arrangements for multiple jobs to the community. If a worker is sure their total income for the year from all sources will be less than the tax-free threshold), they can claim the threshold from all of their employers. This means no tax will be deducted from their pay. If their total income for the year from all sources will be more than the tax-free threshold, they can only claim the threshold from one employer at a time. Workers can arrange a withholding variation with the Australian Taxation Office to ensure they receive extra pay throughout the year rather than a larger tax refund at the end of the year.
1.2	10	Concept of Regional Council does not exist in NSW.	Incorrect, there are a number of them, eg Armidale Regional Council, Mid-Western Regional Council, Queanbeyan-Palerang Regional Council, Snowy-Monaro Regional Council https://www.lgnsw.org.au/about-us/council-links

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1.2 (i)	10	NSW regulatory compliance (Public Health Act)	<p>The introduction of the Public Health Act 2010 (NSW) and the Public Health Regulations 2012 will assist in ensuring a safe drinking water supply for both residents and visitors and prevent public health risks.</p> <p>Commonwealth working closely with NIRC to alleviate the burden water testing could place on local businesses. NIRC has been carrying out an extensive programme of consultation with local businesses and tourist organisations over the past 12 months to explain the changes and provide adequate time for them to prepare and assist in making sure they comply with the Regulations. Part of this programme was to carry out some initial water testing to develop a baseline for water quality across the island.</p> <p>A further 12 month transition period has been built into to the public health legislation to allow time for water providers to with NIRC and the Department to develop a compliant water management plan. Given the common water source on the island and to mitigate costs for local business the Department and NIRC agreed to introduce quarterly testing of water samples instead of monthly as is required in the rest of NSW.</p>
1.2 (ii)	10	Increasing tradesperson rates	Rates have increased due to market demand for services.
1.2 (iv)	11	Commonwealth and NIRC Airport Charges	<p>The council increased the passenger movement charge for air services on Norfolk Island to ensure the airport can operate sustainably. The new charge of \$45.60 is still below the \$60.00 charged prior to 2011 before it was reduced to its current level. Reducing the landing fee did not reverse the decline in passenger arrivals to Norfolk Island after 2011.</p> <p>The current landing charge is comparable to that charged by other airports and reflects the cost of proving the service.</p>
1.2 (vii)	12	Property rates	<p>In 2015 the Norfolk Island Finance Minister indicated that Norfolk Island needed to explore changes the local tax raising base through the introduction of municipal rates as it could not otherwise sustain itself financially.</p> <p>As a transition measure, the minimum rates collection for the first year of the reforms was set at \$500,000, increasing to \$1,000,000 this financial year. Rates are below mainland levels.</p>
1.3	12	Wage cost increases	This is a selective statement that fails to recognise the commensurate boost to economic activity from higher take-home incomes across the community.

2.1 (i)	14	Tourism Promotion and budget	<p>Norfolk Island experienced its best year for tourism in over a decade in 2016/17. The Australian Government's contract for underwriting of air services by Air New Zealand was awarded through a competitive process and has provided a stable, reliable and professional service.</p> <p>Under the terms of the contract Air New Zealand is required to develop a Memorandum of Understanding (MOU) with the Norfolk Island Regional Council for destination marketing support. The airline and the council's tourism agent meet regularly to discuss progress of the MOU.</p> <p>Reducing passport requirements to Norfolk Island has meant that Norfolk Island is now a more attractive destination for the 45 per cent of Australian s without a passport.</p> <p>The Norfolk Island tourism industry identified the removal of passport requirements as a key enabler for economic development (2015 Joint Standing Committee on the National Capital and External Territories <i>Same country: different world – the future of Norfolk Island</i> (JSCNCET Report)</p> <p>Norfolk Island is now promoted on tourism Australia Website and businesses on Norfolk Island can now list on Australia's national platform for digital tourism information: the Australian Tourism Data Warehouse.</p> <p>The Australian Government will provide the council with \$100,000 for tourism promotion this year, matching their contribution.</p>
2.1 (ii)	14	Airline Service Reduction	<p>In December 2016 Air New Zealand announced it would cease operating its Auckland-Norfolk Island air service from May 2017 due to several years of this service not being financially viable, including the period well before the introduction of the departure tax.</p> <p>Patronage on the Norfolk Island Airline's service which commenced shortly after the cessation of the Air New Zealand service has been very low, despite the Australian Government agreeing to providing funding for a joint destination marketing campaign with the regional Council.</p> <p>The Australian Government does not underwrite international air services</p>
2.1 (iii)	14	Reduced multiplier effects	<p>The 2015 JSCNCET report concluded Norfolk Island's ability to diversify economically and attract new investment was limited by the closed culture and monopolistic role of the Norfolk Island economy and the associated protectionist legislation that supported this role. Despite several adverse audit reports over many years the former</p>

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			<p>Government continued to lack transparency and accountability and was not allowing for innovation and new industry to come in.</p> <p>The Australian government had no involvement in awarding the petrol supply contract. This process was entirely driven by the regional Council.</p>
2.1 (iv)	15	Recreational Fishing	<p>There are unlikely to be any changes to long-standing arrangements for fishing access to Norfolk Island. Parks Australia advised fishing stakeholders on Norfolk Island that it was not appropriate for them to identify the Norfolk Island MOU Box on maps of the protected area for waters surrounding Norfolk Island as they were not a party to the MOU. However, they have agreed to discuss options for presenting this information on future zoning maps with the Australian Fisheries Management Agency, and will consult further with the community on this issue.</p>
2.2 (i)	15	Biosecurity and Agriculture	<p>The Australian Government tailored the Biosecurity Act 2015 for implementation on Norfolk Island to recognise the island's unique biosecurity status. The measures are designed to manage the risk of pest and diseases entering Norfolk Island to reduce harm to animals, plants, human health the environment and the economy.</p> <p>Most import conditions have largely remained the same to those in place under the former Norfolk Island Government, but more rigorous scientific assessment of biosecurity risks will be undertaken in respect of good previously not imported to Norfolk Island.</p> <p>The Australian Government considers the measure in place in line with the significant value the Norfolk Island community places on maintaining a high standard of biodiversity protection.</p>
2.2 (II)	16	New Industries – for example Cannabis	<p>The licence to export cannabis issued under Norfolk Island law was undertaken without an established regulatory framework to support the proposal. This put Australia in contravention of its obligations under the United Nations Single Convention on Narcotic Drugs 1961.</p> <p>The proponent licenced by the Norfolk Island Government had not adequately consulted with the Department of Health on their proposal and could not demonstrate it had the approval to export cannabis to the destination country.</p> <p>The 2015 proposal was also inconsistent with Australian Government biosecurity and border control legislation.</p>

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2.2 (iii)	17	Loss of Government Buffer	The Former Norfolk Island Government was unable to generate sufficient general revenues to sustain its operations and relied on emergency payments from the Australian Government for its survival for several years prior to 2016. The Norfolk Island Regional Council is now able to access Financial Assistance-type grants from the Australian Government which provides funding certainty.
2.1 ((iv)	17	Loss of Statistics	Norfolk Island was included in the Australian Census for the first time in 2016. The Department of Immigration and Border Protection routinely provides the Regional Council with passenger arrival statistics.
2.2 (v)	17	Cruise Ships	Cruise ship passenger arrivals are likely to increase once the refurbishment of the Cascade Pier and construction passenger transfer vessels is complete. These initiatives are likely to significantly the percentage of ships able to disembark passengers, but it is not possible to guarantee all cruise ships can successfully land in all weather. Requests from some Norfolk Island residents to construct a break wall to provide safe and dep anchorage are not feasible. The cost would be in excess of \$100 million and there is unlikely to be sufficient local rock available for construction.
2.2 (v)	17	Small Business Mentoring	<p>The Regional Development Australia (RDA) program has been extended to Norfolk Island and a full-time Regional Investment Officer (RIO) will be established on Norfolk Island in early 2018. The RIO will work with the Norfolk Island community to deliver RDA program services, including supporting the local businesses and the community to develop successful grant applications for projects which will drive economic development and investment.</p> <p>The Government's website at www.business.gov.au provides a gateway for small business operators to access information on the services available to support Norfolk Island's small businesses. This includes business planning, advice for employers, taxation and grant and the programs, loans or subsidies which businesses may be eligible to apply.</p> <p>Businesses can also call 13 28 46 to receive personal assistance in identifying the range of measures they may be able to access for the cost of a local call.</p>
2.2 (vi)	18	Community effects – lack of genuine acceptance of community input.	The problems with governance and the sustainability of the current arrangements on model on Norfolk Island have been well canvassed and the community were consulted

			<p>extensively in the lead up to the 2016 reforms and had ample opportunity to contribute their views.</p> <p>Past reviews, reports and audits have been unanimous in recommending significant changes and reforms in governance: these include</p> <ul style="list-style-type: none"> - A Royal Commission conducted in 1976; - 13 separate Parliamentary inquiries, and - The commissioning of more than 20 reports from experts in various fields, including former Administrators. <ul style="list-style-type: none"> • The Minister wrote to Norfolk Island residents following his March 2014 visit noting that almost everyone he met during that visit believed that things need to change. The Minister sought the community's views on the best ways to deliver real changes that will make a difference, including the identification and promotion of economic opportunities, best delivery of essential services and best governance model for the future <p>The JSCNCET report</p> <ul style="list-style-type: none"> • The Committee visited Norfolk Island from 28-30 April 2014. In Addition to public hearing and community statement sessions, the Committee visited a range of stakeholders including staff at tourist sites, farmers, tourist and retail operators, accommodation providers and boutique producers. • The Committee held a public hearing on Norfolk Island including two community statement sessions which allowed individuals and organisations the opportunity to address any of the inquiry's terms of reference. • There were 34 written submissions from a range of stakeholders including the Commonwealth and NIG, business owners, community groups, former public servants and Norfolk Island residents
3.1	19	Accommodation sector modelling and net benefits of GST removal offset by rising minimum wages	<p>This is a misleading statement, operators would have lifted the room rates to cover business cost increases.</p> <p>Norfolk Island experienced its best year for tourism in over a decade in 2016/17.</p>
3.2	19	Business Confidence Survey	<p>The members of the Chamber of Commerce and Accommodation and Tourism Association members surveyed do not represent the majority of businesses on Norfolk Island. There were approximately 20 survey response received.</p>

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3.3	20	Australian Government Direct Expenditure – not funding projects considered as a high priority	The Australian government did not agree to spend the estimated \$10.5 million (US) to connect Norfolk Island to the new submarine cable in the absence of a sound business case demonstrating the additional benefits which could not be derived from the Sky Muster satellite service.
4.1	23	Current crisis – Current Australian Government policies crushing NI economy in a vice	<p>The Australian Government believe Australians should be treated the same, no matter where they live. Norfolk Islanders now have access to a social safety net system and with that, the obligations of the Australian taxation system.</p> <p>As at 30 June 2017 - 227 residents are receiving the aged pension, 117 recipients receiving Family Tax Benefit, 50 people receiving other disability, youth, income support or parenting payments. These payments support the most vulnerable so they do not have to leave their support networks and community to move to the mainland. The Norfolk Island community now has access to Medicare and PBS; a sustained and significant increase in residents accessing GP and allied health services since 1 July 2016 indicates this was a much needed reform.</p> <p>The 2015-16 monthly average before the reforms commenced was 509 GP visits; after the reforms commenced, the 2016-17 average jumped to 821 visits per month.</p>
4.1	24	Many changes introduced with no or minimal transitional arrangements	<p>Beneficial changes like Medicare, family payments, PBS and age pension were made available immediately.</p> <p>Transitional arrangements were made for the Superannuation Guarantee, Capital Gains Tax, municipal land rates, the Minimum Wage and the Modern Awards.</p>
4.2 (i)	25	Norfolk Islanders being governed by NSW laws but having no vote in NSW elections.	All laws made via Ordinance, including applied NSW laws are disallowable and are subject to effective scrutiny by the Parliament. Now that Norfolk Island is wholly contained in the Federal Division of Canberra it has representation equal to other external Territories.
Appendix III	33	Business closures since mid 2016	Information from trusted sources on Norfolk Island indicate that at least 12 of those businesses were owned by people over retiring age, some in their mid-to-late 70s. They were able to retire and go on a pension.



CENTRE FOR
INTERNATIONAL
ECONOMICS

Economic Impact Assessment

*Of extending Commonwealth
legislation to Norfolk Island*

Prepared for

Department of Transport and Regional Services

*Centre for International Economics
Canberra & Sydney*

October 2006

ABOUT THE CIE

The Centre for International Economics is a private economic consultancy operating out of Canberra and Sydney. It undertakes economic analysis for clients around the world.

The CIE solves problems for clients by rigorously analysing markets and regulations, appraising risks and evaluating strategies. We build economic and strategic frameworks to distil complex issues to their essentials. In this way we are able to uncover new insights about emerging developments and assess payoffs from alternative strategies.

The firm has been operating since 1986. Contact details are set out below and more information on what we do and our professional staff can be obtained from our website at www.TheCIE.com.au.

The CIE also co-produces a quarterly report called Economic Scenarios. This analyses global risks and scenarios and can be accessed from www.economicsscenarios.com.

CANBERRA

Centre for International Economics
Ian Potter House, Cnr Marcus Clarke Street & Edinburgh Avenue
Canberra ACT 2601

GPO Box 2203
Canberra ACT Australia 2601

Telephone +61 2 6245 7800 Facsimile +61 2 6245 7888
Email cie@TheCIE.com.au
Website www.TheCIE.com.au

SYDNEY

Centre for International Economics
Suite 1, Level 16, 1 York Street
Sydney NSW 2000

GPO Box 397
Sydney NSW Australia 2001

Telephone +61 2 9250 0800 Facsimile +61 2 9250 0888
Email ciesyd@TheCIE.com.au
Website www.TheCIE.com.au

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Forward

THE CENTRE FOR INTERNATIONAL ECONOMICS was commissioned by the Commonwealth Department of Transport and Regional Services to undertake an assessment of the economic impacts arising from extension of Commonwealth legislation to Norfolk Island.

To gain an appreciation of the structure and operation of the Norfolk Island economy, Norfolk Island was visited in early August 2006 for the purpose of undertaking stakeholder consultations. Meetings were held with the Norfolk Island Government and bureaucracy, the Administrator, private sector businesses, government business enterprises, and individuals.

The CIE would like to thank all stakeholders who participated in the consultations, and who provided information/data in response to questions about the operation and performance of the Norfolk Island economy. The CIE is appreciative of the effort numerous people, particularly within the Norfolk Island Government, went to in tracking down and providing data.

Finally, the Norfolk Island Government is proposing, almost on a daily basis, to undertake some significant reforms, especially in the area of taxation. If these proposed reforms go ahead, then there is a chance that some elements of this report or the assumptions made will already be out of date.

Executive Summary

THE AUSTRALIAN GOVERNMENT is contemplating the extension of all Commonwealth legislation to Norfolk Island. Extending Commonwealth legislation to Norfolk Island can be expected to have substantial impacts on the local economy.

The magnitude of the economic impacts has been quantified through using a general equilibrium model of the Norfolk Island economy. The economic model identifies 18 sectors of economic activity, 5 areas of final demand, 2 factors of production, 15 types of indirect taxes and subsidies, and tracks dividend payments made by various government business enterprises and Norfolk Island Government (NIG) fee for service activities.

When quantifying the economic impacts of extending Commonwealth legislation to Norfolk Island, only those pieces of legislation that will have either significant economic or social impacts have been considered. Broadly speaking, the areas of legislative change can be confined to:

- direct and indirect taxation;
- superannuation (and the superannuation guarantee);
- customs duties, quarantine and immigration;
- markets, business operations (including government business enterprises) and corporate conduct;
- operation of the labour market (minimum wages, labour supply); and
- social welfare.

The model of the Norfolk Island economy is based on 2004-05 data. As it is assumed that Commonwealth legislation will be rolled out on 1 July 2007, there is a need to know what the Norfolk Island economy looks like in 2007 and beyond.

The baseline for the Norfolk Island economy embodies four substantial changes to the economy post 2004-05, these being:

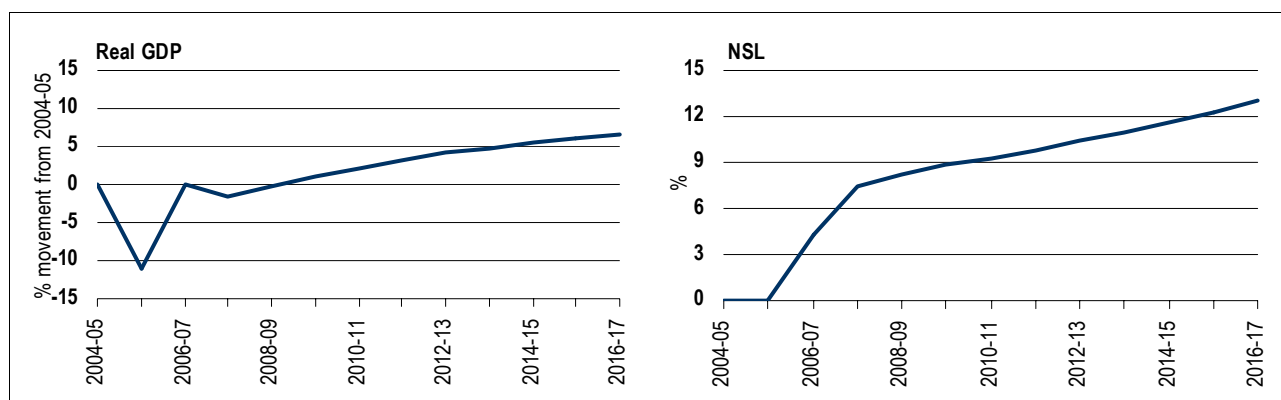
1. tourism numbers decline from 33 000 in 2004-05 to 30 000 in 2005-06 (an 11 per cent decline);
2. the Asset Management Plan is introduced in 2006-07, with expenditure on infrastructure (and depreciation) ranging between \$9.9 million in the first year of the AMP to \$17.4 million in the last year;
3. health and welfare expenditure by the NIG grows at 10 per cent per annum, reflecting an ageing population; and
4. the NSL is introduced in 2006-07 to balance government revenue and expenditures.

GDP in the baseline is reported in chart 1, as is the required rate of NSL to balance the NIG's revenue with expenditure. The NSL increases over time due to increasing costs associated with the Asset Management Plan (and funding depreciation) and rising health and welfare expenses due to an ageing population. As the NSL increases, GDP is constrained and post 2016-17 GDP (and other economic indicators such as employment, household consumption etc) start to slow/decline.

Unless something can be done to contain the expenditure required of the NIG or find alternative revenue sources, the economic modelling suggests that the Norfolk Island economy will struggle beyond 2017-18 or so. The economy is simply too small to fund/meet its expenditure requirements, even with the introduction of the NSL.

It is against this baseline that Commonwealth legislation is applied. Extension of Commonwealth legislation has substantial implications for Norfolk Island in the areas of direct and indirect taxes, corporate conduct, workplace conditions and subsidies directed to the social services (health care, welfare, and education). Taken together, and with the new gover-

1 The NSL and real GDP in the baseline



Data source: CIE model of the Norfolk Island economy.

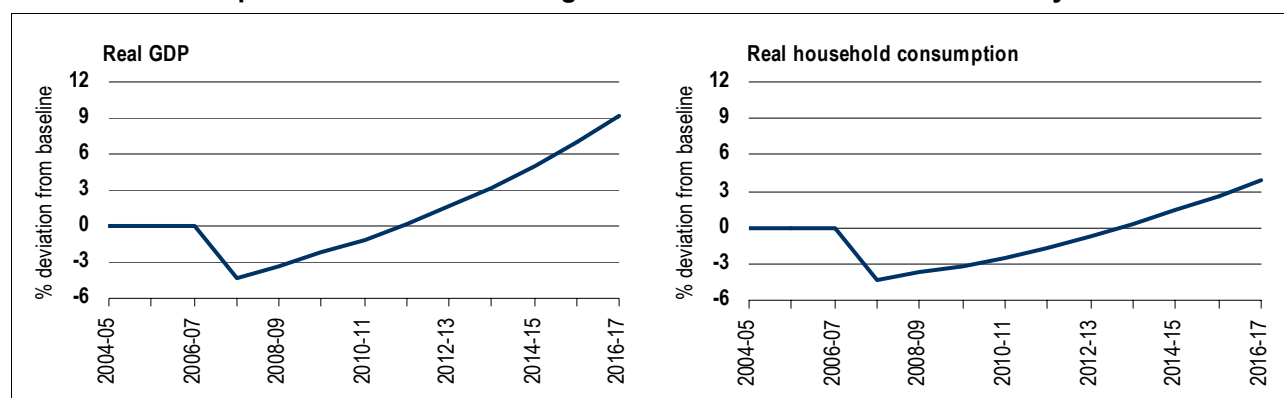
nance model under which the NIG assumes responsibility for providing all state and local government services, the overall impacts of Commonwealth legislation are initially negative, before becoming strongly positive. The impact of Commonwealth legislation on real GDP and household consumption, the preferred welfare indicator, are reported in chart 2.

By 2011-12 GDP is forecast to be higher than baseline. This reflects that under the baseline, the local economy is expected to slow/contract under an ever increasing NSL (needed to fund the AMP, depreciation, higher health and welfare expenses etc). compared with this baseline, Australian taxes and transfers to households impose less of a cost burden/impost on the Norfolk Island economy and hence economic activity is forecast to be higher than baseline.

Extending Commonwealth legislation to Norfolk Island is also forecast to see household consumption being higher than baseline (by 2013-14). The impact of Commonwealth legislation on real household consumption primarily reflects the combination of two factors – nominal household income (including transfers) and the CPI. Immediately after the extension of legislation, Norfolk Island nominal GDP, and hence household income, contracts (by 9 per cent). The CPI is also lower, but by only 5 per cent. Hence households are relatively worse off in real terms, with real household consumption being 4 per cent lower than baseline in 2007-08. As nominal GDP improves and the decline in CPI (relative to baseline) increases over time, real consumption increases and exceeds baseline levels in 2013-14 and beyond.

There are several options for ameliorating adverse impacts of extending Commonwealth legislation to Norfolk Island. Phasing in Australian tax legislation, removing indirect taxes and levying a payroll tax instead of a property tax each generate more favourable impacts (relative to the main simulation) for the Norfolk Island economy.

2 Economic impact of Commonwealth legislation on the Norfolk Island economy



Data source: CIE model of the Norfolk Island economy.

1

Introduction

THE AUSTRALIAN GOVERNMENT is contemplating the extension of all Commonwealth legislation to Norfolk Island. The extension of legislation is to be accompanied by a new governance model for non-Commonwealth responsibilities to be retained by Norfolk Island. The rationale for moving away from the arrangements of the last 27 years – self-determination – primarily stems from numerous reviews into the future of Norfolk Island. By and large, these parliamentary and independent reviews have arrived at the same conclusion – the status quo cannot be maintained. Concerns have been raised about the level of services delivered on the Island and that the underlying economy is too small and has too narrow a base to generate sufficient funding to finance infrastructure. Of late, concerns have been raised about the financial sustainability of the government.

It should be noted that the Norfolk Island Government (NIG) and private individuals have recently commissioned reports into the financial sustainability of Norfolk Island. These reports challenge the assumptions made in the ‘Australian Government’ reports, and suggest that the Norfolk Island economy is/could be made financially sustainable.¹

The objective of this report

The issue of financial sustainability is clearly important and has been rigorously debated. However, it is not the objective of this report per se to establish whether, and under what conditions, Norfolk Island is sustainable. Rather, the primary objective of this report is to provide an economic assessment of the impacts arising from the extension of Commonwealth legislation to Norfolk Island. The impacts are assessed (quantified) through using a general equilibrium model of the Norfolk Island economy.

¹ See, for example, CRA International 2006, *The Sustainability of the Norfolk Island Government: A Review of the Acumen Report*, CRA International, July 2006; Norfolk Island Action Group 2006, *A Model for Sustainability*, NAG; and Econtech 2006, *Modelling the Norfolk Island Government's Financial Position*, Econtech, September 2006.

While not a direct focus of this report, the issue of sustainability does however enter into considerations. When assessing the economic impacts, account needs to be taken of what the economy is going to look like in the future (known as the 'baseline'). If living standards on Norfolk Island are to be maintained (or improved) in 2007 and beyond, then the economy will clearly need to move to a sustainable footing. The issue of sustainability is addressed in a later chapter.

There are a vast number of pieces of Commonwealth legislation that could be rolled-out to Norfolk Island. Unfortunately, the resources are not available with which to quantify the economic impact of each piece of legislation – nor is it warranted. Numerous pieces of legislation will either have no major impact (such as the *International Air Services Commission Act 1992*), not be applicable to Norfolk Island (such as the *Antarctic Treaty Act 1960*), or already be applied in Norfolk Island (such as the *Sex Discrimination Act 1984*).

In ascertaining those pieces of legislation that will have either significant economic or social impacts, relevant Commonwealth departments have been relied upon to identify legislative changes that will likely have a major economic or social impact. Broadly speaking, the areas of change can be confined to:

- direct and indirect taxation;
- superannuation (and the superannuation guarantee);
- customs duties, quarantine and immigration;
- markets, business operations (including government business enterprises) and corporate conduct;
- operation of the labour market (minimum wages, labour supply); and
- social welfare.

Report structure

The report is structured as follows. Chapter 2 details the economic model used to quantify the impacts of extending Commonwealth legislation to Norfolk Island, the underlying database, and assumptions regarding the baseline.

The changes arising from the extension of Commonwealth legislation to Norfolk Island are detailed in chapters 3 (direct and indirect taxation) and 4 (welfare, other areas). These chapters take the format of identifying the current arrangements in Norfolk Island, how these arrangements would

change if Commonwealth legislation were rolled out, and how these changes were entered into the economic model for the purpose of quantifying the impacts (that is, the modelling 'shocks').

The economic modelling results are reported in chapter 5. In chapter 6 the sensitivity of the modelling results to one area of critical importance to the Norfolk Island economy – tourist numbers – is investigated. Also investigated in the sensitivity analysis are different levels of expenditure on infrastructure carried out by the NIG. Options for reducing any adverse impacts associated with the extension of legislation to Norfolk Island are considered in chapter 7.

Finally, in chapter 8 some general observations are made on the Norfolk Island economy. In making these observations, including areas of potential reform, the ultimate objective is to provide an environment favourable to economic growth.

2

Economic model of the Norfolk Island economy

A GENERAL EQUILIBRIUM MODEL of the Norfolk Island economy has been built for the purpose of quantifying the economic impacts of Australia extending Commonwealth legislation to Norfolk Island. An overview of the model and its underlying database is provided below.

A model of the Norfolk Island economy

The model used in this study is the ORANI-G model combined with data describing the Norfolk Island economy. The ORANI-G model is a single-country generic computable general equilibrium model that has been applied to a wide range of countries. The range of applications is described on the website of the Centre of Policy Studies at Monash University (<http://www.monash.edu.au/policy/oranig.htm>).²

Extensions were made to the model to allow for the particular policies (in particular, changes in the regime of taxes and subsidies) that were required in this study. For example, income taxes were introduced and the labour supply made responsive to post-tax income. Also, income accounting equations tracking the movement of income (generated by taxes, subsidies and dividends from government business enterprises) between the Norfolk Island Government, residents of the Island, and the Australian Government were introduced. The comparative static ORANI-G model was run in a sequential mode to emulate the phased introduction of changes and generate time-paths. For example, a baseline time-path including NIG expenditure on infrastructure was generated, and then a policy time-path (introducing a switch from the Norfolk Island to the Australian tax regime) was generated and compared with the baseline time-path.

² The particular variant adapted for this study can be downloaded from <http://www.monash.edu.au/policy/archivep.htm#tpmh0041>.

Underlying database

General equilibrium models are data intensive. The basic data set is an input-output (IO) table of the underlying economy.³ An IO table quantifies the relationship/economic linkages between the various productive sectors of an economy and areas of final demand (such as consumption, exports etc). It also specifies sectoral demand for the various factors of production (land, labour and capital). Essentially, an IO table tells us what is produced, how it is produced, and who buys it. Unfortunately, an IO table does not exist for Norfolk Island, meaning that the table had to be constructed from scratch using the available economic data, including:

- the recently completed (first) ABS survey of private sector activity in Norfolk Island;⁴
- financial statements from the Norfolk Island Administration;
- the Commonwealth Grants Commission study into the financial capacity of Norfolk Island;⁵ and
- IO tables developed for other 'tourism based island economies'.⁶

Data was also obtained from stakeholders during the consultation phase of the project and over subsequent weeks.

The resulting IO table identified 18 sectors of economic activity, 5 areas of final demand, 2 factors of production, and 15 types of indirect taxes and subsidies (see table 2.1). The IO table also tracked dividend payments made by various government business enterprises (GBEs) and NIG fee for service activities.

³ For an example of an input-output (and other associated tables), see ABS 2006, *Australian National Accounts: Input-Output Tables – Electronic Publication, 2001-02 Preliminary*, Table 2, Cat no. 5209.0.55.001, ABS, Canberra.

⁴ See ABS 2006, *Norfolk Island Business Statistics 2004-05*, Cat. No. 8139.0, ABS, Canberra.

⁵ See CGC 2006, *Review of the Financial Capacity of Norfolk Island 2006*, Staff Paper – Supporting Information, CGC, 2006, pp. 137–42.

⁶ The source for these other broadly comparable IO tables was database 6 of the Global Trade Analysis Project (GTAP). GTAP database 6 has a 57 sector IO table for region 'Rest of Oceania', which includes the economies of the Cook Islands, Fiji, Nauru, New Caledonia, Norfolk Island, Papua New Guinea, (Western) Samoa, Solomon Islands, and Vanuatu, among others.

2.1 Structure of the Norfolk Island economy model

<i>Sectors of economic activity</i>	<i>Areas of final demand</i>	<i>Factors of production</i>	<i>Indirect taxes and subsidies</i>
Agriculture, forestry, fishing	Consumption	Labour ^c	Absentee Landowners Levy
Mining, construction, maintenance	Government	Capital	Accommodation Levy
Manufacturing	Investment		Company fees
Trade	Exports		Departure fees
Accommodation	Imports		Financial Institutions Levy
Cafes, restaurants			Fuel Levy
Clubs			Liquor Licence fees
Tour operators			Land Title fees
All other industries			Stamp duty on cheques
Dwellings			Tattersalls lotteries
Electricity			Vehicle registration, licences
Communications			Customs Duties
Liquor bond			Norfolk Sustainability Levy
Lighterage			NI Government subsidies
Healthcare			Aus Government subsidies
Other government ^a			
Norfolk Island Government ^b			
Australian Government (on Island)			

^a Includes areas of economic activity such as Norfolk Island airport, Water Assurance Fund, KAVHA Fund, Museums, Workers Compensation Fund, Cascade Cliff Rock Enterprise, Offshore Finance Centre, Gaming Enterprises and the Tourism Bureau. ^b Includes core government responsibilities such as education, law and order, policy formulation etc. ^c Costs associated with labour have been disaggregated into the component parts of wages and salaries, other staff entitlements (half airfares and the like), superannuation contributions, and workers compensation contributions.

Source: CIE developed input-output table of the Norfolk Island economy.

The quality of the underlying data

The accuracy of the modelling results is highly dependent on the quality of the data in the underlying database. During construction of the IO table it became apparent that there were some data ‘irregularities’ and that some widely held ‘perceptions’ were not entirely supported by the available data. As is shown by the in depth example below, such irregularities may influence the economic impacts of extending Commonwealth legislation to Norfolk Island.

An example of a data irregularity – determining average wage rates

A minimum (adult) wage of \$8.50 per hour is legislated on Norfolk Island. Rolling out Commonwealth legislation to Norfolk Island could therefore impact on the local labour market if wages of \$8.50 were being paid and the Australian legislation stipulated a higher minimum wage. Hence there is a need to know what the average wage rate is.

The average wage has been determined using publicly available and ‘official’ data, such as the ABS survey of business activity on Norfolk Island and the Government’s financial accounts. In 2004-05, workers’ compensation premiums totalled \$314 891 (the premium is based on \$0.20 per hour worked). Of this amount, \$80 826 was paid by the government sector (the

Administration, GBEs etc). At a premium of \$0.20 per hour, the government's workers' compensation premium equates to just over 404 000 hours of labour. From the government's financial accounts, we know employee remuneration totalled \$9.3 million, or around \$8.7 million after superannuation is excluded.^{7,8} Given these figures, the hourly wage rate for employees in the government sector is \$21.44 (on average). Note that this average masks some quite substantial variation between wage rates across the various areas of government. For example, the hourly wage rate in Postal services is nearly \$18, while in the Legislative Assembly it is nearly \$56 per hour.

The private sector's workers' compensation contribution was \$234 065 in 2004-05 (given by total contributions minus public sector contributions). This is equivalent to 1.17 million hours of work. The ABS identified total wages being \$17.24 million, giving an average hourly wage of \$14.73.⁹

It was suspected that private sector wage rates would vary across sectors, so an attempt was made to derive sectoral wage rates. Unfortunately, the ABS did not separately identify workers' compensation payments made by each industry. Instead, the ABS reported 'Other compensation of employees', which includes workers' compensation premiums and superannuation contributions. Hence there is a need to split out the workers' compensation contributions for each industry.

The ABS reported that, in aggregate, the private sector's contributions to workers' compensation and superannuation totalled \$290 000.¹⁰ From above we know that the private sector's workers' compensation premium totalled \$234 065; superannuation contributions are therefore equal to \$55 935. The workers' compensation premium therefore accounts for nearly 81 per cent of the ABS's 'Other compensation of employees' category. This share was used to split out the workers' compensation payment for each private sector activity identified in the IO table. Results of the analysis are presented in table 2.2.

⁷ In splitting total employee remuneration into its component parts of wages/salaries and superannuation, it was assumed that the average superannuation contribution was equivalent to 6.5 per cent of wages.

⁸ The wage bill figure comprises wages/salaries paid to NIG employees only. As such, it excludes around \$1.8 million in wage payments made to teachers at the Norfolk Island School, who are, strictly speaking, employees of NSW Education.

⁹ See ABS 2006, *Norfolk Island Business Statistics 2004-05*, Cat. No. 8139.0, ABS, Canberra, table 1.

¹⁰ See ABS 2006, *Norfolk Island Business Statistics 2004-05*, Cat. No. 8139.0, ABS, Canberra, table 2.

2.2 Calculating private sector wage rates

Sector	Wages	Workers' comp.	Hours of work	Wage rate
	\$	\$	Hours	\$/hour
Agriculture, forestry, fishing	304 000	7 264	36 320	8.37
Mining, construction, maintenance	1 574 000	19 371	96 854	16.25
Manufacturing	576 000	8 071	40 356	14.27
Trade	5 148 000	43 584	217 922	23.62
Accommodation	2 533 000	28 249	141 246	17.93
Cafes, restaurants	1 871 000	20 178	100 890	18.54
Clubs	808 000	8 071	40 356	20.02
Tour operators	1 348 000	22 599	112 997	11.93
All other industries	3 080 000	76 676	383 382	8.03
Total all private sector industries	17 242 000	234 065	1 170 324	14.73

Source: CIE calculations based on ABS data.

As can be seen, the calculated hourly wage rates range between just over \$8 and nearly \$24. There are two 'issues' with the hourly wages reported in table 2.2. Firstly, there are some wages below the legislated minimum of \$8.50 per hour. This may be explained by a relatively high share of persons employed being under 18 years of age, and hence not subject to the \$8.50 minimum wage.

Secondly, for some sectors, such as Trade, the hourly wage is unexpectedly high. During the stakeholder consultations retailers suggested that staff received around \$15–17 per hour. If we assume that the ABS wage figure of \$5.148 million is correct, then the high hourly wage rate can only result from too few hours of work being calculated, which in turn necessitates an underpayment of the workers' compensation premium in some sectors.¹¹ Indeed, financial details for one retailer provided to CIE suggest that only around 71 per cent of the liable workers' compensation premium is actually made. Such underpayment could be achieved through not revealing the true amount of time employees spend working. In the absence of income tax returns, it would be virtually impossible for the Government to verify that the correct workers' compensation payments are being made.

What does apparently too high wage rates in the private sector mean for the economic modelling? Firstly, and in terms of rolling out Australian minimum wages to Norfolk Island, the change in wages on island may potentially be understated. Secondly, underpayment of premiums may have some impact on the financial sustainability of the government, which will have a bearing on the rate at which the Norfolk Sustainability Levy

¹¹ Even if we assume all of the ABS's 'Other compensation of employees' was a contribution to workers' compensation, the average hourly wage in the Trade sector falls to just over \$19.

(NSL) needs to be set so as to bridge any revenue shortfalls. (The same logic would extend to underpayment of other indirect taxes/charges.)

However, in the absence of better data, all we can use is the information that is currently available and officially endorsed.

The key observation to take from this example is that there are some apparent irregularities with the data. As the model of the Norfolk Island economy is driven by the underlying database, it is possible that these irregularities will have some impact of the modelling results. *However, in the CIE's view the data issues are not significant enough to change a result from being positive to negative, from being small to large or vice-versa.* Hence while more comprehensive data is always preferable, the data available is of sufficiently high quality to enable generation of accurate modelling results.

The baseline

The IO table, and hence model of the Norfolk Island economy, is based on 2004-05 data. It is assumed that Commonwealth legislation is rolled out to Norfolk Island on 1 July 2007 (or later in the event that any legislative changes are phased in overtime). Quantifying the economic impact of the legislative changes therefore requires knowing what the Norfolk Island economy looks like in 2007 and beyond.

The 'baseline' represents the business-as-usual scenario — that is, what can we expect to happen in the Norfolk Island economy in the absence of Australia extending Commonwealth legislation? The baseline needs to encompass views about the future structure of the economy and include other (relevant) policy decisions. For example, in July 2006, the Norfolk Island Government introduced the (compounding) Norfolk Sustainability Levy (NSL), which is a broad consumption based tax. Hence the baseline will need to include the NSL.

In constructing the baseline, various assumptions have had to be made about:

- tourism numbers and tourist spend;
- government (including GBEs) expenditure forecasts; and
- the rate at which the NSL is set and the future of other taxes.

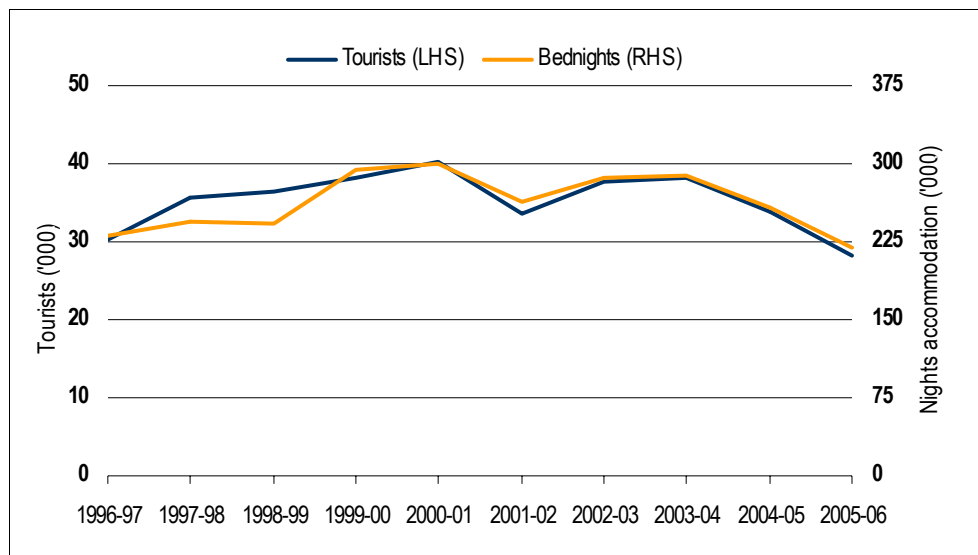
The assumptions made under each of these areas are discussed below.

Tourism numbers and spend

As can be seen in chart 2.3, tourism numbers have been steadily declining since 2000-01, when some 40 200 tourists visited the Island. The marked decline in tourist numbers in 2001-02 – a decline of 16.5 per cent on the previous year's figure – is probably attributable to a fall in tourist confidence following the September 2001 terrorist attacks in the United States. However, since 2003-04 when tourism numbers had recovered to 38 317, there has been a substantial decline in tourism numbers. In 2005-06, only 28 219 tourists visited the Island, which is 70 per cent of the peak figure obtained in 2000-01.

In the baseline it has been assumed that tourism numbers stabilise at 30 000 per year, with each tourist spending 7.6 days (on average) on Island. We note that some of the recent decline in tourism numbers could be attributed to the well documented airline difficulties, notably the collapse of Norfolk Jet in July 2005. With OzJet scheduling seven flights weekly between Australia and Norfolk Island, there is renewed optimism that tourism numbers will increase.¹²

2.3 Tourism numbers



Data source: Norfolk Island Tourism Bureau statistics.

¹²OzJet flies from Brisbane and Sydney to Norfolk Island on Wednesdays, Saturdays and Sundays. In August 2006 OzJet introduced an additional Sydney to Norfolk Island flight on Fridays. It is not known at this stage whether the Friday flight will be permanent. In addition to the flights to/from Australia, there are also 2 weekly services between Norfolk Island and New Zealand.

CIE agrees the more frequent flights to Norfolk Island can only help the tourism industry. However, we are not immediately convinced that greater carrying capacity will necessarily equate to greater tourism numbers in the absence of other reforms or additional marketing exercises. For example, stakeholders noted that:

- there were not enough resorts of high quality;
- resorts were typically too small to benefit from scale economies;
- there are policy impediments to successful accommodation businesses growing; and
- there are divergent views (amongst stakeholders) as to which tourist market Norfolk Island should be targeting (baby-boomers, retirees etc).

For these reasons, we hold tourism numbers constant at 30 000 per annum. In chapter 6 sensitivity analysis is conducted around tourist numbers to see how sensitive the modelling results are to assumptions about the number of tourists.

It is estimated that in 2004-05, tourists were directly responsible for around \$55.1 million worth of expenditure (see table 2.4). This is equivalent to \$1 638 per tourist, or \$215 per tourist 'day' spent on Island.¹³

2.4 Tourist spend 2004-05

<i>Area of expenditure</i>	<i>Total expenditure</i>	<i>Share attributed to tourists</i>	<i>Tourist expenditure</i>	<i>Spend per tourist</i>
	\$	%	\$	\$
Accommodation	13 177 000	100	13 177 000	391
Retail	39 675 000	70	27 772 500	823
Tour operators	4 619 000	100	4 619 000	137
Cafes etc	6 663 000	71	4 750 166	141
Clubs	2 931 000	50	1 465 500	43
Liquor Bond ^a	1 057 863	100	1 057 863	31
Fuel ^b	366 200	100	366 200	11
Airport ^c	1 739 670	100	1 739 670	52
Tourism Bureau ^d	86 452	100	86 452	3
Museums ^e	238 411	100	238 411	7
Total	70 553 596	78	55 272 762	1 638

^a Sales to tourists obtained from Liquor Bond monthly sales accounts. ^b Tourists assumed to account for 10 per cent of fuel sales to the private sector (calculated to be 1.8 million litres of fuel, based on the fuel excise raising \$366 200 at \$0.20 per litre) and a pump price of \$2 per litre. ^c Airport income from landing fees and security screening charges attributed to tourists based on the share of departure fees accounted for by tourists (93.6 per cent) ^d Sales by the Visitors Information Centre. ^e Includes museum entry tickets, souvenir shop sales and entry tickets to Trail of Fifteen Play.

Source: CIE calculations based on ABS 8139.0, the Administration of Norfolk Island Financial Statements 2004-05, and information provided during stakeholder consultations.

¹³ During 2004-05 there were 33 742 tourist to Norfolk Island, who spent 257 032 days on island. On average, each tourist spent 7.62 days on island.

With inflation on Norfolk Island running at nearly five per cent per annum over the last five years, tourist spend would need to increase by five per cent each year just to hold real expenditure constant. While there is an absence of time series data, we are not sure that tourist spend has been increasing, even in nominal terms. If anything, it has been going in the opposite direction — numerous stakeholders provided anecdotal evidence that spend per tourist was falling.¹⁴ It has been assumed in the baseline that tourism marketing etc is successful in reversing this occurrence, with tourist spend being held constant at \$215 (real 2004-05 dollars) per tourist day spent on island.

Government expenditure

The public sector (and its GBEs) accounts for nearly 30 per cent of GDP. Given the importance of the public sector to the Norfolk Island economy, the baseline needs to take into account (expected) future outlays in wages, and recurrent and capital expenditure. The latter area is especially important if claims of 'under investment in infrastructure/asset management' are to be addressed. Future expenditure also has implications for government (and GBE) revenue needed so as to enable that expenditure to be funded. Ultimately, any shortfall between expenditure and revenue from existing taxes/charges will need to be made up (see Norfolk Sustainability Levy below).

The NIG was asked to provide expenditure forecasts for both general government activities and those of its GBEs. Unfortunately, this data does not appear to be readily at hand.¹⁵ Part of the difficulty in obtaining budget forecasts may lie in Norfolk Island only having recently commissioned an Asset Management Plan (AMP) to advise on required government capital outlays.¹⁶ As the (draft) AMP was only delivered in early 2006, the NIG may not have had sufficient time to incorporate required capital outlays as identified in the AMP into the budget planning cycle.

On top of this, CIE understands that the NIG disputes some of the required capital outlays. Specifically, the AMP identified that \$87 million would

¹⁴ Some stakeholders attribute this to the marketing campaign targeting the wrong type of tourist, and '2 for 1' airline deals resulting in low spending tourists visiting the Island.

¹⁵ The CIE was provided with some budget forecasts, only to be informed at a later date that those forecasts were several years out of date and were not to be relied upon for forecasts of government/GBE expenditure.

¹⁶ See Asset Technologies Pacific 2006, *Administration of Norfolk Island: Summary Report Draft 1 – 15th February 2006*, ATP, February 2006.

need to be spent on roads over 15 years (comprising backlog costs of \$32 million, capital costs of \$41 million and maintenance costs of \$13 million). The NIG (and others on Island) dispute these figures, which consider that required road expenditure is more likely in the vicinity of \$26 million. It should be noted that CIE has not been provided with an official NIG position on/critique of the AMP figures.

The issue of the disputed AMP expenditure aside, it was surprising that the NIG and its GBEs did not have up-to-date forecasts of future expenditure (and revenue required to fund that expenditure). Given the absence of such data, it is not immediately clear that an effective strategy for managing infrastructure planning over the longer term is in place.

The absence of expenditure forecasts and an official NIG position on required infrastructure expenditure put forward in the AMP plan has made specifying the baseline in terms of NIG activity difficult. In generating the baseline, we have no option but to use the NIG budgetary forecasts provided to the CIE (which are apparently three years out-of-date) for future government wage and recurrent expenditure and expected dividend payments.

However, in cases where consultation with Administration staff have suggested more up to date future expenditure requirements, such as in the areas of health and welfare, then those estimates have been used.¹⁷

This may see, for example, increased expenditures in the areas of welfare and health (due to an aging population) being too conservative and understated.

The CIE is not in a position to be able to critique the required infrastructure expenditure as outlined in the AMP, hence the figures in the AMP are taken to be correct. As we do not know if the NIG will meet the time profile of expenditure requirements outlined in the AMP, for simplicity, it has been assumed that the infrastructure spend is spread evenly across the 15 years covered by the AMP. This sees the NIG and its GBEs spending nearly \$9 million per year on backlog works, maintenance and new capital (see table 2.5). It is also assumed that the infrastructure costs are fully paid in the year in which the expense is incurred.¹⁸

¹⁷ Administration staff suggested that due to the ageing population, future increases in health and welfare expenditures of 10 per cent per year are expected (or have recently been observed). Hence in the modelling, health and welfare expenditure is increased (annually) by 10 per cent.

¹⁸ This likely over simplifies the situation, and may lead to too large a revenue raising requirement. For example, the NIG could (presumably) borrow to fund

Backlog works over the 15 year period of the AMP total \$33 million. The vast majority of this expenditure (some \$32.6 million) is capital refurbishment, which ultimately adds to the capital stock (in addition to new capital replacement/investment) and whose depreciation will need to be funded.

2.5 Assumed annual infrastructure expenditure in the baseline

<i>Area of government</i>	<i>Backlog</i>	<i>Maintenance</i>	<i>Capital</i>	<i>Total</i>
	\$	\$	\$	\$
Electricity	753	94 253	537 747	632 753
Communications ^a	1 936	100 014	122 733	224 683
Liquor bond	251	24 621	13 158	38 030
Lighterage	1 047	5 483	5 068	11 597
Health	5 467	48 547	102 737	156 750
Other GBEs	11 720	279 827	1 527 607	1 819 153
Norfolk Island Government	2 179 088	1 092 053	2 824 362	6 095 503
Total	2 200 261	1 644 798	5 133 411	8 978 471

^a An additional \$1 million has been added to the AMP's telecommunications expenditure estimates to reflect Norfolk Telecom's post AMP decision to roll out a mobile network.

Source: CIE calculations based on required infrastructure expenditure as specified in the AMP.

Norfolk Sustainability Levy

In July 2006 the NIG introduced the Norfolk Sustainability Levy, which is a broad-based (and compounding) consumption tax. The NSL was introduced for the purpose of broadening the tax base, and, depending on the success of the revenue raising exercise, remove/reduce some other indirect taxes.¹⁹ These include Customs Duty (on goods intended for re-sale), the Accommodation Levy, Financial Institutions Levy and Departure Fees. The NSL has initially been set at a rate of 1 per cent (of gross revenue), with the future rate and a decision on removal of other taxes being subject to review (expected to be undertaken in late 2006).

The issue of the NSL, and whether it will be used to replace other indirect taxes, has been problematic. Despite numerous stakeholders indicating that they thought other taxes would be removed with the introduction of the NSL, and even though the NIG cited this prospect as a rationale for introducing the NSL, there has been little comment since August 2005 on the future of other taxes.

its infrastructure expenditure, and then repay the loan over an extended period. Through repaying the loan over say 30 years, (ideally) the economy will have grown over this time therefore giving a larger economy/tax base with which to fund future loan repayments.

¹⁹ See *Norfolk Sustainability Levy Bill 2005, Explanatory memorandum and impact of legislation*, August 2005.

Indeed, recent events (and a new Finance Minister) have indicated a change in thinking. Specifically, the NIG has recently announced its intention to raise import duties on all goods (excluding food, fuels, alcohol, tobacco and vehicles) from 10 per cent to 13 per cent — a 30 per cent increase in duty. The move to increase import duty contradicts some of the intentions underpinning the introduction of the NSL.

Given this, it is assumed that the current regime of indirect taxes remains in place and at current rates. This sees, for example, the import duty on goods being kept at 10 per cent. The economic model has been used to determine the rate at which the NSL needs to be set so as to balance government expenditure (see above) with government income. That is, revenue raised via the NSL meets any revenue shortfall.

The economic modelling suggests that the NSL needs to be set at 7 per cent in 2006-07, increasing to 12.3 per cent in 2016-17 in order to allow the NIG to meet its expenditure needs.²⁰

²⁰ Note that after 2016-17, the NSL needs to increase significantly each year due to rapidly growing health and welfare costs increasing faster than GDP.

3

Legislative changes – taxation

DIRECT TAXATION is one of the fundamental differences between Norfolk Island and Australia. Currently, Norfolk Island has virtually no direct taxes. It raises revenue through a variety of indirect taxes, some of which would necessarily be replaced if Commonwealth legislation were extended to Norfolk Island.

It should be pointed out that while Norfolk Island does not currently have a system of direct taxation, its citizens (and those visiting the Island) do pay taxes. For example, in 2004-05 the NIG raised \$7.9 million in taxes, or nearly \$4 000 per capita (excludes fee for service type charges). If the abnormally large dividends that the NIG is obtaining from (some of) its government business enterprises (GBEs) and the levied 'management fee' are acknowledged as taxes, then taxes per capita exceeds \$4600.²¹

Generally, the extension of Commonwealth legislation would include the introduction of:

- income tax for individuals;
- Medicare levy (and the Medicare levy surcharge);
- income tax for business (including company tax);
- goods and services tax (GST);
- fuel, alcohol and tobacco excises; and
- tariffs.

Excise duties apply to specified goods regardless of whether they are produced or manufactured in Australia or imported into Australia.

This chapter discusses the changes arising from extending Commonwealth tax legislation to Norfolk Island and describes how CIE have modelled the effects.

²¹ This figure is based on the GBEs earning an appropriate, rather than abnormally high, rate of return to capital.

Income tax (including the Medicare levy) for individuals

Australia levies direct income tax on all individuals who earn income in Australia and who are deemed a resident for tax purposes. Australia's progressive income tax rates are shown in table 3.1.

3.1 Tax rates for 2006-07

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 to \$6 000	Nil
\$6 000 to \$25 000	15 cents for \$1 over \$6 000
\$25 001 to \$75 000	\$2 850 plus 30 cents for each \$1 over \$25 000
\$75 001 to \$150 000	\$17 850 plus 40 cents for each \$1 over \$75 000
Over \$150 000	\$47 850 plus 45 cents for each \$1 over \$150 000

Source: ATO (2006), 'Individual income tax rates', <http://www.ato.gov.au/individuals/content.asp?doc=/content/12333.htm&mnu=11485&mfp=001/002>, Accessed September 2006.

Medicare levy and Medicare levy surcharge

Medicare is the scheme that gives Australian residents access to health care. It is partially funded by contributions from individual taxpayers via a Medicare levy. The Medicare levy is 1.5 per cent of an individual's taxable income.

The Medicare levy surcharge applies to high-income individuals who do not have private patient hospital insurance. If an individual earns over \$50 000 and does not have approved private patient hospital insurance then they are liable for a surcharge of 1 per cent of their taxable income.

Changes to Norfolk Island legislation

Norfolk Island does not levy individuals with income tax.

Extending the Medicare Levy to Norfolk Island would replace the existing health care funding arrangements levied on Norfolk Islanders.

Currently, Norfolk Island partially funds its health care through a health insurance levy, which is levied upon every adult on the Island (except welfare recipients). The levy is a fixed fee of \$125 paid quarterly. There is also an additional levy of \$25 per quarter that covers medical evacuations. Hence over the course of a year, each adult would pay \$600 in Norfolk Island health care premiums. Under the Medicare regime an individual would have to earn \$40 000 per annum before incurring a health care levy of \$600.

The levy goes to Norfolk Island's Health Care Fund. The Health Care Fund provides covers for many medical costs once a family spends in excess of \$2500 on medical treatments in a year. In 2004-05 there were around 100 families that exceeded the \$2500 threshold.

Design of modelling simulation

Australia has a progressive income tax regime. This means we need to know the income of each (working) person to determine the applicable income tax rate. Unfortunately, this data is not directly available.

The 2001 Census does, however, allow an income distribution profile to be established.²² This distribution profile was 'fitted' around average weekly income in 2004-05 (calculated to be \$467). To the derived income profile for 2004-05, Australian income tax rates for 2006-07 were applied and allowances made for tax offsets (low income, zone and dependents). From this, an implied average income tax rate of 9.8 per cent was calculated. In the economic modelling a tax rate of 9.8 per cent is levied on wages economy wide. The Medicare Levy is incorporated in the implied tax rate.

With the introduction of Medicare, the Norfolk Island Health Care Fund becomes redundant, and hence adults do not have to be levied with an annual levy of \$600. This results in a cost savings to households of \$749 321.

Income tax for business

Businesses in Australia are liable for income tax. Taxable income is the difference between assessable income and allowable deductions. It may differ from the method used by businesses to calculate their profit.

Assessable income includes most money received in carrying on a business. The main exceptions are:

- loans received;
- equity contributed by the owner(s); and
- GST collected or GST credits.

Allowable deductions include most expenses incurred through the normal operations of the business. Generally, businesses can claim:

²² See Administration of Norfolk Island 2001, *Norfolk Island Census of Housing and Population 7 August 2001: Statistical report on characteristics of population and dwellings*, Administration of Norfolk Island, October 2001, table I5.

- an immediate deduction for expenses necessary for the regular operation of the business; and
- a deduction over a number of years for the decline in value (depreciation) of other expenses, for example, most capital assets.

There are some payments that business make that are not considered allowable deductions. These include:

- loans made by the business;
- money drawn or borrowed from the business by the owner;
- private or domestic expenses; and
- GST (if it is claimed as a credit on the business' activity statement).

Income tax rates for individuals (see table 3.1) are also applicable for some types of businesses including:

- sole traders;
- partners in partnerships;
- most beneficiaries of trusts; and
- an individual as an employee of their own trust or company.

The income tax rate for companies is 30 per cent. There are no thresholds or variations in the tax rate for companies.

All Australian companies must be registered through the Australian Securities and Investment Commission (ASIC). For tax purposes a company is defined as an incorporated or unincorporated body or association. The definition does not include partnerships or non-entity joint ventures. A company is a distinct legal entity and pays tax under the company's name.

Current arrangements on Norfolk Island

Norfolk Island does not tax business income.

Design of modelling simulation

Australia's income tax for companies is designed as a tax on capital equivalent to 30 per cent tax on a company's net operating surplus. Net operating surplus, which is essentially net profit, is defined as income less expenditure, interest and depreciation.

The remaining businesses (self-employed, partnerships and trusts) pay income tax based on the individual tax rates. The CIE analysed average income for non-company businesses on the Island. It was determined that the average net operating surplus meant that the implied tax rate for sole traders etc would be 17.5 per cent.

As information was not available on incorporated companies by sector, a weighted average of the two tax rates was calculated and applied to all businesses operating on the Island. The weighted average rate of taxation of 20.2 per cent was applied to businesses (including GBEs) operating on Norfolk Island.²³

Goods and Services Tax

The Goods and Services Tax (GST) is a broad-based tax of 10 per cent on most goods, services and other items sold or consumed in Australia. Most basic food for human consumption is GST-free. Medical services are also GST-free if a Medicare benefit is payable for the service or if a medical or approved pathology practitioner performs the service.

Businesses accumulate input tax credits for any GST paid/incurred by the business. Hence ultimately, it is only end users (such as households) that incur the GST.

In Australia GST revenue is collected by the Australian Tax Office but distributed to the states. Every Australian state (and territory) would need to acquiesce to the inclusion of Norfolk Island in the distribution of GST revenue for the Island to receive such revenue. Assuming this is the case, the revenue redistributed back to Norfolk Island is likely to be higher than the revenue raised on Norfolk Island.

Changes to Norfolk Island legislation

If the GST is extended to Norfolk Island it would replace some existing taxes. In particular, the Norfolk Sustainability Levy (NSL), which the Norfolk Island Government recently began trialing, would be abolished.

²³ Note there might be some incentive for some businesses currently incorporated on Norfolk Island to change their structure to benefit from a lower average rate of income tax. If this were to occur it would reduce the weighted average tax rate used for this analysis.

Design of modelling simulation

GST was calculated as an ad valorem tax on sales to households and exports by various sectors of Norfolk Island's economy. The rates for each sector differ because the GST is not levied on food or most medical services. The GST rates for each sector are shown in table 3.2.

The share for retail trade was determined by calculating the share of GST-free food as a share of total retail trade turnover. Primary produce was based on import data provided by Norfolk Island Customs. Adjustments were made to the FOB value of GST-free food imports to account for freight and retail markup. The share of retail trade that was attributable to primary produce was 3.8 per cent. The weighting of non-GST goods as a proportion of goods sold in the retail sector makes the effective GST rate for retail trade 9.6 per cent.

For modelling purposes, the GST revenue raised on Norfolk Island goes to the Australian Government (that is to say, it is not directly returned to the Norfolk Island Government).

3.2 Effective rates of GST, by sector

Sector	Effective rate of GST
Agriculture, forestry and fishing	0.0
Mining, construction & maintenance	10.0
Manufacturing	10.0
Retail trade	9.6
Accommodation	10.0
Cafes, restaurants	10.0
Clubs	10.0
Tour operators	10.0
All other industries	10.0
Dwellings	0.0
Electricity	10.0
Communications	10.0
Liquor bond	10.0
Lighterage	10.0
Health	0.0
Other GBEs	10.0
Government	10.0

Source: CIE estimates.

Fuel excise

Australia levies a fuel excise (at differing rates) on all fuel and fuel related products used in non-stationary engines. The rates of duty vary depending on the nature of the fuel or the purpose for which it is to be used (see table 3.3).

3.3 Fuel excise rates in Australia

Fuel	Rate of duty
Fuel ^a , for use as fuel in an aircraft	\$0.02854 (per litre)
Fuels ^b , for other use	\$0.38143 (per litre)
Petroleum-based oils and their synthetic equivalents (including recycled oil)	\$0.5449 (per litre)
Petroleum-based greases and recycled greases	\$0.05449 (per kg)

^a Includes kerosene and gasoline. ^b Includes kerosene, heating oil, gasoline, diesel, biodiesel, denatured ethanol, fuel oil, crude petroleum oil, petroleum condensate and other refined or semi-refined petroleum products.

Source: ATO (2006), 'Excise duty rates', <http://www.ato.gov.au/businesses/content.asp?doc=/content/4085.htm&page=5&H5>, Accessed September 2006.

Changes to Norfolk Island legislation

The Australian excise duty on fuel would replace the Norfolk Island fuel levy. (Norfolk Island also levies fuel imports with an import duty of 10 per cent. This duty would be removed following application of the Australian tariff schedule to Norfolk Island.) Currently, the Norfolk Island's fuel levy is \$0.20 per litre at the bowser, and is only paid by the private sector and households/tourists.

The electricity generator and other government vehicles are not liable for the levy (or the duty on fuel). Following extension of Commonwealth legislation, the general government sector and any government businesses on Norfolk Island would be liable to pay the fuel excise.

Design of modelling simulation

The amount of fuel used by each sector of the economy was determined based on estimates of fuel use. For the private sector and areas of final demand (households, tourists) total fuel use — 1.8 million litres — was known due to \$366 200 in fuel excise being raised, at a rate of \$0.20 per litre. Dividing the former by the latter gives us total fuel use by the non-government sectors (1.8 million litres). This fuel use was then spread across the private sector and households and sales to tourists.

From Norfolk Island Customs total fuel imports were obtained (1.5 million litres of petrol and 2.7 million litres of diesel). As the private sector and households/tourists used 1.8 million litres of fuel, 2.4 million litres of fuel must be used by the government sectors. This was then allocated across the various government sectors (and GBEs). The Norfolk Island Electricity Service accounted for the majority of this fuel use (some 2.3 million litres of diesel).

The simulation removes Norfolk Island's fuel excise of \$0.20 per litre, and replaces it with Australia's fuel excise of \$0.38341 per litre. Any sectors that rely on transport would be impacted through the change in the price of fuel, which either raises their input costs or raises the price for the sectors of final demand. Note that as the Norfolk Island Electricity Service's generators are stationary, diesel fuel used by the NIES remains excise free.

The revenue from the fuel excise goes to the Australian Government, with the Norfolk Island Government losing its fuel-related revenue (\$366 200 in 2004-05).

Alcohol and tobacco excises

Alcohol and tobacco excises in Australia are generally set at fixed rates. For example, different strength beers are levied with excises ranging between \$20.39 and \$37.90 per litre of alcohol (note that the first 1.15 per cent of alcohol content in beer is duty free). Ultimately, the rate of excise is based on the quantity of alcohol or tobacco content within a product.

The exception to the fixed rate excise is wine. Wine has an ad valorem duty of 5 per cent plus a Wine Equalisation Tax (WET) of 29 per cent. These are both levied on the wholesale price of wine.

The tobacco excises is calculated on the tobacco content of the product or the number of cigarette sticks. The rate of the tobacco excise is \$298.01 per kilogram of tobacco content. For cigarettes with 0.8 grams or less of tobacco content the tobacco excise is \$0.2384 per stick.

Changes to Norfolk Island legislation

Norfolk Island does not impose alcohol or tobacco excises (instead, import duties are levied on these products). Extending Commonwealth alcohol and tobacco excises (and WET) would replace some of Norfolk Island's tariffs. Norfolk Island uses ad valorem tariffs on alcohol and tobacco imports. The rates for Norfolk Island's alcohol and tobacco tariffs are provided in table 3.4.

Norfolk Island has one domestic producer of wine, but no other significant manufacturers of alcohol or tobacco products.

3.4 Tariffs for Norfolk Island alcohol and tobacco products

Product	Norfolk Island tariff (%)
Beer	20
Wine	25
Spirits	30
Tobacco products	500

Source: Norfolk Island Customs.

Design of modelling simulation

As Norfolk Island does not currently have alcohol or tobacco excises, application of Commonwealth legislation sees the Australian excises being applied. (Note that extending Australia’s tariff schedule to Norfolk Island would see the current import duties levied on beer, wine, spirits and tobacco being removed. The issue of import duties is addressed further below).

For modelling purposes, the excise has been converted to an ad valorem rate. The ad valorem equivalent of the alcohol excise was estimated based on the alcoholic content for a generic type of beer, wine and spirit using Australia’s alcohol excise rates. It uses alcohol import volumes provided by Norfolk Island Customs to weight beer, wine and spirit consumption for a generalised alcohol excise equivalent tariff. The alcohol excise equivalent tariff is calculated to be 84 per cent. In the modelling, the cost of alcohol purchased by the Liquor Bond is increased by 84 per cent. (Note that as a result of moving to Australia’s tariff schedule, any increase in the cost of alcohol imports will be partially offset when Norfolk Island’s high alcohol tariffs are removed.)

The tobacco excise equivalent tariff rate is calculated based on the volume of tobacco product imported on Norfolk Island.²⁴ Australia’s tobacco excise is calculated to increase the rate of duty for tobacco by 451 per cent compared with the baseline. In the modelling it is assumed that all tobacco products are purchased by the retail sector. The effect on the sector is calculated by multiplying tobacco’s share of retail turnover by the percentage change in costs due to the effective tariff rate. In the model, Australia’s tobacco excise translates to a 3.3 per cent increase in the cost of purchases by the retail trade sector from the manufacturing sector. (Note that, as with alcohol, moving to Australia’s tariff schedule will partially offset the tobacco excise because Norfolk Island’s tariff on tobacco is removed).

²⁴ Provided by Norfolk Island Customs.

Revenue previously raised by Norfolk Island tariffs on alcohol and tobacco is eliminated. Revenue from the alcohol and fuel excise is transferred to the Australian Government.

Import tariffs

Australia has undergone a process of removing or dramatically lowering many of its tariffs. The average Australian import duty in 2006 is 3.5 per cent (excludes excises). Additionally, Australia has trade and investment agreements with the following countries:

- New Zealand;
- United States of America;
- Thailand; and
- Singapore.

Merchandise imports from these countries are, or will be at some point in time, duty free. Australia is currently negotiating trade agreements, or considering entering into negotiations with Malaysia, other ASEAN members, China, Japan and Korea.

Changes to Norfolk Island legislation

In contrast to Australia, Norfolk Island imposes comparatively high tariffs. For example, in 2004-05 the average tariff was 10.4 per cent. Moreover, there is some indication that Norfolk is seeking to increase its tariff with the Norfolk Island Government approving a bill to increase the general tariff rate from 10 to 13 per cent.

Should Australia's Customs and Customs Tariff Acts be applied to Norfolk Island they would replace the existing tariff regime. The current Norfolk Island tariff schedule is reproduced in table 3.5. Furthermore, under the Australian tariff regime the vast majority — some 87 per cent — of imports into Norfolk Island will be duty free, as these products originate in either Australia or New Zealand, and hence will not attract import duty.

3.5 Norfolk Island tariff schedule

Good or product	Norfolk Island
	% (unless otherwise stated)
Goods – food or live animals	6
Seed potatoes	6
Butane gas	6
Fuel	10
Beer	20
Wine	25
Spirits	30
Tobacco products	500
Motorcycles	15
Passenger motor vehicles - new	15 (or \$1000, whichever is greater)
- used	15 (or \$1000, whichever is greater)
Other motor vehicles	5 (or \$1000, whichever is greater)
All other goods (general tariff)	10

Source: Norfolk Island Customs.

Design of modelling simulations

All of Norfolk Island's existing tariffs are removed. They are replaced by the Australian tariff schedule, with effective rates of duty determined for different sectors of the Norfolk Island economy based on analysis of import data provided by Norfolk Island Customs. As only four 'merchandise sectors' have been identified in the economic model, only four aggregate tariff rates have been calculated (see table 3.6).

3.6 Effective tariff rates on Norfolk Island

Sector	Norfolk tariff	Australian tariff^a
	%	%
Agriculture, forestry and fishing	7.8	0.39
Mining, Construction, Maintenance	0.0	0.42
Manufacturing	10.6	3.74
Liquor	25.4	0.0

^a Note these rates exclude Australia's excise on fuel, alcohol and tobacco as these are contained in a separate modelling simulation.

Source: CIE estimates.

4

Other legislative changes

COMMONWEALTH LEGISLATION encompasses a broad range of areas beyond taxation. Some legislation will also have substantive economic impacts if it is applied to Norfolk Island. Notable areas where legislation will have major economic impacts include:

- customs, immigration and quarantine;
- superannuation;
- markets, business and corporate conduct;
- workplace relations
- communications; and
- social welfare.

This chapter describes how the application of non-tax Commonwealth legislation will also have economic impacts for the Norfolk Island economy. The responsibilities assumed the Australian Government under the new governance model, and what this means for the (state and local government type) responsibilities to be provided and funded by NIG, is also discussed.

Extending provision of Australian Government services

Applying Commonwealth legislation entails that some current NIG responsibilities will be undertaken (and funded) by the Australian Government. The Australian Government would likely be responsible for funding both the provision and administration of a range of areas, including:

- customs;
- immigration;
- quarantine;
- police;

- some health programs; and
- social security.

For example, the NIG spent \$920 839 on social security benefits in 2004-05. If the Commonwealth's social security legislation were extended to Norfolk Island the Australian Government would fund social security payments to Norfolk Island residents. Under the Australian Government system social security payments would increase by \$88 622, making the Australian Government's total provision of social welfare just over \$1 million. In other words, the \$920 839 social welfare responsibility of NIG is shifted to the Australian Government, who both 'picks up the tab' and increase payments.

Customs, immigration and quarantine

Customs, immigration and quarantine regulations will cause a variety of changes to the current operation of the Norfolk Island Government.

Customs

Extension of Australia's customs legislation would mean Australian Customs was responsible for:

- inspecting goods entering Norfolk Island;
- application of Australia's tariff schedule; and
- processing incoming international passengers.

Changes on Norfolk Island

Australian Customs would replace Norfolk Island Customs. It is unlikely that Australian Customs would have the same labour resource requirements as Norfolk Island Customs currently uses. However, some capital infrastructure investment would be necessary if Australian Customs operated on Norfolk Island.

Design of modelling shock

The NIG no longer needs to fund the Norfolk Island Customs service. The Norfolk Island Government expenditure on customs of \$358 240 per year is withdrawn from NIG's expenditure requirements. In its place the Australian Government is expected to spend \$1.1 million per year on

operating costs for the Australian Custom Service (ACS) on Norfolk Island. In addition, ACS would have capital expenditure of \$1.3 million in the first year of its operation Norfolk Island.

Migration

Australian law mandates free movement of individuals between Australia's states and territories. Additionally, New Zealand residents can live and work in Australia without restrictions. For non-Australian or non-New Zealand individuals entering Australia visa requirements vary depending upon the nature and duration of the visit and the origin of the visitor. Migration for employment reasons is permitted but subject to a number of conditions. Australia has 'Working Holiday' agreements with a number of countries allowing holders of the appropriate visa opportunities for temporary employment.

Changes to Norfolk Island

Australia's Migration Act would override migration legislation on Norfolk Island. This might mean that some Norfolk Island General or Temporary Entry Permit (GEP, TEP) holders would no longer be eligible to remain on the Island.

Impact on modelling

The Australian Government will perform immigration services on Norfolk Island. This will reduce the NIG's expenditure by \$120 570 per year. The Australian Government does not anticipate requiring any permanent immigration officers be stationed on Norfolk Island.

Other impacts of extending the migration act are not explicitly modelled, for example the effect of Commonwealth legislation on current TEP holders. Nevertheless, the model of the Norfolk Island economy does implicitly capture the effects of migration. Internal migration (from Australia and New Zealand residents) is dependent on, among other things, wage rates and the demand for labour on Norfolk Island. The model captures changes in the demand for labour and changes in employment. From this, we can infer changes in migration.

Quarantine

It is unclear how Norfolk Island will be treated under various parts of agricultural and export-related legislation until the Australian Quarantine

Inspection Service (AQIS) undertakes a comprehensive pest and disease survey of the Island. It is expected that the survey might take up to a year to complete.

In the absence of any substantive agricultural or food processing export industries this is unlikely to have an economic impact on the Island. However, Norfolk Island's disease status will affect the designation of Norfolk Island's airport. If the Island is deemed to have a quarantine status equivalent to Australia then flights between Australia and Norfolk Island can depart from domestic terminals in Australia. Departures from domestic terminals generally have a lower cost than departures from international terminals. This could potentially lower the cost of airfares to Norfolk Island.

Changes to Norfolk Island legislation

Australia's quarantine legislation would override equivalent legislation currently in place on Norfolk Island.

Impact on modelling

The Australian Quarantine Services (AQIS) will provide quarantine services on the Island. This will reduce NIG's expenditure by \$150 700 per year. AQIS expenditure on Norfolk Island is captured in spending by Australian Customs.

Other effects of extending Australia's quarantine legislation are not explicitly modelled. However, the extension of Australia's quarantine regime may have a profound, albeit indirect, impact on the Norfolk Island economy. If the cost of flights to Norfolk Island is lowered (and the cost reduction is passed on through lower airfares) then it might increase tourist numbers to Norfolk Island. Changes to Norfolk Island tourist numbers are modelled as part of the sensitivity analysis (see chapter 6).

Superannuation

The superannuation guarantee requires that employers contribute 9 per cent of each employee's earnings base to a superannuation fund or retirement savings account. Contributions need to be made at least every quarter.

Changes to Norfolk Island legislation

The Norfolk Island Government Administration is currently the only sector required to make superannuation contributions (to a Provident Fund). The rate of the superannuation contribution is variable depending on the years of service (see table 4.1). Administration employees must also make a mandatory contribution of 5 per cent of their base public sector earnings to the superannuation scheme. The scheme does not permit voluntary contributions from the employee.

A range of private sector businesses on Norfolk Island currently provides superannuation-type payments to employees. The scope and scale of these contributions varies between businesses. It is estimated that across the entire private sector, superannuation payments only totalled \$55 000 in 2004-05.

Introduction of the superannuation guarantee will replace Norfolk Island's existing superannuation arrangements.

4.1 Superannuation contributions for Norfolk Island public service

<i>Years of public service</i>	<i>Employer contribution</i>	<i>Employee contribution</i>
	%	%
Up to 12 years	6.0	5.0
12 to 18 years	6.5	5.0
Over 18 years	8.5	5.0

Source: Consultation with Norfolk Island Government Administration.

Design of modelling simulation

Using data provided by the Norfolk Island Administration and the ABS the rate of superannuation was determined for both the private and public sectors of the Norfolk Island economy.

As was discussed in chapter 2, through using the level of private sector contributions to the workers' compensation levy, the CIE was able to determine the level of superannuation contributions. This was compared with the total wages paid by the private sector, indicating that the effective rate of superannuation contribution by the private sector was equivalent to only 0.32 per cent of the wage bill.

The CIE were informed by the NIG that in the public sector superannuation contributions averaged 6.5 per cent.

The impact of Australia's superannuation guarantee was modelled by determining the additional contribution that employers would be required

to make. The increase in employer contributions is equivalent to a rise in the wage bill for the:

- private sector of 8.68 per cent; and
- public sector of 2.50 per cent.

Markets, businesses and corporate conduct

Australian legislation would bring a number of changes to the way that both private sector businesses and government business enterprises operate on Norfolk Island. Australia's taxation arrangements and business regulations would generally increase compliance costs for businesses on Norfolk Island. The increase in compliance costs is likely to be more significant in earlier years and diminish in later years. Australia's business regulations are likely to increase corporate accountability on Norfolk Island. Other changes will occur through the introduction of the *Trade Practices Act 1974* (TPA) and the National Competition Policy (NCP).

Trade Practices Act

The TPA aims to promote competition, fair trading and provide consumer protection. The Australian Competition and Consumer Commission (ACCC) supervises the TPA. Australia's TPA covers a wide range of corporate areas, with an aim to improve corporate behaviour. Some aspects corporate governance covered by the TPA include:

- anti-competitive practices;
- unconscionable conduct;
- industry codes;
- unfair practices;
- product safety and information;
- country of origin claims;
- condition and warranties; and
- product liability.

Changes to the corporate conduct of businesses on Norfolk Island

There is no equivalent legislation on Norfolk Island although the TPA might replace some aspects of legislation from a variety of Norfolk Island Acts. The primary impact on business would be an increase in compliance

costs, although in most cases this is unlikely to be significant. For example, the current practice by some Norfolk Island businesses of using the phrase 'duty free' when the products are not duty free would no longer be permissible.

Businesses that have a monopoly are likely to be more severely affected by the TPA. In some cases the ACCC might need to regulate prices for some essential services. Government business enterprises are most likely to be affected in this manner.

Additionally, under the NCP, government business enterprises must operate under competitive neutrality principles and have operational separation from the general government sector. This is likely to erode the commercial advantage that currently extends to the Liquor Bond and the current regime of exempting GBEs from Norfolk Island indirect taxes (such as the fuel excise, Financial Institutions Levy etc).

Design of modelling simulation

The primary affect of extending the TPA to Norfolk Island would be to reduce opportunities for monopoly rents by businesses with substantive market power. Presently, some businesses generate a return on capital of more than 65 per cent. The TPA effectively means such a return on capital is unsustainable. The simulation lowers the return on capital in selected sectors of the economy as illustrated in table 4.2. The effect of a lower return on capital is to lower prices of these goods services produced by the sectors (as would be the case if the sector were opened to competition or regulated).

A lower rate of return to capital will have the flow on effect of reducing dividend payments from the GBEs to the NIG. This will see the NIG being required to make up subsequent revenue shortfall elsewhere.

4.2 Return on capital for selected sectors

Sector	Return on capital in modelling simulation
	%
Electricity	20
Communications	20
Liquor Bond	14

Source: CIE estimates.

Compliance requirements

Businesses are required to register or report for a number of items to comply with Australian legislation. For example, businesses with a turnover greater than \$50 000 per year are required to report to be registered for an Australian Business Number (ABN).

Australian legislation entails a number compliance requirements including:

- company registration and reporting requirements with ASIC;
- provision of Business Activity Statements (BAS) to the Australian Tax Office (ATO);
- registering for Pay-As-You-Go (PAYG) withholding; and
- obtaining a tax file numbers (TFN) for some businesses.

Changes to Norfolk Island business reporting requirement

Australian legislation would impose additional compliance and reporting requirements on Norfolk Island businesses. Company registration would no longer be completed by the NIG but by ASIC. The NIG would no longer be able to raise revenue through company fees. Some aspects of Norfolk Island's legislation would still be relevant, for example businesses would still register their names with the Norfolk Island Government.

The Norfolk Island Government raised more than \$75 000 revenue via company fees in 2004-05. This would be lost.

Design of modelling simulation

Compliance requirements are more acutely felt by businesses as they adjust to new systems. The extension of so many new reporting requirements for businesses will increase costs for business as they adjust to the Australian regime.

The simulation uses estimates of compliance costs submitted by the National Association of Retail Grocers of Australia (NARGA) to, and subsequently cited by, the Regulation Taskforce.²⁵ NARGA suggest that compliance costs for small businesses due to GST are 28.25 per cent of the

²⁵ NARGA 2005, *Submission to the Regulation Taskforce: Reducing the Regulatory Burden on Business*, November.

Regulation Taskforce 2006, *Rethinking regulation: Report of the Taskforce on reducing regulatory burdens on business*, Report to the Prime Minister and Treasurer, Canberra, January.

revenue raised by the GST from that business. The simulation uses this number to estimate the generalised compliance costs for businesses across the entire Norfolk Island economy. Compliance costs are believed to be most severe in the first year and are phased out over five years.

The NIG will no longer have to finance company registration. This will reduce NIG expenditure by \$30 449 per year. ASIC will provide these services and it is unlikely that they would need a presence on Norfolk Island.

Workplace relations

Australia's workplace relations legislation will bring a number of changes to workplace practices on Norfolk Island. The introduction of the minimum wage and increased leave entitlements are two areas that are likely to have substantial economic impacts.

Minimum wage

Australian legislation provides that a minimum wage must be paid to employees. The Fair Pay Commission determines the level of the minimum wage. Currently, the minimum wage in Australia is equivalent to \$12.75 per hour.

Changes to Norfolk Island legislation

Australia's minimum wage would replace Norfolk Island legislation on the minimum wage. The minimum wage on Norfolk Island is \$8.50 per hour, however, as is was discussed in chapter 2, the minimum wage does not appear to be binding in some sectors of the Norfolk Island economy. In sectors such as retail trade the realised wage for employees is actually substantively higher than the minimum wage.

Design of modelling simulation

The impact of introducing Australia's minimum wage is to increase the wage in sectors of the Norfolk Island economy where the wage is currently lower than the minimum wage. Data in the model indicates that there are two sectors where the wage is currently below Australia's minimum wage. The two sectors are 'Agriculture, forestry and fisheries', and 'All other industries'. The nominal wage in these sectors is increased to \$12.75 per

hour. This sees a 150 per cent increase in the nominal wage rate in these sectors.

Leave entitlements

Under Australia's WorkChoices legislation employees can accrue up to four weeks of annual leave per year.

Changes to Norfolk Island legislation

Conditions of employment under WorkChoices would supersede some parts of Norfolk Island's Employment Act including leave entitlements. Norfolk Island's Act specifies that employees can accrue three weeks of annual leave per year. WorkChoices will mean that employees are entitled to five additional days of leave per year. Note that under WorkChoices employees might request to cash out up to two weeks of their credited annual leave entitlement under their annual leave entitlement every 12 months.

Design of modelling simulation

Increasing leave entitlements on Norfolk to Australia's four weeks of annual leave is equivalent to a 2 per cent loss in worker productivity. The loss of productivity was calculated according to the additional time employees spend absent from work. The loss of productivity was applied across all input sectors of the economy except the Australian Government sector.

Communications

The introduction of Australian legislation would mean calls to the Australian mainland would be deemed subscriber trunk dialling (STD) rather than international calls. Postal services would also be priced according to Australia Post's rates (although Norfolk Island currently uses these rates anyway for all non-local mail).

There are two further components of Australia's communications-related legislation that would have substantively affect operations of the communications sector on Norfolk Island:

- service obligations; and
- Part XIC of the TPA.

The Universal Service Obligation (USO) in the case of telecommunications, or the Community Service Obligation (CSO) in the case of postal services, specify the minimum level of service on the island. Typically, Telstra or Australia Post carries out the respective obligations in Australia. The Minister for Communications may designate a different service provider for the USO. Australia Post sometimes tenders postal service in remote communities, with CSOs one of the criteria of the service delivery contract.

Changes on Norfolk Island arising from Australia's communications-related legislation

The introduction of Australian legislation would at the very least reduce the profitability of Norfolk Telecom and Norfolk Post and cause the closure of the Philatelic Bureau. Special dispensation might be given, as is the case with the Christmas and Cocos (Keeling) Islands so that Norfolk Island might continue to produce local stamp issues. However, this would be in substantially reduced quantities to Norfolk Island's current philatelic production. Australian legislation might lead to the closure of Norfolk Telecom and Norfolk Post with the services to be provided by Telstra and Australia Post. Under either scenario dividends to the Norfolk Island Government would fall significantly or be eliminated.

If Norfolk Telecom continued to operate, Part XIC of the TPA would lead to a reduction in its return on capital. The ACCC is likely to regulate prices to be more cost reflective, consequently eliminating (or greatly reducing) cross-subsidisation between international and local calls. This would dramatically lower the cost of international calls and increase the cost of local calls.

Design of modelling simulation

The model does not distinguish between who provides communications services on the Island. As mentioned previously in relation to the TPA, whoever provides communications services on Norfolk Island will not be able to generate the same level of monopoly rents as is currently generated on the Island.

Social welfare

Australia has a variety of legislation addressing social welfare objectives. Generally, these take the form of providing specific purpose payments to certain individuals or subsidising socially desirable services such as health and education.

Social security

Australia's legislation provides a range of social security benefits including:

- aged pensions;
- disability pensions;
- Family Tax Benefits;
- Newstart allowance (for job-seekers); and
- Youth allowance (for young people who are study or seeking work);

Eligibility for payments is based on a range of criteria, which generally includes income and/or asset tests. Recipients of these benefits might also be eligible for additional add-on benefits including:

- Remote Area Allowance — for individuals deemed to live in a remote area);
- Rent Assistance — assistance for individuals who rent privately; and
- Utilities Allowance — assists with the payment of regular bills such as water and electricity.

The level of any social security payment is typically affected by whether an individual is:

- single;
- has a partner; or
- has children.

Changes to Norfolk Island legislation

Australia's legislation would replace social security legislation on Norfolk Island. Norfolk Island currently has legislation pertaining to the provision of aged and disability pensions.

Norfolk Island does not provide an unemployment allowance. However, there is currently no reported unemployment on the Island although provisional assessment of the Norfolk Island economy suggests that the level of underemployment might be quite high.

There are currently eighty-six recipients of aged pensions, six recipients of special pensions and eight recipients of invalid benefits on Norfolk Island. Pension recipients on Norfolk Island would be eligible for the Remote Area Allowance. The fortnightly rate for the Commonwealth's aged pension exceeds the aged pension currently provided on Norfolk Island. A

comparison of the maximum pensions for Norfolk Island and Australia are shown in table 4.3.

Recipients of Norfolk Island pensions are subject to an income test but are not subject to an assets test. It is unclear how pension recipients would be affected on Norfolk Island were they subject to an assets test as information on pensioner assets was not available. Additionally, Australian disability pensions have different eligibility criteria to what currently exists on Norfolk Island. It is unclear whether Norfolk Island's current disability recipients would qualify under the Australian system.

In addition, about thirty pensioners on Norfolk Island receive pensions via the Department of Veteran Affairs. These pensions would be unaffected by the implementation of Commonwealth legislation although the pensioners would become eligible for add-on allowances, notably the Remote Area Allowance.

4.3 Maximum fortnightly pensions in Norfolk Island and Australia

<i>Marital status</i>	<i>Norfolk Island</i>	<i>Australia^a</i>
	\$ per fortnight	\$ per fortnight
Single	481.60	517.90
Couple	401.80 (each)	432.80 (each)

^a Includes Remote Area Allowance.

Source: Norfolk Island Administration and Centrelink (2006).

Design of modelling simulation

A profile of the recipients of pensions on Norfolk Island, provided by the Norfolk Island Administration, was used to determine the change in pension income for recipients on the Island. It was assumed that all current recipients of Norfolk Island pensions would still be eligible under the Australian system.

The aggregate increase in the pensions received on Norfolk Island is estimated at \$88 622 per year. The figure is used to increase household income following the introduction of Australia's social security system.

The NIG will no longer have to fund social welfare on the Island. This would reduce NIG expenditure by \$920 830 per year in direct social service payment. Additionally, the NIG would reduce expenditure on other welfare services by \$1.3 million per year (medical expenses of social welfare recipients). The Australian Government would provide social security payments of \$1 million per year. For modelling purposes this is simulated as a payment from the Australian Government to households on Norfolk

Island. Health-related social welfare services provided by the NIG are discussed below.

Unemployed residents of Norfolk Island will be entitled to the Newstart allowance once Commonwealth legislation is extended. The model of the Norfolk Island economy can determine changes in employment resulting from a policy change. This enables the impact of Commonwealth legislation on employment in Norfolk Island to be determined, with (any) employee losing their job being entitled to the Newstart allowance of \$430 per fortnight (includes zone allowance). The economic modelling incorporates Newstart payments to all persons who become unemployed.

Depending on income, households in Norfolk Island may be entitled to Family Tax Benefit (Part A), which is an annual tax benefit designed to help families with the cost of raising children. The income distribution profile used to determine average income tax rates for individuals (see chapter 2) was used to calculate the proportion of households falling within the various income thresholds relevant to the income test for Family Tax Benefits Part A. The number of households with an assumed two dependent children in each income band was then determined.

As Part A benefits vary according to child age, data from the 2001 Norfolk Island Census was used to determine the proportion of children in each of the age bands attracting a different payment. From this, a weighted average payment per child was developed for each household income band. This saw, for example, households with an annual income of less than \$40 000 receiving \$3747 (on average) for each of two children. Taken across all households entitled to the Part A payment, it is estimated that Norfolk Island households are entitled to \$1.5 million in Part A payments. In the economic modelling, the Australian Government transfers \$1.5 million to households in Norfolk Island.

Funding for health services

The Australian Government funds a variety of programs, which would be extended to Norfolk Island if Commonwealth legislation were applied. Programs where funding is likely to be provided for Norfolk Island health services includes:

- multi-purpose services (aged care);
- Aged care assessment program;
- Home and community care program;
- Medicare benefits schedule (MBS);

- Australian Health Care Agreements (AHCA);
- national childhood immunisation register;
- national blood arrangements;
- private health insurance;
- Public Health Outcome Funding Agreements (PHOFA); and
- rural health (including Medical Specialist Outreach Assistance Program and the Royal Flying Doctors' Service).

The major programs or agreements that would be implemented on Norfolk Island legislation following extension of Commonwealth legislation are discussed in further detail below.

Australian Health Care Agreements

The AHCA's are a series of agreements between the Commonwealth and the various State and Territory governments. Under the agreements the Commonwealth provides a grant to help fund public hospitals in each of the states and territories. To be eligible for the funding the respective state or territory governments must increase their own public hospital funding such that cumulative rate of growth at least matches the cumulative rate of growth of the Commonwealth under the respective AHCA.

Medicare Benefits Schedule

The Australian Medicare Program provides access to medical and hospital services in Australia. Services listed in the MBS are either free or heavily subsidised by the Australian Government. Subsidies to the patient are generally around 75 per cent of the scheduled fee for hospital treatment and 85 per cent of the scheduled fee for other clinical services.

Pharmaceutical Benefits Scheme

The PBS provides a subsidy to Australian residents for most prescription medicines. Prescription medicines are listed on the PBS following assessment by an independent expert body. The PBS covers around 80 per cent of prescriptions dispensed in Australia. Under the scheme the most a general patient pays for medicines listed on the PBS is \$29.50. Concession cardholders pay at most \$4.70.

Changes to Norfolk Island health care funding

The major impact of extending health-related programs and legislation will be to reduce the burden on the Norfolk Island Government to fund the hospital. In 2004-05, the Norfolk Island Government provided a subsidy to the hospital of \$843 500. It is expected that some Norfolk Island health-related legislation would need to be repealed or amended.

In addition, the extension of Commonwealth health programs will subsidise the cost of health care for residents on the Island.

Design of modelling simulation

Health funding represents an injection of recurrent spending into the Norfolk Island economy. Some of this spending will offset expenditure by the Norfolk Island Government, the remaining amount will subsidise the cost of health services on Norfolk Island – effectively lowering the cost of these services to households.

The estimated subsidy to the health sector is \$3.0 million per year, which comprises funding per year for:

- Aged care – \$0.9 million;
- AHCA – \$0.9 million; and
- Other health funding – \$1.2 million.

The estimated subsidy to the households for health services is \$1.5 million per year, which comprises:

- MBS – \$1.0 million; and
- PBS – \$0.5 million.

Household demand for health services is capped at \$1.8 million, a 50 per cent increase in Norfolk Island households' current level of health consumption (excluding household spending on the health care levy). The cap places an upper bound on the level of increased demand arising from the subsidies to the health sector. Implicitly, any further subsidies would increase the quality of services or increase the return on capital for the health sector.

The cap is calculated based on the sum of the expected expenditure for the MBS and the PBS,²⁶ plus the estimated household contribution to the purchase of health services under both schemes. The additional

²⁶ Provided by the Department of Health and Ageing (DoHA).

contribution of households for medical services is \$151 000, while for purchases of pharmaceutical goods it is \$146 000. The figures are calculated based on the average number of services purchased through the MBS and PBS, and multiplied by the average co-payment made by households.²⁷ The DoHA expenditure estimates for the MBS and PBS were used to calibrate data to suit circumstances on Norfolk Island.

Maternity payment

The Maternity payment, or 'baby bonus' as it is more commonly known, provides a one-off cash payment to mothers if they have a baby born during the financial year. The amount of the bonus is \$4000.

Design of modelling simulation

Based on the number of births on Norfolk Island in 2004-05, the 'baby bonus' provides a subsidy to households of \$100 000 per year.

Schools assistance

The Australian Government's General Recurrent Grants Programme for Schools provides supplementary funding to assist schools achieve specific objectives agreed by the Australian Government and the states and territories. Funding is determined through block grants calculated on a per student bases according to movements in average government school recurrent costs.

In the Government school system the rate per primary school student in 2006 is \$605 and the rate per secondary school student is \$900.

Design of modelling simulation

The Recurrent Grants Program subsidises education on Norfolk Island by \$224 500. For modelling purposes the education sector is contained within the general government sector of the economy.

²⁷ A weighted average was used for the PBS to reflect differences in the total value of purchases by concession card holders and general households. Typically, concession card holders account for 83 per cent of purchases under the PBS and pay \$4.70 per item.

Information provided by DoHA and Health Insurance Commission 2005, 'Statistical tables', *Annual Report 2004-05*, http://www.medicareaustralia.gov.au/about/about_us/annual_report/04_05/statistics.htm, accessed 19 September 2006.

Additional Australian Government financial assistance

The Commonwealth Grants Commission (CGC) calculated the level of financial assistance that the Norfolk Island would need from the Australian Government to enable it to deliver Australian average levels of service. This is in addition to Australian Government funding for:

- customs;
- health;
- education; and
- welfare.

The CGC believe that NIG will require \$12.3 million to fund state equivalent services and \$4.9 million to fund local government services.²⁸ (Note that these figures include depreciation and loan repayments.) Under the CGC modelling, and once NIG's revenue raising capacity is taken into account, the Australian Government would be required to provide \$9.7 million in financial assistance to Norfolk Island for provision of services. Note that the funding of \$9.7 million is in addition to funding that the Australian Government would provide under specific Commonwealth legislation and programs.

The CGC estimate the revenue raising capacity of the NIG to fund state and local services is \$8.4 million.²⁹ With the NIG already raising \$3.9 million (in 2004-05) in state and local government type taxes/charges, the additional tax raising capacity at the state and local government level is \$4.4 million.³⁰ In the economic modelling the revenue raising capacity at the state and local government level is allowed to move in line with economic activity.

Through specifying the revenue required to be raised by the NIG (set equal to the CGC's estimate of the NIG's revenue raising capacity minus what is already raised), the CIE's model of the Norfolk Island economy can deter-

²⁸ CGC (Commonwealth Grants Commission) 2006, *Review of the financial capacity of Norfolk Island*, Staff paper – supporting information, July, tables 5-18, 6-12 and 8-1.

²⁹ Ibid, p. 110.

³⁰ Taxation revenue raised in 2004-05 by the NIG at the state and local government level comprises the Accommodation Levy (\$560 435), Liquor Licences (\$82 539), Vehicle registration etc (\$470 939), Departure fees (\$1 080 930), Absentee Landowner charges (\$112 997), Tattersalls Lotteries commission (\$150 049), Land Title fees (\$329 578), Financial Institutions Levy (\$1 131 012) and Stamp Duty on cheques (\$12 780).

mine the required financial assistance from the Australian Government.³¹ Hence in the modelling the NIG is assumed to levy households with a generic type tax to raise \$4.4 million. The Australian Government then meets any revenue shortfall. Note that there may be a need for subjective judgement as to what funding Australia should contribute. For example, Norfolk Island may be able to raise the additional \$4.4 million, but the economic implications of doing so might be considered too 'adverse' (in terms of GPD, household welfare etc). Hence a decision might be made that Australia should contribute more funding so as to lower the revenue raising burden on the NIG.

Design of modelling simulation

The modelling simulation is set up to allow calculation (within the model) of the required financial assistance from the Australian Government. Essentially, the Australian Government meets the revenue shortfall (if any) between the NIG's revenue raising capability and its expenditure on state and local government type services/responsibilities.

³¹ Alternatively, we could inform the model as to the size of the financial assistance from Australia, and let the model determine how much revenue the NIG needs to raise so as to fund its state and local government responsibilities.

5

Economic impacts of extending legislation to Norfolk Island

EXTENDING COMMONWEALTH LEGISLATION to Norfolk Island will impart a fundamental change on the underlying economy. The proposed changes are therefore expected to have a likewise substantial impact on most economic indicators.

The economic impact arising from extension of Commonwealth legislation to the Island is quantified through use of the general equilibrium model of the Norfolk Island economy (see chapter 2 for model details). Before turning to the modelling results, the modelling simulation undertaken is outlined.

The modelling simulation

The economic model of Norfolk Island is ‘rolled forward’ according to the baseline assumptions identified in chapter 2. This allows us to generate a picture of the economy in forthcoming years. The importance of the baseline should not be underplayed – it has a central role in quantifying the economic impacts. For example, in 2004-05, the NIG has a positive cash flow of around \$1 million. If Australia’s tax regime – 10 per cent GST, company tax, individual tax etc – were now applied to the economy in a comparative static sense, then the impacts on the local economy would likely be substantially negative, with GDP all but collapsing.

However, the position of the NIG in 2004-05 is somewhat misleading. Once depreciation is taken into account, the NIG (and its GBEs) actually ran at a deficit of nearly \$1 million. And if the required infrastructure expenditure of nearly \$9 million per year identified in the AMP is included, then the NIG ran a deficit of around \$10 million. Clearly, this is not sustainable. Hence looking forward, the NIG will need to raise another \$10 million or so in additional taxes. It is from this higher tax base (and the associated economic ramifications) that the impacts of the Australian legislation must be assessed against.

The modelling simulation sees the following.

- An assumed starting date for Commonwealth legislation of 1 July 2007.
- The baseline is as specified in chapter 2 (which requires the rate of NSL to be set at between 7–12 per cent to balance NIG revenue and expenditure after taking into account future dividend payments – see below).
- The modelling shocks identified in chapters 3 and 4 are then applied to the underlying baseline.
- Extension of Commonwealth legislation sees the NIG being left with state and local government like responsibilities. The NIG is therefore required to fund health, education, law and order, roads, and water and waste management type services; it is estimated that these services cost \$14.9 million per year to provide at an Australian standard.³²
- To provide state and local government services at an Australian standard, funding by the NIG needs to increase by \$3.5 million over and above what it already spends in these areas (\$11.4 million). Any revenue shortfall between existing revenue and required expenditure at the state and local government level is met via a generic tax levied on households.
- Finally, the Australian Government meets any shortfall between the revenue raising capacity of the NIG and required expenditure on state and local government services on Norfolk Island.

The baseline, AMP and NSL

Before examining the economic impacts of extending Commonwealth legislation to Norfolk Island, it is pertinent to make clear the economic consequences of the baseline assumptions. The baseline embodies four substantial changes to the economy post 2004-05, these being:

1. tourism numbers decline 11 per cent in 2005-06;
2. the AMP is introduced in 2006-07, with expenditure on infrastructure (and depreciation) ranging between \$9.9 million in the first year of the AMP to \$17.4 million in the last year;
3. health and welfare expenditure by the NIG grows at 10 per cent per annum, reflecting an ageing population; and

³² Estimates of responsibilities (and cost thereof) left with NIG are taken from Commonwealth Grants Commission 2006, *Review of the Financial Capacity of Norfolk Island 2006*, Staff paper – Supporting Information, CGC, July 2006, Canberra, tables 5-8, 6-12 and 8-1.

4. the NSL is introduced in 2006-07 to balance government revenue and expenditures.

Each of these, by itself, would represent a substantial change to the Norfolk Island economy. Taken together, the financial imposts on the NIG and the impacts on underlying economic activity bring into question the ability of the Norfolk Island economy to support/fund the expenditure requirements (see below).

Due to the importance of the AMP expenditure in 'driving' the baseline results, the AMP is focused on below.

Over 2005-06 to 2019-20, the AMP suggests that Norfolk Island needs to spend \$134 million on infrastructure works. Of this amount, \$76 million is new capital works and \$32.6 million is backlog capital works that will add to the Island's capital stock. Some of this infrastructure expenditure is to be undertaken by the GBEs. If the GBEs are allowed to operate as commercial ventures, then those GBEs will be responsible for funding their own capital expenditure requirements.

Hence if we just focus on the infrastructure expenditure required by the NIG, then the NIG needs to carry out \$121 million worth of expenditure, of which \$99 million is capital works. Under the current situation, the AMP expenditure is to be met by a population of 2000. To fund this expenditure, the NIG will need to raise additional taxes of nearly \$61 000 per capita (spread over the course of the next 15 years). This looks to be a tall order.

However, this is not the end of the story. As the NIG's capital stock increases over time (by around \$6.6 million per year) due to capital works, so to does the annual depreciation bill. If the capital stock is to be maintained, then depreciated will need to be funded. The requirement to fund depreciation (and the AMP expenditure itself) has an impact on the level of NSL needed to balance the NIG's expenditure with its revenue.

For example, in the final year of the AMP, the NIG is required to fund:

- (new and backlog) capital works of \$6.6 million;
- maintenance works of \$1.5 million; and
- depreciation of \$9.3 million.

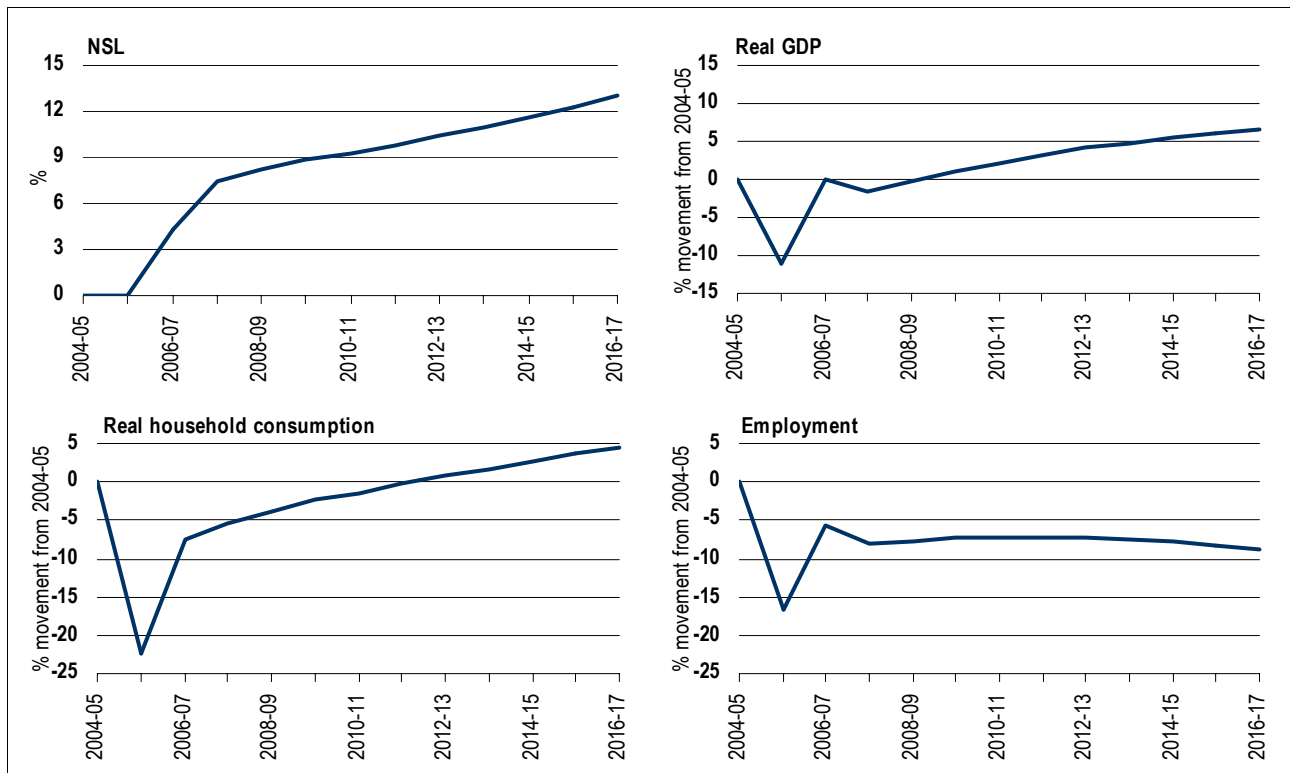
The depreciation figure is calculated as 8 per cent of the capital stock at the start of the year. In year 15 of the AMP, the NIG's capital stock is \$123 million, comprising the original capital stock prior to the commencement of the AMP (some \$24 million) plus \$67 million in new capital works and \$32 million in backlog capital works carried out under the AMP.

As the costs associated with the AMP plan (and health and welfare expenditure) increase year on year, so too does the rate of NSL required to balance the NIG's budget. Chart 5.1 shows the required rate of NSL under the baseline and some other basic economic indicators. In 2016-17 (year 11 of the AMP) the required rate of NSL to balance the NIG's budget is 13.1 per cent, up from 4.3 per cent in 2006-07.

As already noted, the NSL is a compounding tax. For a non-compounding GST type tax (levied only on private consumption final demand) to raise the same revenue as Norfolk Island's NSL, then the GST type tax would need to be set at a rate ranging between 9 per cent (2006-07) and 31 per cent (2016-17).

It is important to appreciate that the additional infrastructure spending embodied in the AMP will improve productivity in the economy. Hence even though (the cost of) depreciation is increasing year on year, so too is productivity, which acts to give a larger economic base to which the NSL is applied. Hence over the period 2008-09 to 2011-12, the NSL is quite stable at around 8-10 per cent. However, due to increasing health care and welfare costs, the required NSL starts to rise quite quickly as the increasing health and welfare costs start to bite. This sees the NSL increasing, and other

5.1 The Norfolk Island economy under the baseline



Data source: CIE model of the Norfolk Island economy.

economic indicators starting to slow/decline around 2016-17. For example, in 2020-21 GDP is estimated to be only 4.8 per cent above 2004-05 levels, down from a high of 6.6 per cent in 2017-18 (not graphed). Unless something can be done to contain the expenditure required of the NIG or find alternative revenue sources, the economic modelling suggests that the Norfolk Island economy will struggle beyond 2017-18 or so. The economy is simply too small to fund/meet its expenditure requirements.

Real GDP falls initially due to a contraction in tourism numbers between those observed in 2004-05 (33 000) and what was assumed going forward (30 000 post 2005-06). GDP picks up in 2006-07 with the introduction of the AMP and the fiscal stimulus that this brings. However, accompanying the AMP is the NSL, which acts to contract economic activity without the additional infrastructure funded by the NSL having come on line. As productivity improves due to the additional infrastructure, GDP starts to increase. In terms of what is driving GDP (from the expenditure side), it is primarily the AMP and the investment activity that this stimulates. Other areas of final demand, such as exports and consumption, do not contribute significantly to the GDP gains (tourism exports are actually negative due to the assumption that tourist numbers fall to 30 000 per annum).

Household consumption — the preferred welfare indicator — contracts markedly in 2005-06 due to fall in tourist numbers. With the AMP related expenditure commencing in 2006-07, there is a fiscal stimulus to the economy that goes some way to offsetting the decline in activity from lower tourism numbers. As such, household consumption picks up. Over time consumption continues to pick up as the AMP investment comes on line and improves productivity. Increased transfers from the NIG to households due to higher welfare payments also acts to increase household income. However, due to the ever increasing NSL acting to push up prices and dampen economic activity, household consumption only gets above 2004-05 levels in 2012-13.

Even though the increase in investment activity necessitates greater employment (in investment related activities), overall the fall in tourism numbers plus the NSL see economic activity and employment contracting from 2004-05 levels. Furthermore, the AMP sees capital accumulation and productivity gains. The productivity gains mean less inputs, including labour, are needed to produce a given level of output. Hence there is a 'second round' of reduced demand for labour. The downturn in employment post 2012-13 (primarily) reflects the adverse effect of the increasing NSL on activity, and especially tourism.

The decline in employment could be expected to primarily manifest in a reduction in TEP numbers.

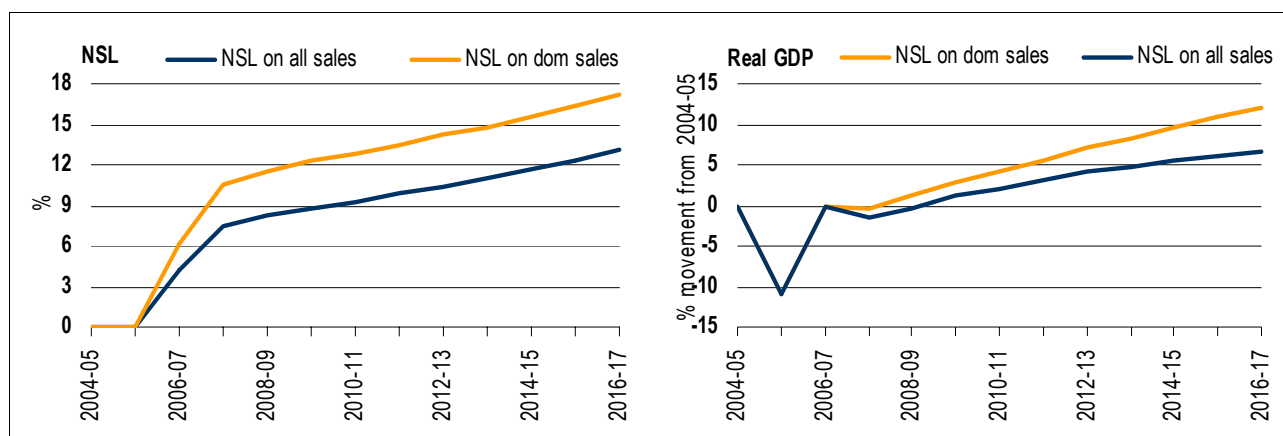
Taxing tourists – should the NSL be applied to all sales?

As an aside, the economic model of Norfolk Island developed for this project allows investigation of whether the NIG's approach of raising a disproportionately large share of taxation revenue from tourists is economically justifiable.

To investigate this issue, the baseline has been established under two scenarios. Under the first, the NSL is applied to all sales, whether they are to permanent residents of Norfolk Island or tourists (this is the 'standard' baseline, see results presented in chart 5.1). Under the second scenario, the NSL was only applied to sales to permanent residents of Norfolk Island. That is, sales to tourists (and the export market) are NSL free. The required rate of the NSL, and the impact on GDP, under the restricted NSL scenario are shown in chart 5.2 (also shown for comparison are the standard NSL and baseline GDP results).

As can be seen, only levying domestic sales with the NSL sees the required rate of NSL being higher (as the tax is being applied to a smaller economic base). The required rate of NSL is around 3–4 percentage points higher if only sales to permanent residents attract the NSL. However, as the price sensitive tourism market is NSL free, GDP is nearly 1 percentage point higher than under the standard baseline in 2006-07, and up to 5 percentage points higher in 2016-17. This result is observed as under the standard baseline, levying all sales with the NSL pushes up the prices experienced by tourists, and being price sensitive, they respond by holidaying

5.2 Should tourists be taxed?



Data source: CIE model of the Norfolk Island economy.

elsewhere. The fall in tourism (exports) adversely impacts on GDP.

As this investigation has shown, it is not in Norfolk Island's interest to raise a disproportionately large share of tax revenues from its price sensitive tourists. While 'taxing tourists' might be the correct political strategy, it is not in the best economic interest of Norfolk Island to overly tax visitors.

Note that when quantifying the impacts of extending Commonwealth legislation to Norfolk Island (see below), the standard baseline is used (that is, the NSL, GDP etc forecasts as reported in chart set 5.1).

Economic impacts

Extension of Commonwealth legislation has substantial implications for Norfolk Island in the areas of direct and indirect taxes, corporate conduct, workplace conditions and subsidies directed to the social services (health care, welfare, and education). Taken together, and with the new governance model under which the NIG assumes responsibility for providing all state and local government services, the overall impacts of Commonwealth legislation are initially negative, before becoming strongly positive.

The move from having a negative to positive impact stems from the deterioration in the Norfolk Island economy's baseline. From chart 5.1 it can be seen that by around 2014-15 the NSL increases to quite a high level, with other economic indicators (GDP, employment etc) beginning to slow in response. compared with this scenario, the economic impacts arising from extending Commonwealth legislation to Norfolk Island are eventually beneficial to the economy.

With Norfolk Island raising \$8.4 million to fund state and local government type services, it is estimated that required financial assistance from the Australian Government will total \$286 million over the 2007-08 to 2016-17 period. This assistance is in addition to any transfers, such as Family Tax Offsets or PBS etc subsidies, made to Norfolk Island as a result of extending Commonwealth legislation to the Island.

The financial assistance required from the Australian Government is so large due to:

- NIG loses its revenue from the NSL, import duties, fuel excise and company fees and abnormally large dividend payments from (some of) its GBEs;
- the NIG raises only \$8.4 million in taxation revenue; and

- there is still a need to fund the AMP and state and local government responsibilities (including loan repayments, funding depreciation etc).

Putting these factors into context sees the \$8.4 million in taxation revenue raised by the NIG only just covering the annual AMP expenditure of \$8 million (excludes depreciation). With the cost of depreciation approaching \$7.2 million in 2016-17, plus escalating health care costs and the costs associated with the NIG undertaking its core government responsibilities, the NIG will clearly need large financial assistance from the Australian Government.

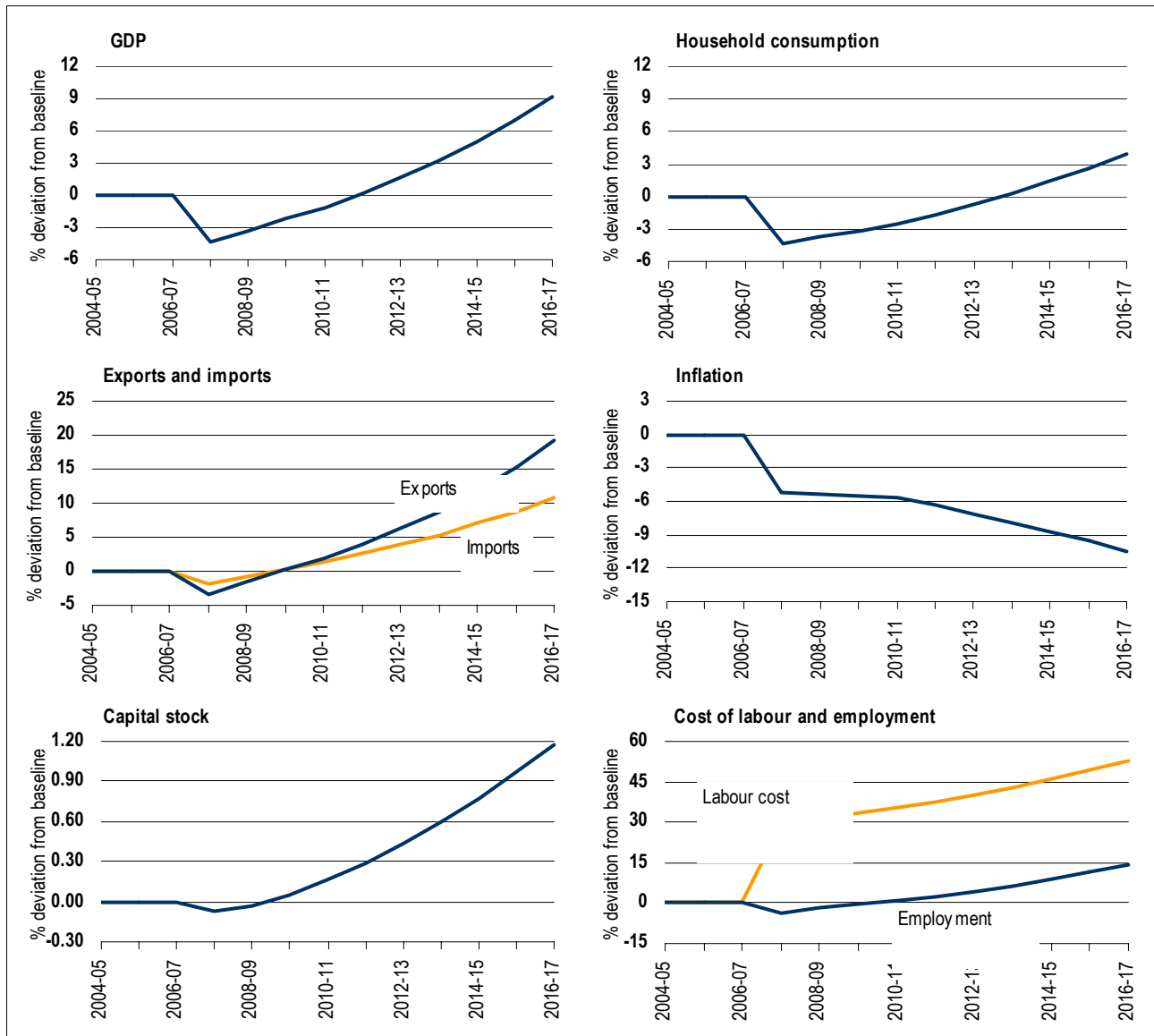
The economic impacts of Commonwealth legislation on the main (macro-economic) indicators for Norfolk Island is reported in chart 5.3. Modelling results are reported as a percentage deviation from baseline figures (some of which were reported in chart 5.1). That is, the (percentage) difference between the new GDP etc figures and what they otherwise would have been.

The headline result of an initial decline in GDP is primarily driven by the Australian legislation driving up the cost of labour. In the first period of the extension of Commonwealth legislation (2007-08) labour costs rise by 29 per cent (see results for 'Labour costs' in chart 5.3). This is a cost-push result, reflecting the impacts of income taxation, superannuation payments, minimum wages and Australian leave conditions combining to drive up the cost of labour to businesses. As labour costs rise (relative to baseline) there is a slight contraction in employment. However, as GDP picks up over time, there is increased demand for labour and rising employment, with the price of labour being 'bid up' by competing users (hence labour costs rise due to demand-pull).

By 2011-12 GDP is forecast to be higher than baseline. This reflects that under the baseline, the local economy is expected to slow/contract under an ever increasing NSL (needed to fund the AMP, depreciation, higher health and welfare expenses etc). compared with this baseline, Australian taxes and transfers to households impose less of a cost burden/impost on the Norfolk Island economy and hence economic activity is forecast to be higher than baseline.

Even though extending Commonwealth legislation is eventually beneficial for the Norfolk Island economy, the capital stock is only slightly higher than baseline. The fact that the increase in capital stock is smaller than the increase in GDP primarily reflects there being 'surplus' capital on Norfolk Island under the baseline. For example, the baseline incorporates an 11 per cent fall in tourism numbers in 2005-06 and the introduction of the NSL in 2006-07. The resultant initial decline in economic activity (see chart 5.1) is

5.3 Real economic impacts of extending Commonwealth legislation to Norfolk Island



Data source: CIE model of the Norfolk Island economy.

accompanied by a reduced demand/need for capital. However, the capital stock cannot change instantaneously, so for a period of time there will be surplus capital. Under the Commonwealth legislation GDP is forecast to be higher than baseline (by 2011-12). As GDP expands the formerly 'surplus' capital is once again utilised, meaning that the net change in the capital stock does not have to be overly large in order to allow GDP to expand.

Tourism is a labour intensive activity. Increasing labour costs will therefore have an impact on tourism exports. This is especially the case before other effects take hold. The impact on tourism exports will mainly be a function of two opposing effects – labour costs (which act to raise prices and contract exports) and replacing the NSL with the GST (which acts to lower

prices and increase exports). Up until 2009-10 the former dominates, while in 2009-10 and beyond the latter dominates and exports are higher than baseline.

For example, in 2007-08 the cost of labour is estimated to be 29 per cent higher than baseline, and replacing the NSL with the GST will see prices fall by 7 per cent. However, by 2016-17 labour costs are forecast to be 53 per cent higher, but replacing the NSL with the GST will lower prices by 21 per cent. These opposing effects see the price of 'tourism exports' being 1.3 per cent higher in 2007-08, but over 6 per cent lower than baseline in 2016-17. As such, tourism exports go from being 4 per cent below baseline in 2007-08 to being 20.6 per cent above baseline in 2016-17. Increased tourism exports contributes to the observed higher GDP.

The decline and then increase in imports broadly reflects the time profile of GDP (but lagged), and the dependence of the Norfolk Island economy on imports. Hence when GDP is lower than baseline, so too are imports. As GDP picks up there is increased economic activity, and hence an increase in imports.

The price index faced by Norfolk Island residents (the CPI) is forecast to decline by around 6-11 per cent. This is primarily due to replacing a compounding NSL of 7-13 per cent with a lower and non-compounding GST of 10 per cent. The time profile of the CPI reflects what is expected to happen to the NSL, and hence prices on Norfolk Island, under the baseline. After a period of modest increases in the NSL rate (up until 2011-12), the rate of NSL needs to increase so as to enable the NIG to meet its expenditure requirements. As the NSL goes up, so too do prices on Norfolk Island (by more than the rate of NSL due to it being a compounding tax). This sees, for example, an NSL of 13.1 per cent in 2016-17 (equivalent to a GST of 31 per cent) being replaced with a 10 per cent GST. Hence the CPI is lower than baseline under Commonwealth legislation.

Large subsidies by the Australian Government of health care and related services also have an impact on the CPI. For example, the Australian Government essentially meets the cost of the local hospital, and households no longer have to pay the Norfolk Island Health Care levy (they do however pay a Medicare levy through income tax). This sees the formerly considerable cost of health care to households falling substantially, which acts to lower the CPI.

Finally, household consumption is forecast to be higher than baseline by 2013-14. The impact of Commonwealth legislation on real household consumption primarily reflects the combination of two factors – nominal

household income (including transfers) and the CPI. Immediately after Commonwealth legislation is extended to Norfolk Island nominal GDP, and hence household income, contracts (by 9 per cent). The CPI is also lower, but by only 5 per cent. Hence households are relatively worse off in real terms, with real household consumption being 4 per cent lower than baseline in 2007-08. As nominal GDP improves and the decline in CPI (relative to baseline) increases over time, real consumption increases and exceeds baseline levels in 2013-14 and beyond.

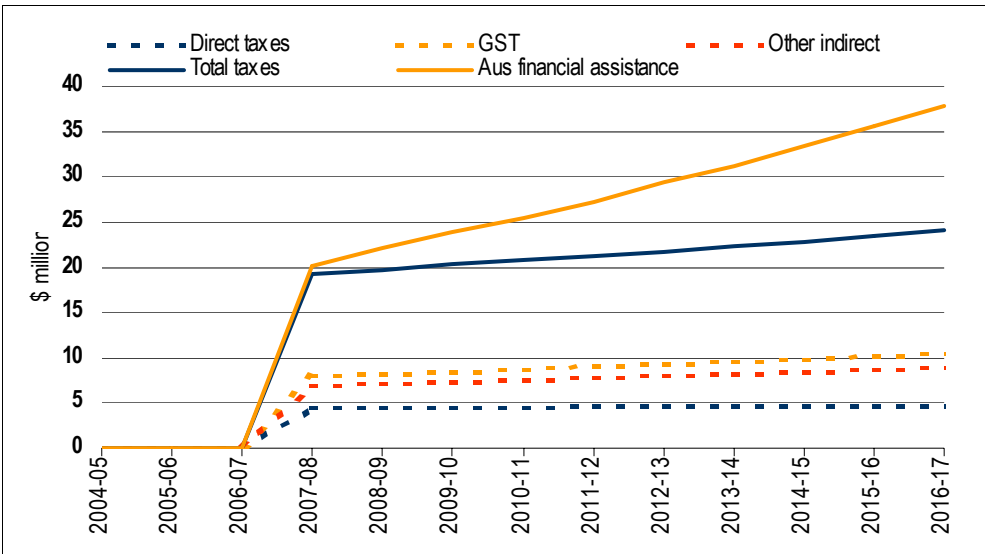
In chapter 6 the sensitivity of these modelling results to assumptions about tourist numbers and expenditure under the AMP is investigated, while in chapter 7 differing tax bundle options are investigated.

Taxes paid to the ATO

Extending Commonwealth legislation to Norfolk Island will see a different tax regime being implemented on the Island. Not only will different taxes apply, but taxation revenue will now flow to the Australian Taxation Office (ATO) instead of the NIG. Chart 5.4 reports the taxation revenue estimated to flow to the ATO as a result of extending Commonwealth direct and indirect taxes to Norfolk Island.

Taxes collected on Norfolk Island, when expressed as a share of nominal GDP, are quite high in comparison to the situation in Australia. Over the period 2007-08 to 2016-17, the GST take is 12.7 per cent (on average) of

5.4 Annual taxes paid to the ATO and financial assistance to the NIG^a



^a Direct taxes comprise company and individual income taxes. Other indirect taxes comprise import tariffs, alcohol excise, tobacco excise and fuel excise.
Data source: CIE model of the Norfolk Island economy.

GDP, while total taxes paid are 41.8 per cent of GDP. Note that total taxes paid include not only taxes paid to the ATO, but also tax revenue raised by the NIG at the state and local government level. In comparison, GST revenue is around 4–5 per cent of Australian GDP, while total taxes (across all levels of government) are around 32 per cent of nominal GDP. Hence the tax burden of Norfolk Island is relatively higher.

This observation reflects the fact that the Norfolk Island economy is more dependent on tourism exports than is the case in Australia. The GST is a tax on final private consumption and sales to tourists visiting Australia (that is, tourism exports via consumption abroad). In the case of Norfolk Island, where essentially all exports are tourism exports, there will be a much larger base to which the GST is applied and hence revenue raised than is the case in Australia, where a substantial portion of exports will be GST free as these products/services are sent to foreign markets. The higher GST take will also see total taxes (expressed as a share of GDP) being higher in Norfolk Island than is the case in Australia.

Also reported is the estimated required financial assistance from the Australian Government. This assistance is in addition to legislative driven subsidies of/transfers to Norfolk Island. As can be seen, the required financial assistance is forecast to increase over time in line with increasing expenditure required of the NIG.

6

Sensitivity analysis

THE NORFOLK ISLAND ECONOMY is very sensitive to the number of tourists. Underlying the modelling results in the previous chapter was the assumption that the number of tourists visiting Norfolk Island would level out at 30 000 per year.

In this chapter the sensitivity of the modelling results to assumptions made about tourist numbers is investigated. Two alternative assumptions are considered, these being:

- optimistic – 35 000 tourists visit Norfolk Island each year; and
- pessimistic – 28 000 tourists visit Norfolk Island each year.³³

All other baseline and modelling assumptions are left unchanged. Hence we overlook, for example, any relationship between the number of tourists on Island and required infrastructure expenditure.

On the matter of infrastructure, and as evidenced by the discussion in chapters 2 and 5, assumptions regarding expenditure carried out under the AMP play an important part when establishing the baseline for the Norfolk Island economy. To gauge how important is the AMP, sensitivity analysis is conducted around differing levels of infrastructure expenditure carried out by the NIG, namely:

- 75 per cent of recommended AMP expenditure is undertaken;
- 50 per cent of recommended AMP expenditure is undertaken; and
- 25 per cent of recommended AMP expenditure is undertaken.

³³ It was initially intended to do sensitivity analysis around 35 000 and 25 000 tourist visiting Norfolk Island each year (2005-06 and beyond). However, in doing the economic modelling it became apparent that tourist numbers below 28 000 or so would pose significant difficulties for the Norfolk Island economy in terms of being able to fund the NIG's expenditure requirements. Given the question mark over the long term sustainability of the local economy under the 25 000 tourist assumption, the sensitivity analysis had to be conducted around a larger number of tourists (28 000).

Changing tourist numbers and AMP expenditure will act to change the baseline for the Norfolk Island economy. The modelling shocks reported in chapters 3 and 4 are then applied to this new baseline.

Basic modelling results for the two alternative tourism scenarios and differing levels of AMP expenditure are provided below.

Tourism numbers

An increase in tourist numbers to 35 000, assumed to occur in 2005-06, will deliver a notable gain to Norfolk Island's GDP. With a larger tax base, the NSL only needs to be set at between 3-6 per cent in order for the NIG to meet its expenditure requirements. Due to the compounding nature of the NSL, an NSL of 3-6 per cent is equivalent to a GST type tax of 6-13 per cent (respectively). compared with the 'Standard' baseline reported in chapter 5, the increase in tourist numbers improves the economic situation on Norfolk Island with GDP being considerably higher.

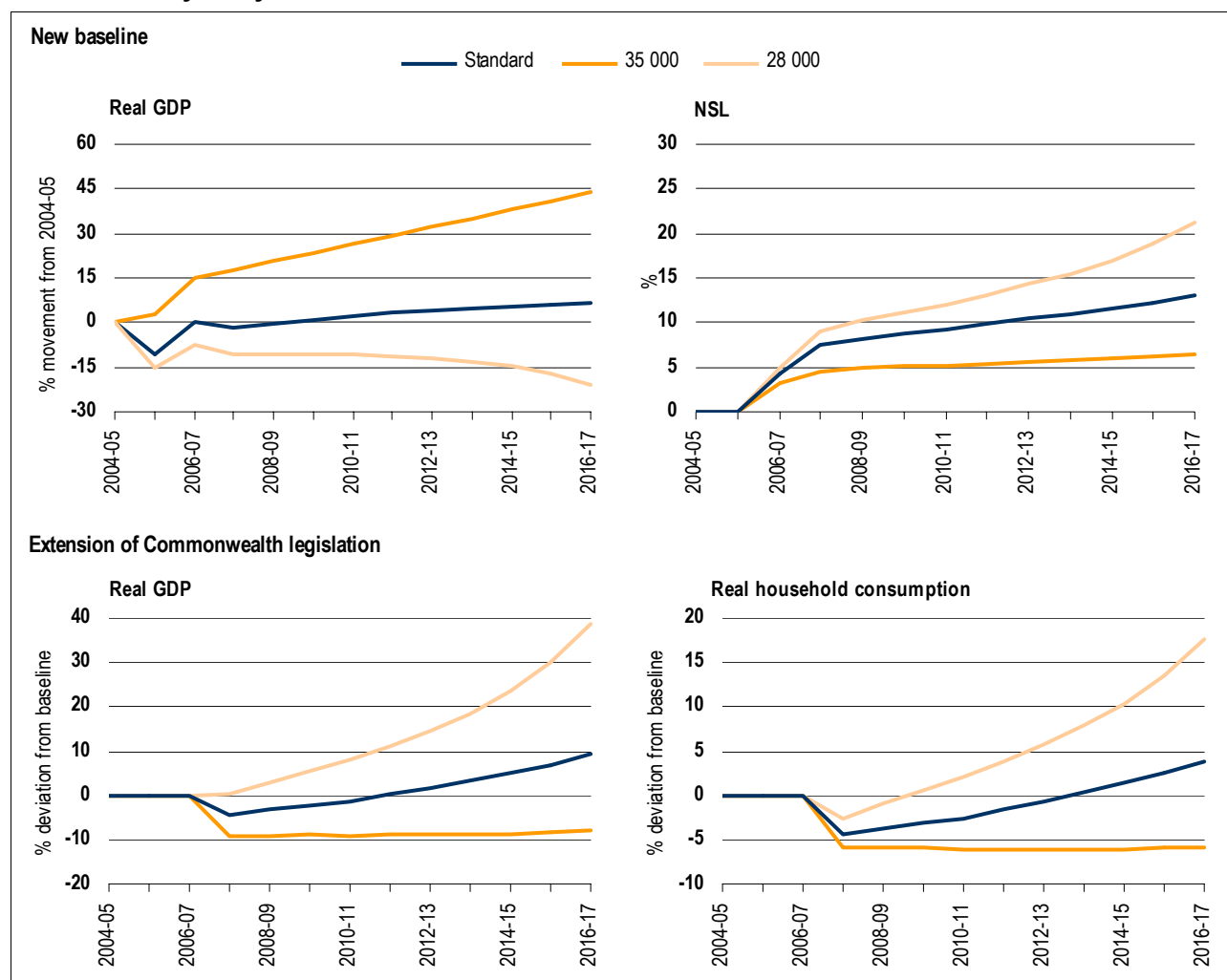
The 35 000 tourists baseline demonstrates the adverse impact the compounding NSL has on the local economy. With the increase in tourist numbers in 2005-06, real GDP is higher. However, the fiscal stimulus associated with the AMP commencing in 2006-07 sees a substantial rise in GDP. From then on, as this infrastructure comes on line and improves productivity, and in the absence of a high rate of NSL which acts to slow the economy, there is explosive GDP growth.

Baseline results for real GDP and the required rate of NSL under the differing assumptions about tourist numbers are reported in chart 6.1. Also reported is the Standard baseline from chapter 5.

A further contraction in tourist numbers from what was assumed in the Standard baseline (30 000) to 28 000 visitors per year worsens the economic situation on Norfolk Island. Real GDP is significantly lower due to the fall in tourist numbers. Hence there is a smaller economic base with which to raise required revenue, and subsequently a higher rate of NSL is needed. In turn, the higher rate of NSL further dampens economic activity. The local economy is expected to be in severe difficulty by around 2013-14 if only 28 000 tourists (consistently) visit the Island.

As noted in chapter 5, the economic impacts of extending Commonwealth legislation to Norfolk Island depends on the underlying baseline. Hence, and as can be seen in the bottom panels of chart 6.1, Commonwealth legislation is more beneficial for the Norfolk Island economy if there are

6.1 Sensitivity analysis — tourist numbers



Data source: CIE model of the Norfolk Island economy.

28 000 tourists, and less beneficial if tourist numbers increase to 35 000. This primarily reflects the differing rate of NSL under the various baselines and the net tax change/impost associated with moving to the Australian tax regime.

The modelling results are therefore sensitive to tourist numbers, and the implications thereof on the underlying baseline.

AMP expenditure

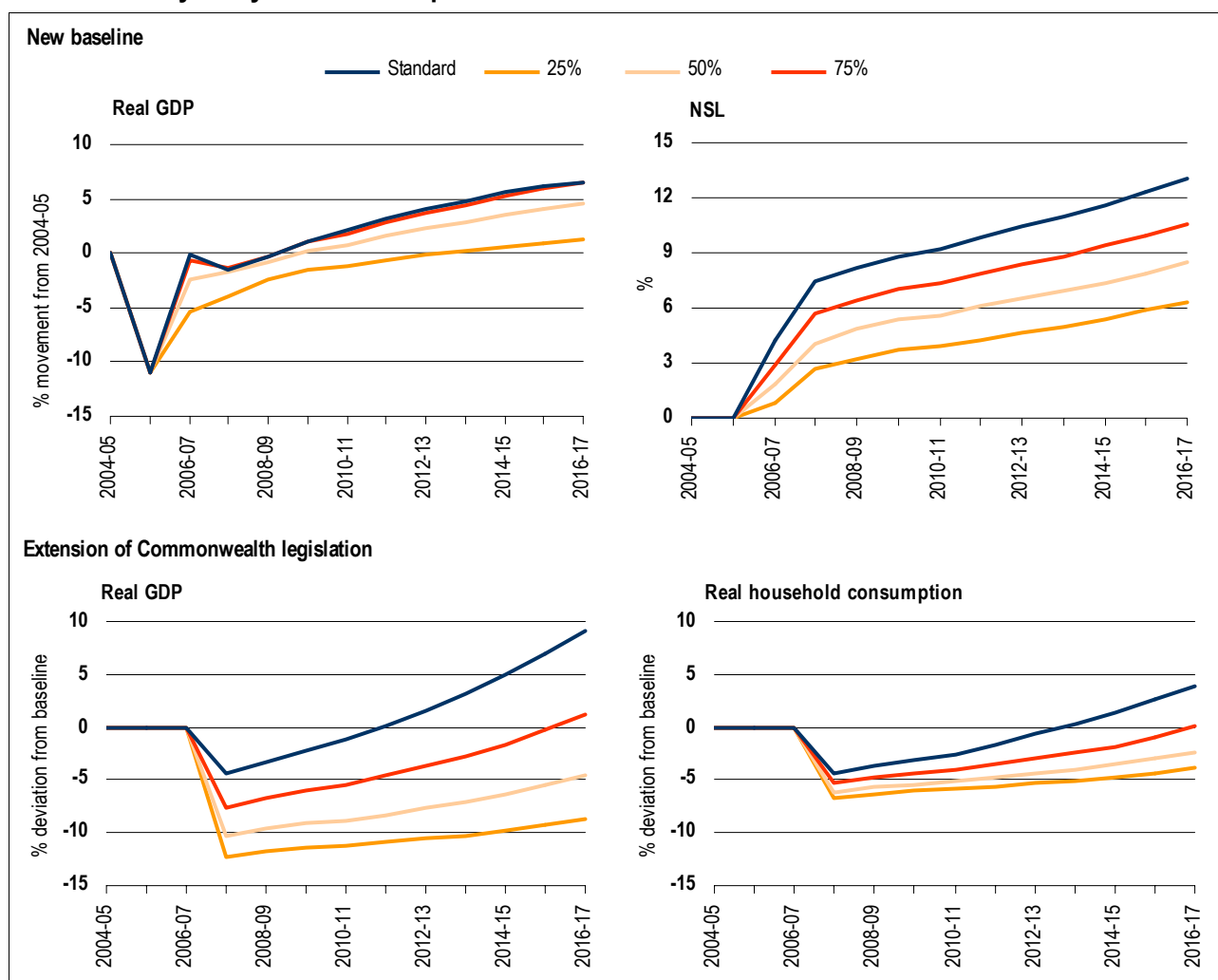
Reducing expenditure on the Asset Management Plan will lower the revenue raising requirements of the NIG and the tax (NSL) impost on the local economy. However, as infrastructure expenditure is undertaken for a reason — to improve productivity/living standards — spending less on infrastructure will ultimately materialise in the form of reduced GDP in the

future. Chart 6.2 reports the new baseline GDP figures under different assumptions about AMP expenditure, and the required rate of NSL to fund (now reduced) NIG expenditure.

As is to be expected, spending less on infrastructure sees GDP being lower than under the Standard baseline. Reduced spending on infrastructure sees smaller productivity gains, as there is less capital. And smaller productivity gains impacts on the competitiveness of the local economy, and hence GDP.

However, spending less on the AMP also means that the NIG will have to raise less revenue to fund that infrastructure expenditure. This means that the rate of NSL is lower than that needed in the Standard baseline, and hence the negative impacts of the NSL on economic activity are likewise lower.

6.2 Sensitivity analysis — AMP expenditure



Data source: CIE model of the Norfolk Island economy.

Comparing the impact on GDP under the Standard baseline and that under the 75 per cent AMP baseline, the productivity and NSL effects almost balance out, resulting in very little difference (in terms of GDP) between these two baselines. From this observation it could be inferred that there is an optimal amount of AMP expenditure, and that this optimal amount may be lower than 100 per cent of the expenditure suggested in the AMP.

The effect of extending Commonwealth legislation on the Norfolk Island economy is shown in the bottom panel of chart 6.2. As can be seen, real GDP and real household consumption are markedly worse if different levels of AMP expenditure are undertaken. This reflects the fact that under the alternative levels of AMP expenditure, the required rate of NSL is lower, and hence the gains from replacing the Norfolk Island tax regime with Australian taxes (and transfers etc) is not as great. Hence GDP is lower as the Australian taxes (net of transfers, subsidies etc) impose a net cost on the local economy.

As was the case for tourist numbers, the modelling results are sensitive to assumptions made about the level of expenditure on infrastructure carried out under the AMP.

7

Options for mitigating negative impacts

ADVERSE ECONOMIC IMPACTS from the extension Commonwealth legislation to Norfolk Island can be ameliorated to some extent. Strategies largely revolve around how Australian taxes might be implemented on the Island and which taxes to extend. Options for the Australian Government to reduce any adverse impacts, or make gains larger, include:

- phasing in tax legislation; and
- not extending indirect taxes (GST, import duties and excises).

In addition, there are a several alternative scenarios that might affect the economic impact of extending Commonwealth legislation to Norfolk Island. Changes in the methods used to raise taxes or the level of compliance on the Island are likely to have some bearing on the results of the main modelling simulation (see chapter 5). Two scenarios have been prepared to illustrate how the Norfolk Island economy would be affected if:

- a payroll tax is used by the NIG to raise the additional \$4.4 million from the local economy (to meet the CGC's suggested revenue raising capacity) instead of a generic tax on households; and
- there were a greater level of non-compliance with Australian taxation legislation.

These options and scenarios affect the Norfolk Island economy in different ways. The economic burden of taxation falls differently on the various sectors of the economy depending on the nature of the tax. Similarly, the nature and scope of taxes is likely to affect the economy in different ways. This chapter investigates how these options/scenarios influence the implications of extending Commonwealth legislation to Norfolk Island.

Option 1: Phasing in tax changes

The major (and only real) advantage for phasing in legislative changes is to reduce compliance costs for businesses and individuals on the Island. In terms of economic effects, phasing in legislation that has adverse economic impact is not a consequence avoided but a consequence delayed. That being said, compliance would represent a significant cost for businesses on the Island, most notably in the initial years of extension of Commonwealth legislation.

During consultation on Norfolk Island one stakeholder put forward a plan to help alleviate compliance costs. The plan is for a two-year dry run of tax compliance requirements, whereby Norfolk Island residents and businesses must still complete income tax forms, business activity statements, indeed, the whole gamut of tax reporting requirements. However, the residents and businesses would not be liable to pay tax for the first two years. The dry-run would be used so Norfolk Islanders could become familiar with Australian tax reporting requirements. Furthermore, the plan would allow the ATO to target assistance to any areas where they believe tax legislation was not being correctly interpreted. The CIE believe there is considerable merit in this plan.

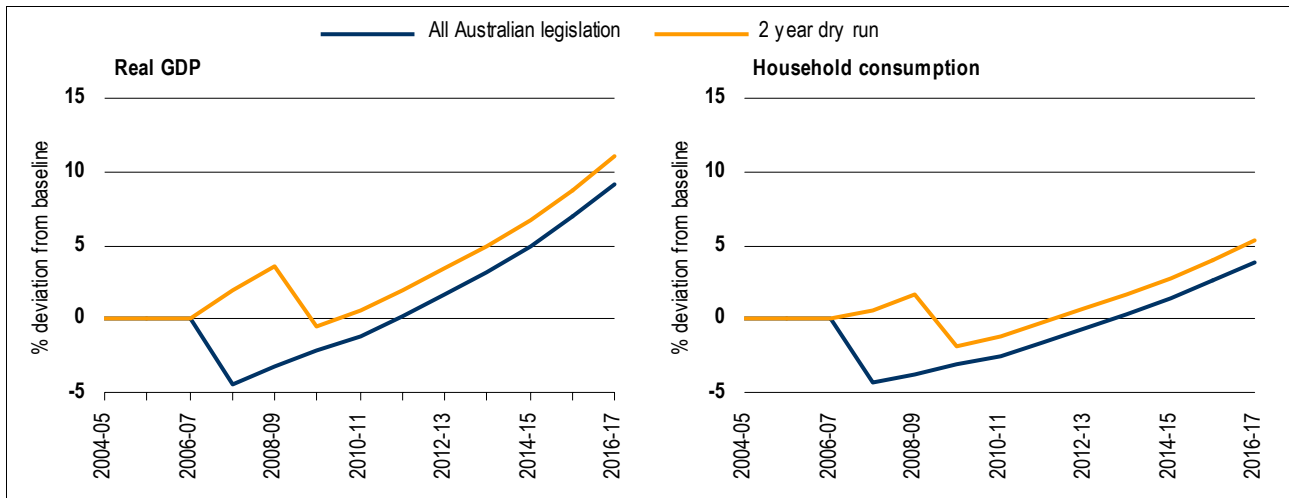
As previously mentioned (see chapter 4), the CIE have drawn on Australian estimates of compliance to model compliance costs on Norfolk Island. Compliance costs begin at 28.3 per cent of the GST revenue raised in the first year and are phased out over five years. By phasing in tax legislation, and with increased assistance from the ATO, these costs could be avoided/reduced.

Economic impacts on Norfolk Island economy

The impact on the Norfolk Island economy from reducing compliance costs sees real GDP being slightly higher in the years over which compliance costs were assumed to exist (see chart 7.1).

Under this Option there is a temporary reprieve from direct and (some) indirect Australian taxation. The reprieve, combined with transfers from the Australian Government to local households plus health and education subsidies etc and removal of Norfolk Island's NSL, causes the Norfolk Island economy to boom, increasing by nearly 10 percentage points relative to the main simulation in 2007-08 and 2008-09. However, the economy's expansion is short-lived and once businesses and residents on the Island start to pay the full suite of Australian taxes the economy contracts relative to the main simulation.

7.1 Removal of compliance costs



Data source: CIE model of the Norfolk Island economy.

A 'gap' exists between the All Australian legislation and 2 year dry run simulation due to the compliance costs (in the former) having imposed a cost on businesses in the first 5 years following extension of legislation from which the economy is yet to recover (relative to the dry run scenario).

Household consumption, an economic measure of household well-being, follows a similar pattern to real GDP as chart 7.1 indicates.

Option 2: Do not extend indirect tax

Currently, some of Australia's external territories, such as Christmas Island and Cocos (Keeling) Island, do not incur indirect taxes despite being governed by Australian legislation. Using the precedent set in some of the other external territories, a similar proposition for Norfolk Island is considered.

Under this Option indirect taxes would not be extended to the Island. The taxes that would not be extended to Norfolk Island are:

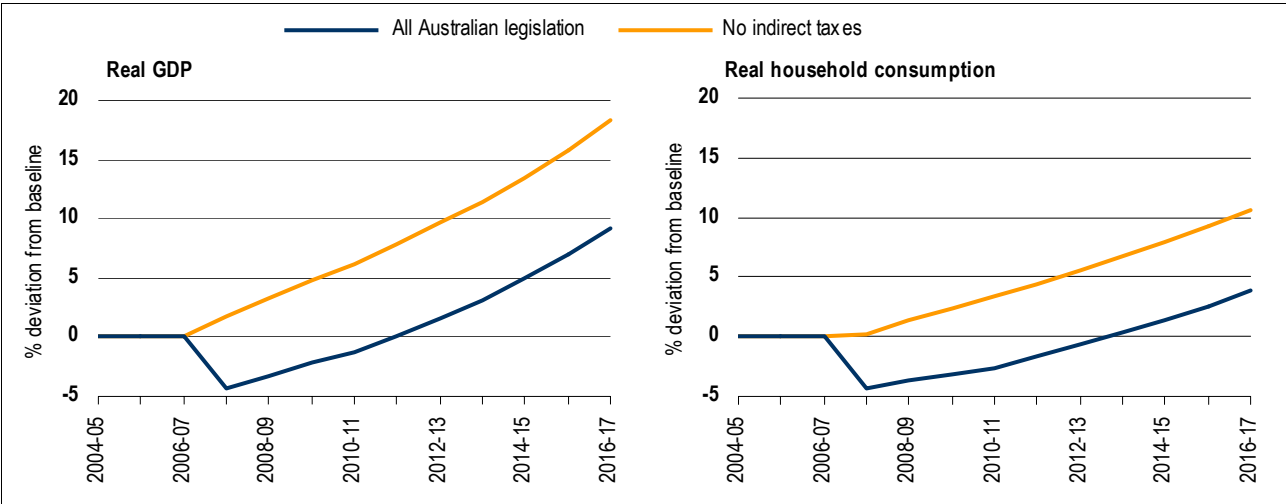
- GST;
- fuel, alcohol and tobacco excises; and
- Australia's tariff regime.

Economic impacts on Norfolk Island economy

The Norfolk Island economy, as represented by real GDP, is substantially better off relative to the main simulation if indirect taxes are not extended to the Island. Real GDP is between 6–9 percentage points higher (see chart 7.2). Since the Norfolk Island economy is highly dependent on price-sensitive tourists, lowering costs on Norfolk Island represents a boost to the economy, relative to the main simulation.

The findings for household consumption present a slightly different picture if indirect taxes are not extended to Norfolk Island. Households benefit from lower priced goods, which causes a significant expansion in consumption. Households would be better off relative to the main simulation if indirect taxes were not extended to Norfolk Island.

7.2 Removal of indirect taxes



Data source: CIE model of the Norfolk Island economy.

Scenario 1: NIG levies a payroll tax instead of taxing households

The main simulation assumes that the NIG levies a generic tax on households to fund any shortfall in revenue generation from existing state and local government sources and the CGC’s suggested revenue raising capacity for the NIG (\$8.4 million). Based on the CGC’s report, the NIG would need to raise \$4.4 million via the tax on households to fund the shortfall.

Typically, a state government would raise its taxes through a number of taxes including land tax, payroll tax and transfer duties. The exact mixture of the taxes is at the discretion of the respective state governments. To

illustrate the difference between the different approaches the NIG Government might take to its own taxation requirements, this scenario considers the impact on the Norfolk Island economy from using a payroll tax rather than a generic tax on households (such as a property type tax).

The rate of payroll tax is set such that it raises \$4.4 million by taxing the wages of all sectors of the economy (including government). The Norfolk Island economy-wide model calculates the appropriate level of payroll tax (that is, the rate of payroll tax is set as an endogenous variable within the model). There was no threshold set for the payroll tax, implying the payroll tax will be levied on businesses on Norfolk Island.

Economic impacts on Norfolk Island economy

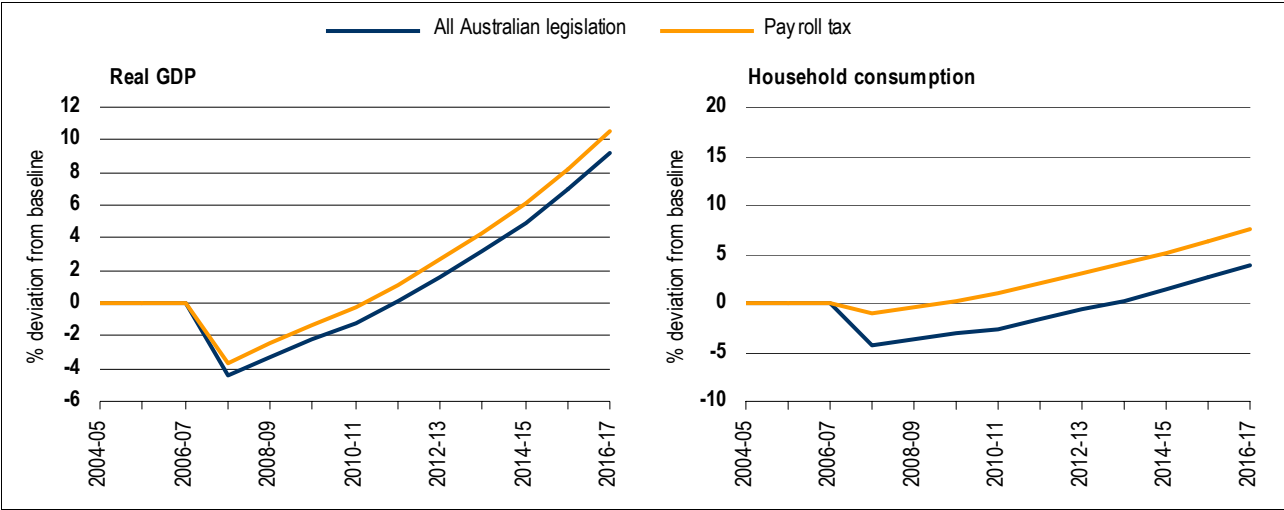
As can be seen from chart 7.3, raising the same amount of taxation revenue via a payroll or generic household tax has only slight implications for real GDP, but larger implications for household consumption.

A move from a tax on households to a tax on labour increases disposable income for household, but this will be offset to some extent by an increase in the cost of labour for businesses (labour costs are 45 per cent higher than baseline in 2007-08 versus 29 per cent higher in the main simulation).

The payroll tax needs to be set at a rate of 12 per cent in order to raise the required revenue. As can be seen from chart 7.3, the payroll tax is slightly beneficial to the economy, as evidenced by higher GDP and consumption, relative to the generic household tax. With higher GDP, there is increased demand for labour and hence higher wages (wages are bid up by competing demands). compared with the main simulation, the cost of labour to businesses is 16 percentage points higher. Of this, 12 percentage points can be attributed to the payroll tax, while the remaining 4 percentage points reflect demand pull on wages. In line with the increase in demand for labour, disposable wages are also marginally higher (1 percentage point).

With higher disposable wages and removal of the tax on households, real household disposable income and hence consumption is notably higher under the payroll tax option. Increased real consumption has second round flow on effects to investment and GDP (due to increased demand for consumables etc).

7.3 NIG levies a payroll tax instead of a property tax



Data source: CIE model of the Norfolk Island economy.

Scenario 2: Lower tax compliance

Compliance with Australia’s tax legislation may represent a significant issue for the Australian Government if it does not invest an appropriate level of resources in compliance measures. The CIE has identified several data anomalies that it believes warrant further investigation to assess whether Norfolk Island residents and businesses are properly complying with their current tax legislation (see chapter 2). If tax avoidance is currently occurring then the extension of Australian legislation is unlikely to change Norfolk Island attitudes toward compliance.

Interestingly, less than perfect compliance has a range of economic effects. Clearly, non-compliant businesses or individuals benefit from increased disposable income or profitability. However, if it is assumed that a government requires a fixed amount of revenue then it must generate additional revenue to make up for the shortfall from non-compliant entities. The extra revenue is generated by increasing the average rate of taxation in the economy. Under this scenario, while some individuals are better off, the entire economy might be worse off, especially if the taxes used to raise the additional revenue are highly distorting.

Since Norfolk Island is relatively small in the context of Australia’s tax base. A small level of tax avoidance is unlikely to cause a significant alteration to Australia’s required level of taxation. Hence the level of services provided by the Australian Government is unlikely to be affected if there is some level of tax avoidance. However, if there were tax avoidance of NIG taxes then this is likely to have a more substantive impact on the economy.

Note tax avoidance is not endorsed by the CIE, nor should it be viewed as a measure for improving economic outcomes. Tax avoidance reduces the equity of the tax system and increases its inefficiency. It carries significant costs for any economy and governments have strong incentives to improve compliance measures.

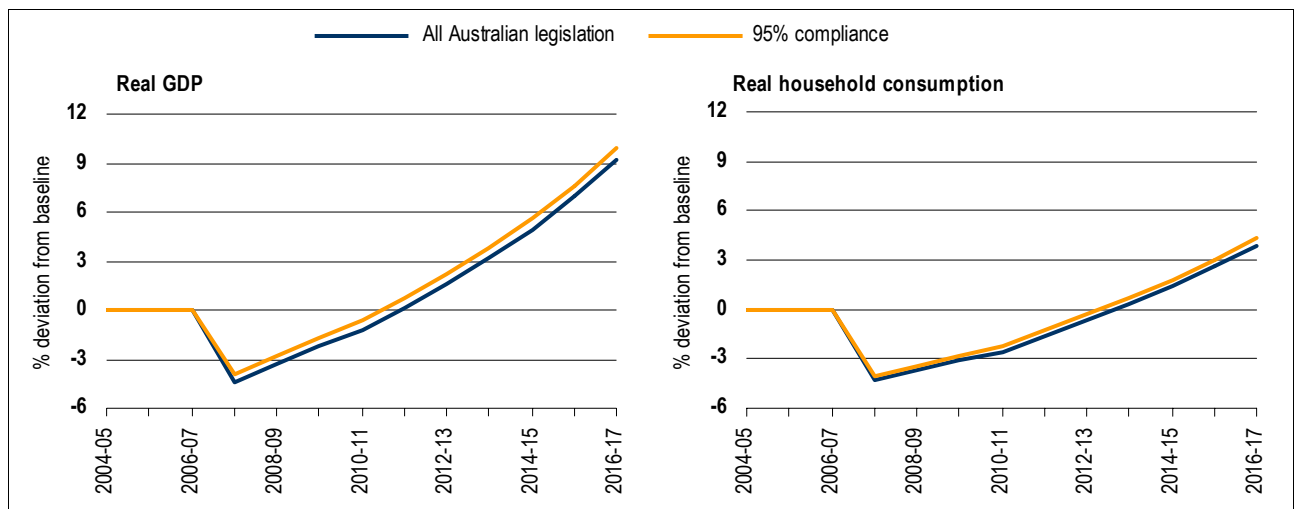
The CIE recognises that in reality tax avoidance does occur within an economy. Advice from the Australian Treasury suggests that avoidance of some taxes might be around 5 per cent. Using this benchmark, the CIE reduced the effective rate of taxation to 95 per cent of their simulation values (see chapter 3) for:

- GST;
- income tax for individuals; and
- income tax for businesses.

Economic impacts on Norfolk Island economy

As the Norfolk Island economy, and its tourism market in particular, is highly price sensitive, tax avoidance of Australian taxes is broadly beneficial for the economy. The NIG does not need to generate additional revenue to fund services so the reduced tax burden for households and businesses represents a gain to the respective entities. However, as can be seen from chart 7.4, the additional gain to real GDP and household consumption is not particularly large, but beneficial nonetheless.

7.4 Lower compliance with Australian tax legislation on Norfolk Island



Data source: CIE model of the Norfolk Island economy.

8

Some observations on the Norfolk Island economy

NORFOLK ISLAND has a beautiful landscape, a fascinating history, and due to its small population of around 2000 persons, residents experience a closely-knit social fabric. Ordinarily, there would be much to like about the lifestyle offered by Norfolk Island.

The Norfolk Island economy is also unique in many ways. Either directly or indirectly, tourism is responsible for the majority of economic activity; with there being very little economic diversification. With little local production, nearly everything used or consumed on the island is imported.

Unfortunately, these unique economic features – an almost total reliance on external markets for tourists and consumables – means that changes in global markets will be acutely felt in Norfolk Island. For example, the increasingly competitive South Pacific tourism market, plus the general downturn in tourism following the events of 9/11 and SARS, saw a marked downturn in tourism numbers, economic activity and government revenues on Norfolk Island. Resilience necessitates having an efficient, flexible and competitive economy that can respond to changes in external markets.

Norfolk Island is not only competing for tourists (and spend) in a global marketplace, it is also competing for labour and capital. With a slowing local economy (see below), and in the absence of fundamental reform, it is probable that labour and capital will leave the island in search of better returns elsewhere. As is discussed below, in terms of labour, this is happening already.

That is, even if Commonwealth legislation is not rolled out, maintaining the status quo does not appear to be a viable option.

With these comments in mind, some ‘observations’ on the Norfolk Island economy are made below. In making these observations, the ultimate end point is to provide an environment in which businesses and economic activity can flourish, whilst meeting the community’s needs. Only through

a vibrant economy can opportunities be provided, population growth be encouraged, living standards improve and the costs associated with an aging population be funded.

Performance of the economy over time

There is very little economic data available on the Norfolk Island economy. In June 2006 the ABS released the first statistics on private sector activity in Norfolk Island.³⁴ As this was the first set of statistics (on business activity) released, there is no time series of data available with which to track economic growth.

Other indicators have therefore had to be used for the purpose of observing the performance of the economy over time. The indicators used comprise:

- tourism numbers — tourists are the lifeblood of the Norfolk Island economy, so a downturn in tourist numbers coincides with a downturn in economic activity;
- imports and import duties — as most things used/consumed on Norfolk Island are imported, the level of imports is a good proxy for economic activity; and
- population numbers — the number of permanent residents, especially those with Temporary Entry Permit (TEP) status, provides a good reflection for the demand for labour, and hence economic activity.

Results since 1996-97 for each of these indicators is provided in charts 8.1 to 8.3 below. Tourist numbers, imports and import duty, and the number of residents with TEP status were all highest in 2000-01. Following the events of 9/11 and SARS, there was a (global) downturn in tourism. The impacts of which were experienced in Norfolk Island, where the number of tourists fell by 16.5 per cent in 2001-02. As the number of tourists declined, so too did the value of imports, reflecting a general downturn in demand brought about by fewer people visiting the Island. Importantly, as imports declined so did the import duty collected by the government. Import duties were 9.2 per cent lower in 2001-02.

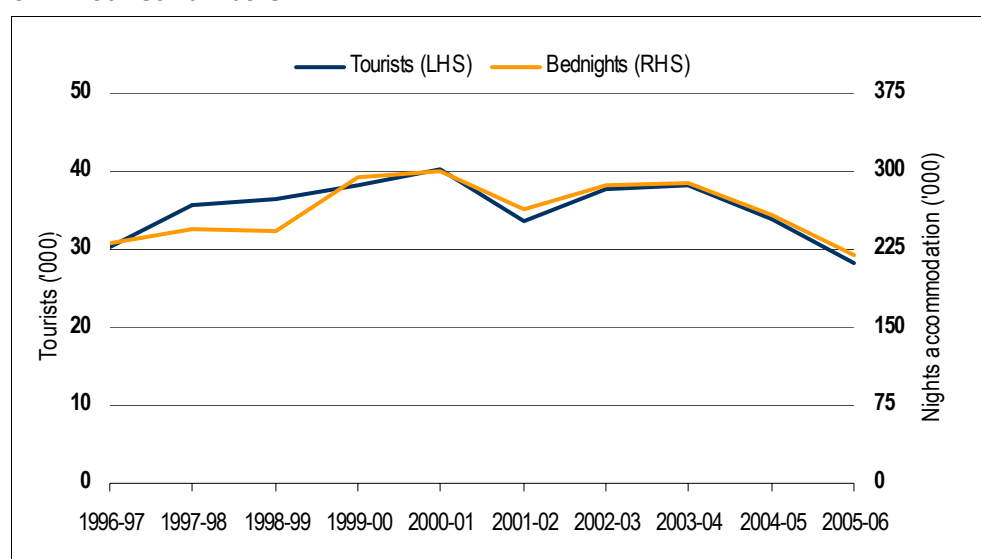
The number of residents with TEP status is a good proxy for the level of economic activity. TEPs are issued to foreign workers, and is conditional on those persons having paid employment. Hence a downturn in the number of TEPs is an indicator of fewer employment opportunities, which reflects

³⁴ See ABS (Australian Bureau of Statistics) 2006, *Norfolk Island Business Statistics 2004-05*, Cat. no. 8139.0, ABS, Canberra.

a downturn in economic activity. As can be seen from chart 8.3, the number of TEPs has been decreasing since 2000-01, but with a pronounced decline since 2003-04 (as is the case for all indicators). In 2005-06 there were 308 TEPs on Norfolk Island, only 8 more than was the case in 1996-97.

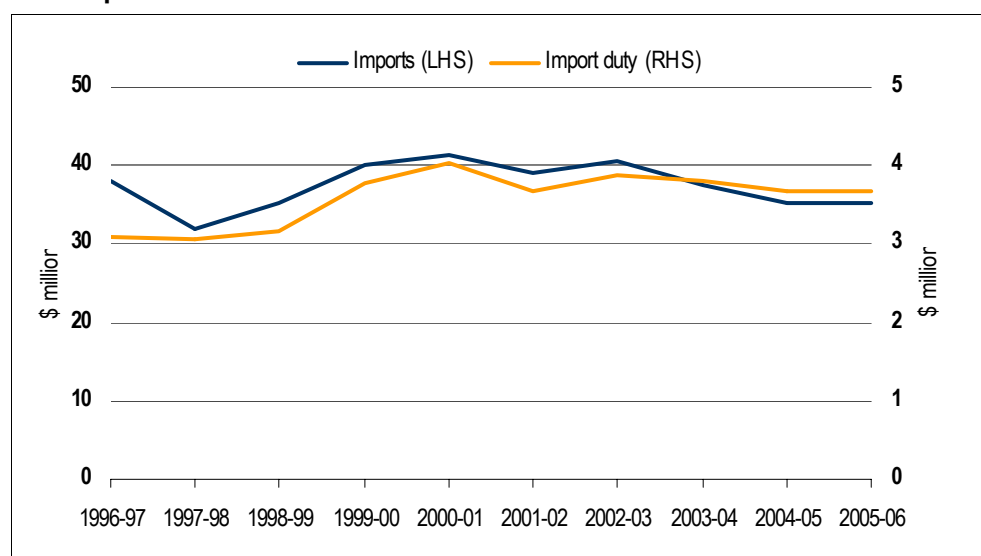
The observation to take from charts 8.1, 8.2, and 8.3 is that the economy appears to have been slowing since 2000-01. The slow down is even more pronounced since 2003-04. This would suggest that maintaining the status quo may not be a viable option for Norfolk Island.

8.1 Tourist numbers



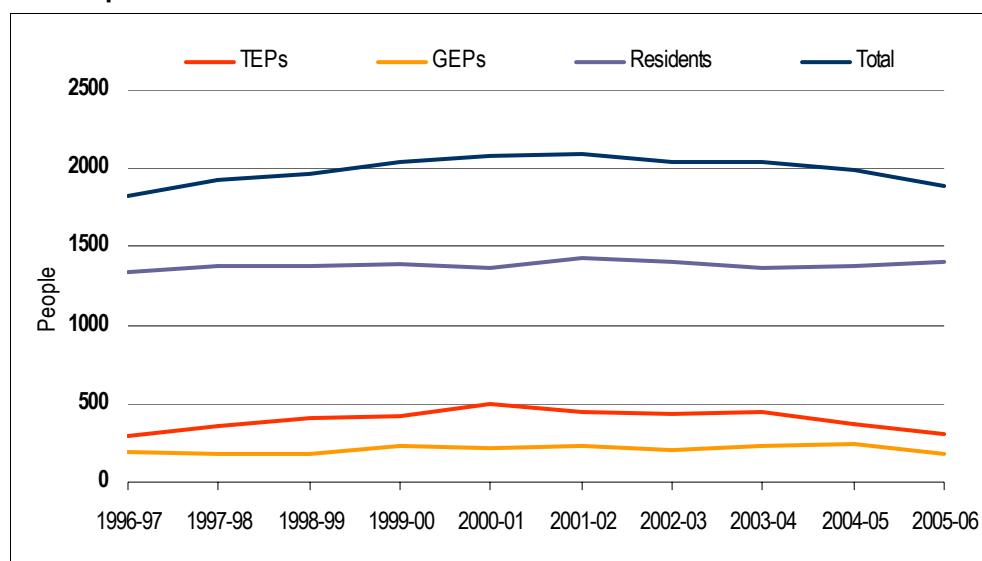
Data source: Norfolk Island Tourism Bureau statistics.

8.2 Imports



Data source: Norfolk Island Customs and Immigration statistics.

8.3 Population



Data source: Norfolk Island Customs and Immigration statistics.

Observations on the Norfolk Island economy

During this project, and especially after consulting with stakeholders on Island, it became evident that there were a number of areas where policy reform should be investigated irrespective of whether Commonwealth legislation is extended to Norfolk Island. In the CIE's view, the areas (or 'observations') identified below are not symptomatic of an efficient, competitive or flexible economy.

Observation 1: Freight costs

Nearly all products used or consumed on Norfolk Island are imported. The cost of getting products to Norfolk Island will therefore be important to the overall competitiveness of the economy, as (nearly) all products sold will have a transport/freight cost component in the price.

Numerous private sector stakeholders provided evidence of the high cost associated with getting products to Norfolk Island. For example, cases were cited where it cost \$4 000 to get a container from Hamburg to Auckland, and then \$16 000 to move it from Auckland to Norfolk Island. Typically, stakeholders suggested that freight costs to Norfolk Island were equivalent to 25 per cent of the free-on-board (FOB) value of the import.

The claim that freight costs are around 25 per cent of the FOB value appears to be supported by available statistics. For example, consider the Liquor Bond. From the government's financial statistics, we know that in

2004-05 the Liquor Bond purchased \$2 020 520 worth of liquor. This figure includes the cost of freighting the alcohol to Norfolk Island. From import statistics, we know that the FOB value of these alcohol imports was \$1 588 476. Freight costs are given by the difference between the two figures, and hence it cost \$432 044 to transport \$1 588 476 worth of alcohol to Norfolk Island. In this example, freight costs are equal to 27 per cent of the FOB value of the import.

In 2004-05 imports to Norfolk Island totalled \$35.1 million. These products attracted import duties of \$3.7 million. If we assume freight costs are equal to 25 per cent of the FOB price, then freight costs were \$8.8 million (given by 0.25×35.1 million). Hence products that were valued at \$35.1 million in say Australia, now cost \$47.6 million in Norfolk Island, a cost increase of over 35 per cent. This cost 'increase' needs to be reduced if Norfolk Island is to be competitive.

There are likely to be numerous reasons why freight costs to Norfolk Island are so high. Small freight volumes reduce the potential for scale economies, and there is probably little chance of back loading supply vessels. Another issue, and cost impediment, concerns the inability to unload ships in all weather conditions. That is, if seas are rough, the current jetties do not permit ships to be unloaded. The Norfolk Island Harbour Corporation reports that between 1990-91 and November 2005, supply vessels spent 373 days waiting offshore for weather conditions to improve and allow unloading. The cost of these 'lost' days is built into freight rates. The Harbour Corporation believes that each day a ship spends waiting to unload results in the cost of freighting those goods being \$70 000 higher.³⁵

There would seem to be a strong case for undertaking a detailed feasibility study of a permanent jetty that enabled roll-on roll-off type operations, and more importantly, to allow supply vessels to unload in all weather conditions. Numerous other reports have arrived at a similar conclusion.³⁶ Ultimately, making an informed decision as to a permanent jetty's feasibility necessitates knowing the economic costs and benefits associated with that jetty.

³⁵ Uncertainty concerning whether ships will be able to unload etc also likely sees businesses holding larger stocks as a form of 'insurance' against weather induced delays in re-supplying. Carrying greater stocks would be associated with a cost impost (warehousing etc).

³⁶ For example, see Joint Standing Committee on the National Capital and External Territories 2005, *Norfolk Island Financial Sustainability: The Challenge – Sink or Swim*, The Parliament of the Commonwealth of Australia, Canberra, p. 41.

A permanent jetty also has the potential to open Norfolk Island to the 'cruise ship' market. The Harbour Corporation, amongst others, report that shipping tourism companies have expressed an interest in coming to Norfolk Island if they could (and not have to wait offshore for weather conditions to improve). Diversifying the source of tourists would also go some way to alleviating the 100 per cent reliance on airlines for tourists. Every time there are airline 'difficulties', the Norfolk Island economy suffers. Hence there is a need to be able to source tourists from alternative modes of transport.

Finally, CIE was bemused by the frequency with which jetties are built, and then pulled down, at Ball Bay. Every time there is a major construction on the Island, such as an airport runway reseal or the Cascade Cliff Safety Project etc, there is a need to build a temporary jetty at Ball Bay to enable the landing of heavy construction equipment. At project end, the jetty is dismantled. Since 1982, the Harbour Corporation reports that 9 temporary jetties have been built and later dismantled. The cost associated with this building and then dismantling may have gone some way to covering the cost of a permanent jetty.

The CIE is not immediately aware of the rationale for requiring jetties at Ball Bay to be later removed. There may be legitimate reasons for the current course of action. However, one thing is clear, the cost associated with building and then removing a jetty each time there is a major construction project will be passed onto the Norfolk Island Government and community. For this reason alone, CIE would suggest that the rationale underlying the requirement to dismantle jetties at Ball Bay be closely examined.

Observation 2: *Import duties*

Compared to its major trading partners, import duties (tariffs) are high in Norfolk Island. Over the last 3 years the average import duty has ranged between 10.1–10.4 per cent. While import duties are an important source of revenue for the NIG, import duties inflate business costs, and in so doing impact on competitiveness and dampen economic activity.

In an increasingly competitive and challenging tourism market, something needs to be done about decreasing costs on Norfolk Island, and this extends to looking at import duties. CIE believes that in an attempt to stimulate economic activity and competitiveness, Norfolk Island should be looking at lowering import duties. It was particularly alarming to hear that the NIG is actually contemplating increasing, rather than reducing, import duties.

For small economies like Norfolk Island, and where border taxes account for a large share of government revenue, removal of import duties will be associated with a large loss of government revenue. While cheaper imports will ultimately improve economic efficiency and expand economic activity, this will not happen immediately. Hence there will be a time delay between cutting import tariffs (and losing duty) and when the economy expands (to give larger tax base). CIE appreciates that the NIG would be put in a difficult position if this were to occur.

One option is to phase down tariffs over time. For example, the general tariff rate is 10 per cent. If tariffs were to be eliminated over 5 years, then the general tariff could be reduced to 8 per cent next year, 6 per cent in the year after that and so on. Under this regime the impact on government revenue will not be as dramatic, but likewise, economic activity will be slower to expand.

Observation 3: Government Business Enterprises

Typically, while remaining public sector bodies, GBEs are expected to behave in a commercial fashion. Implicitly, GBEs should have some degree of operational separation from the general government administration. By establishing a separate entity (the GBE), government can allocate dedicated resources to achieving specific functions. The independence of the GBE ought to ensure that sufficient resources are being provided to their respective areas of service delivery.

In Norfolk Island the GBEs act as little more than an extension of the general government. This does not in itself represent poor governance. However, the operation of GBEs on Norfolk Island features several fundamentally unsound practices, notably:

- pricing of GBE services often resembles taxation rather than cost-reflective pricing, where the 'dividend required' by the NIG influences the price of services;
- the NIG strips money (dividends and management fees) out of GBEs to cover general government revenue shortfalls;
- often there is no provision in GBE accounts for depreciation of assets; and
- GBEs' capital expenditure is based on the financial position of the NIG rather than any asset management strategy.

GBEs on Norfolk Island are not genuinely allowed to operate in a commercial manner. Prices for most GBEs are determined by the Minister

for Finance who has discretion to change prices at a whim. For example, when a revenue shortfall was discovered in the general government administration, the Minister for Finance increased line rental fees charged by Norfolk Telecom so that a larger dividend could be extracted from the GBE. Prices of some GBE services, notably Norfolk Telecom and the Liquor Bond, do not reflect any underlying cost structure. This means that the NIG is able to generate exorbitant rates of return on their capital investment. For example, Norfolk Telecom has a return on capital of nearly 70 per cent.

Current GBEs' prices are in fact a particularly inefficient form of taxation. The current pricing practices highly distort economic behaviour and create an inequitable distribution of the price burden. For example, while Norfolk Telecom's pricing schedule ostensibly targets tourist, it is also highly disadvantageous to local businesses that need to make international phone calls to suppliers. Further distortions are created because the Norfolk Island Government, including its GBEs, typically does not pay for GBE services. This leads to inefficient use of the Island's resources as users do not face the true cost of obtaining that service.

The CIE believes that Norfolk Island would benefit if an independent expert body set prices for essential services (for example, the Independent Price and Regulatory Tribunal of NSW or the Queensland Competition Authority).

Currently, some GBEs are not even accounting for depreciation, and this failure will see the gradual whittling away of the Island's capital stock. If depreciation is not accounted for then eventually Norfolk Island will be left without adequate infrastructure and no means of funding new capital purchases. The CIE strongly recommends that depreciation be included and funded in all GBE (and general government) accounts.

Similarly, Norfolk Island GBEs should be allowed to operate as true commercial enterprises. Improved operational separation and a defined dividend structure would allow the GBEs to improve budgeting and planning. GBEs would know their capital expenditure requirements and could operate budget and pricing structures to fund required capital expenditure. Moreover, it would remove the current problem where any funds in GBE accounts can be suddenly transferred to assist the NIG financial position. Such practices prevent GBEs from making any sort of forward planning. The CIE recommends improving operational boundaries between the GBEs and the general government so that the GBEs can properly achieve their commercially specified functions.

Observation 4: *Competition*

The government is the sole supplier of utilities on Norfolk Island. This sees the NIG (or its business enterprises) supplying electricity, communications, water and sewerage etc. The NIG is also the only supplier of alcohol on the Island. Hence the NIG has moved from areas where governments may have some justification for being involved in service provision (areas where there are natural monopolies and potential market failures) to controlling (and monopolising) typically private sector activities. There appears to be a genuine lack of competition in any area that the NIG has a commercial interest, and ultimately, this will hamper efforts to improve efficiency.

In relation to the Liquor Bond, there would seem to be little justification for government involvement. There are no obvious 'market failures' associated with retailing alcohol to justify government (only) provision. If there were concerns regarding adverse health impacts associated with consumption of alcohol, then the optimal strategy would be to tax alcohol, but then open the market up to competition. (The CIE is aware that numerous parties are interested in being able to sell alcohol on Norfolk Island). Under this arrangement competition would be used to ensure that alcohol retailers are not earning excessive (or monopolistic) returns.

In terms of the utilities, and wherever possible, competition should be encouraged. One area where this is possible is in electricity generation by the private sector. It was therefore particularly alarming to hear reports of households being 'threatened' with disconnection from the electricity grid if the household was to generate its own power. In this particular instance, the household was to install solar power. As households need electricity at night, when solar power is not feasible, the household had no choice but to abandon its plans.

CIE believes that the threat to disconnect the household is an interpretation of Section 6(3) of the *Electricity Supply Regulations 1986*.

Where land is supplied with one or more electricity supply services provided by the Administration and with electricity provided from a private generating plant, the supply from the private generating plant shall be segregated from that part of the electricity provided by the Administration. (Section 6(3) of the *Electricity Supply Regulations 1986*)

Threatening to disconnect households/businesses etc from the grid if they generate their own power is a shortsighted position. Power is extremely expensive on Norfolk Island, at around \$0.60 per kWh (versus say \$0.12 per kWh in Sydney). If households or businesses can generate electricity cheaper than \$0.60 per kWh, and in so doing improve their position, then

this needs to be encouraged. Furthermore, allowing others to produce electricity may delay necessary upgrades in the generating capacity of the Norfolk Island Electricity Service (NIES).

Hence instead of disconnection from the grid, provisions should be established to enable private electricity generators to sell excess power back into the grid.³⁷ With regulated prices (or more specifically, a regulated return to capital), it is to be expected that if NIES purchased power at less than \$0.60 a kWh, then the average price of electricity would fall. This would be of benefit to all electricity users and the wider economy.

Observation 5: *Bed levy and unit/bed quota*

The NIG currently imposes an Accommodation Levy. The levy is set at the rate of \$1/per bed/per night, and is paid irrespective of whether the bed is being used (that is, it is a 'cold bed' levy). In 2004-05 the Accommodation Levy raised \$560 435, equivalent to 1 535 beds being levied during the year.

As of 1 July 2006, there were 65 places offering accommodation in Norfolk Island. In aggregate, these premises had 1 425 beds. (Note that the number of chargeable accommodation units in hotels/lodges etc on Norfolk Island is controlled via a legislated quota.) On average, each accommodation residency has 22 beds and will face an Accommodation Levy of \$8 000 even though a booking might not be taken. With the downturn in tourism numbers, the Accommodation Levy impost will be increasingly borne by the hotel owners (assuming that it could be passed on to tourists if they were there).

A problem with the Accommodation Levy is that it is an inefficient tax. Hoteliers are required to pay the tax before bookings are taken, so they do not know if they will be able to recoup the paid Accommodation Levy from subsequent bookings. This will impart another area of risk onto hoteliers. It may also unduly influence hoteliers' business decisions, and see investments in different activities being treated differently. The ideal tax system would treat investments in different businesses neutrally.

To the extent that the Accommodation Levy can be/is passed onto tourists, and given the common view that most tourists to Norfolk Island are price sensitive, then it would appear that the optimal approach would be to lower taxation on tourists in an attempt to rekindle tourist numbers.

³⁷ Assuming that this is technically compatible with the existing grid/electricity infrastructure.

Given the identified problems/issues with the Accommodation Levy, the CIE suggests that it be removed as soon as possible (and assuming that it is not replaced with an equally distorting tax/charge).

As noted above, the number of chargeable accommodation units in hotels etc is controlled via a quota. As at 31 July 2006, there were 590 accommodation units spread over 65 hotels/lodges.³⁸ These 590 units contained 1 425 beds.

Under the *Tourist Accommodation Act 1984*, and for all intents and purposes, accommodation units are not transferable other than to bona fide purchasers of the property.³⁹

In the CIE's view, the non-transferability of unit quotas is a significant oversight. It prevents the following from occurring:

- successful accommodation businesses cannot expand operations due to not be able to acquire additional quotas; and
- persons wishing to exit the industry cannot 'trade-in' a valuable asset in their possession — the quota — and use resulting funds to assist in structural adjustment;

Furthermore, as quota positions lapse if a business closes (that is, the quota is a declining cap), there may come a time when there are not sufficient quota positions available with which to satisfy tourism demand for beds. If this situation arose, then the NIG would (we assume) make more quotas available so that tourist demand could be met. But this begs the question — why have a declining cap in the first place?

The CIE strongly recommends that the issue of unit quotas be closely examined, with a view to removing them. However, it is also appreciated that the thing that destroys tourism, and especially eco-tourism, is tourism itself. If the planning approval process on Norfolk Island is not capable of stopping unabated tourism development, then the CIE accepts that quotas may be needed (at least until the planning approval process is brought up to speed).

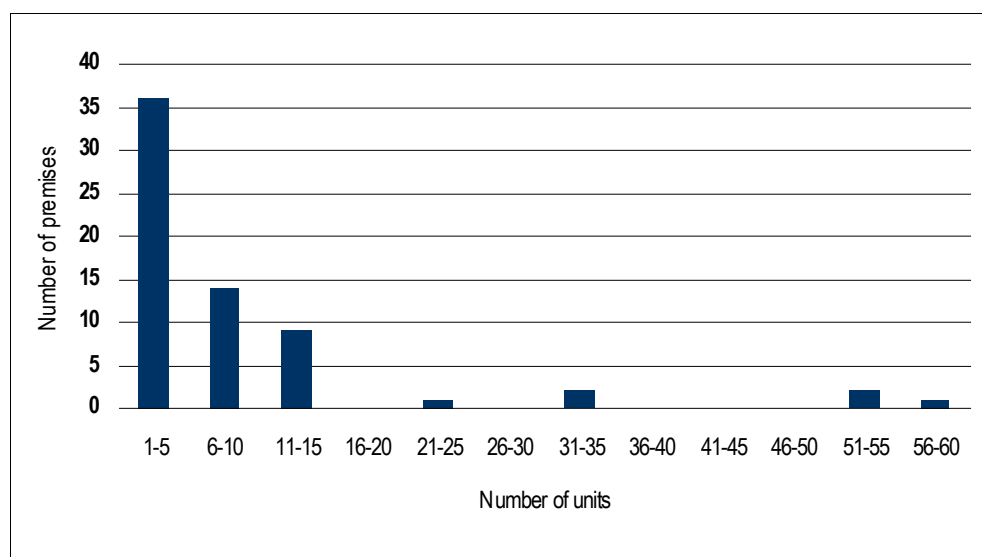
³⁸ An accommodation unit is defined as '...part of the accommodation house in respect of which a separate charge is usually made...' (definition taken from section 4(1) of the *Tourist Accommodation Act 1984*).

³⁹ Note that under sections 15A(2) and (3) of the *Tourist Accommodation Act 1984*, the Legislative Assembly may pass a resolution allowing the registration (and presumably quota) of a tourist accommodation house to be transferred to another place. CIE understands from stakeholders that this provision has not been exercised.

In the interim, and at a minimum, the CIE recommends making accommodation unit quotas transferable.

Chart 8.4 shows the distribution of accommodation unit numbers by premises. As can be seen, there are only a few large hotels/lodges, with the largest 10 premises accounting for 53 per cent of units (and 48 per cent of paid Accommodation Levy). We would anticipate that some of the more successful and larger premises would welcome the opportunity to enter into negotiations with less successful businesses for the purpose of obtaining the latter's quotas. We would expect this to be a win-win situation for all parties, as it would allow the successful businesses to expand, which is what should be encouraged, and would provide an exit strategy for less successful businesses.

8.4 Distribution of beds



Data source: Norfolk Island Tourism Bureau.

Observation 6: *Political appeasement versus good policies*

With around 2000 people, and even fewer in the voting population, Norfolk Island's politicians are very close to the personal impacts of any of their decisions. Norfolk Island politicians interact with their constituents on a daily basis. Politicians might face community resentment and hostility for decisions that provide overall benefits to the Norfolk Island economy but which also carry some adverse impacts for a small proportion of the community. In such circumstances political appeasement becomes much easier than making sound, but unpopular, policy decisions.

Norfolk Island's current tax system provides a good example of successive Norfolk Island Government's preference for appeasement over good policy. The Government levies few direct taxes on its population or businesses. Instead, it uses a variety of indirect taxes, with the burden of many taxes (and GBE pricing structures) designed to fall more heavily on tourists or non-residents. Ultimately, the failure of successive NIG's to address the underlying structural deficiencies of their tax system has led to the precariousness of their current financial situation. Yet, the inability of the NIG to address these issues is hampered because implementation of, for example, direct taxes, is likely to meet with hostility from some elements of the Norfolk Island community.

Regardless of whether the model of Norfolk Island Government remains unchanged, or moves to a modified self-government or local government model, the small size of the community, coupled with the NIG's relatively large responsibilities, will continue to hamper effective governance on the Island. Given this rather unique situation, a strong case could be made that the government 'needs to have its hands tied' when it comes to making some decisions. If some decision-making powers are not removed from the NIG's list of responsibilities, then there is every chance that politically popular decisions will prevail over economically correct decisions. Over the longer term, this will impose a cost on both the local economy and the community's living standards.

Observation 7: *Exclusive distribution agreements*

A number of retailers on Norfolk Island expressed concern that they might lose their exclusive distribution rights if Australian legislation is implemented. Currently, some Norfolk Island retailers enter commercial agreements that allow them exclusive distribution on Norfolk Island. The agreements allow the retailers to purchase goods directly from the producer.

Australian wholesalers also enter into commercial agreements for exclusive distribution rights across Australia. Australian wholesalers then distribute the product to retailers across Australia. While Norfolk Island is technically part of Australia, its ambiguous relationship to Australia has enabled some Norfolk Island retailers to maintain exclusive distribution agreements despite pressure from some Australian wholesalers that their exclusive distribution agreement encompasses Norfolk Island (see box 8.5). As most Norfolk Island importers both wholesale and retail the products they sell, they effectively remove one layer of 'margins' and price mark ups from the supply chain.

8.5 Retailer testimony on distribution rights

Our retail distribution rights allow us to purchase directly from companies, in particular Europe, USA and Asia. This means we do not have to go through the Australian distributor. This allows us purchase items at a similar price and retail them substantially cheaper as we are also the retailers. We believe that there is a fine line with the distribution set up as the Australian distributors have regularly tried to claim their rights over Norfolk, claiming we are part of Australia.

Our largest and most successful European supplier is [name withheld]. We have had a long association with this company. The Australian distributor has constantly tried to claim these rights which would force us to purchase directly from his [the Australian] company. This would mean that our purchasing price would be the same as all the retail outlets in Australia and we would have the added freight costs on top of this which would make the product not competitive with Australia.

Source: Norfolk Island retailer.

Such arrangements provide considerable advantage to Norfolk Island retailers. For example, one store claims to have the world's cheapest Lego. It is able to maintain low prices despite the high freight costs to ship goods to Norfolk Island.


Commonwealth legislation does not directly impact on these commercial arrangements. There is no specific legislation that would prevent Norfolk Island businesses from entering into such commercial arrangements. However, the extension of Commonwealth legislation would remove the present ambiguity regarding Norfolk Island's relationship to Australia. Wholesalers located in mainland Australia might consider that their commercial agreements now extend unambiguously to Norfolk Island. This could make some of the 'exclusive' commercial arrangements of Norfolk Island retailers redundant.

The number of businesses on Norfolk Island and the extent of their exclusive distribution agreements are unknown. Nevertheless, the CIE believe that, in the absence of a Commonwealth declaration to the effect that Norfolk Island is an external territory, the extension of Commonwealth legislation could lead to the loss of the exclusive distribution agreements for some Norfolk Island retailers. If this occurs it would contribute to a decline in the retail sector as prices rise due to the need to included whole-sale margins. This would have consequential impacts throughout the Norfolk Island economy, in addition to the results presented in this report.



FINAL REPORT

Economic Impact of Norfolk Island reform scenarios



*Prepared for
Department of Infrastructure and Regional Development
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The Centre for International Economics is a private economic research agency that provides professional, independent and timely analysis of international and domestic events and policies.

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CANBERRA

Centre for International Economics
Ground Floor, 11 Lancaster Place
Canberra Airport ACT 2609

GPO Box 2203
Canberra ACT Australia 2601

Telephone +61 2 6245 7800
Facsimile +61 2 6245 7888
Email cic@TheCIE.com.au
Website www.TheCIE.com.au

SYDNEY

Centre for International Economics
Suite 1, Level 16, 1 York Street
Sydney NSW 2000

GPO Box 397
Sydney NSW Australia 2001

Telephone +61 2 9250 0800
Facsimile +61 2 9250 0888
Email ciesyd@TheCIE.com.au
Website www.TheCIE.com.au

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Executive summary

State of the Norfolk Island economy

Norfolk Island is a small, isolated island community of fewer than 1700 permanent residents. Most goods consumed on Norfolk Island are imported via Australia or New Zealand, while tourism-related services are Norfolk Island's only significant export activity. While no formal economic statistics are compiled, the CIE has estimated that Norfolk's Gross Territory Product (GTP) (at market prices) was around \$68 million in 2013-14. This estimate was around 22 per cent lower than a previous estimate from 2010-11.

- With around 1670 permanent residents, this equates to a GTP of nearly \$41 900 per capita.
- While a GTP per capita of \$41 900 might appear 'healthy', it should be noted that the prices of many consumer goods on Norfolk Island are significantly higher than on mainland Australia.

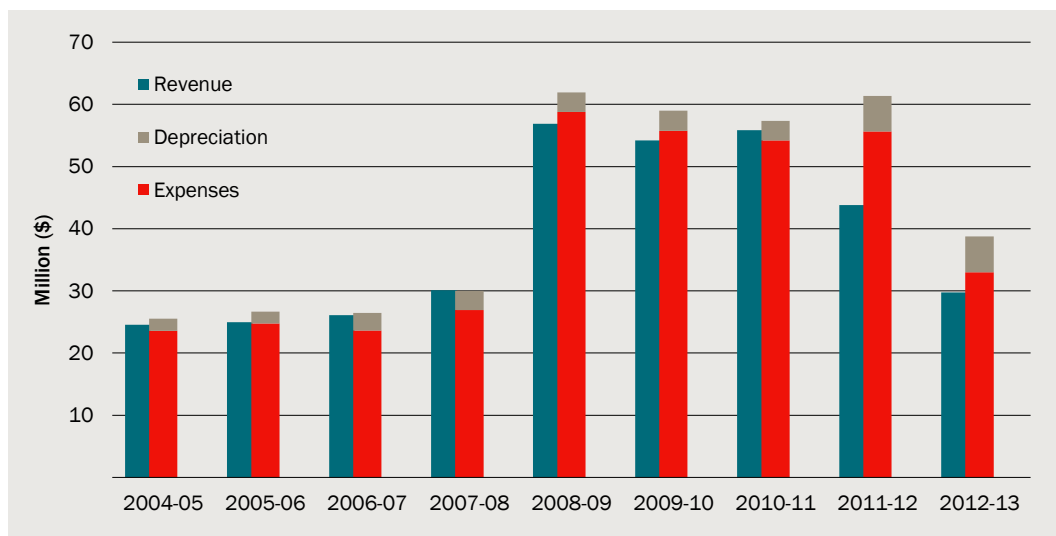
Various indicators point to a sharp contraction in Norfolk Island's economy over recent years.

- As tourism is Norfolk Island's only significant export activity, the number of visitors to the island is a major driver of economic performance. Over recent years, Norfolk Island has been attracting around 25 000 visitors per year, a decline of around 35 per cent compared to a decade earlier.
- GST collections suggest the value of sales have fallen by around 25 per cent over the past four years, or an average of 7 per cent per year. As prices are likely to have increased over this period, the volume of sales on Norfolk Island are likely to have fallen by even more.
- Workers Compensation Levy receipts suggest that the number of hours worked has fallen by around 24 per cent since 2009-10, or around 6.6 per cent per year on average.
- The Norfolk Island population has also declined steadily since 2001. As at September 2014, the population has fallen by around 360 people or 18 per cent since the 2001 Census.

Over the last decade or so the Norfolk Island Government (and associated Government Business Enterprises) has been running a sizable budgetary deficit (see chart 1).

- Until 2007-08, the budget was broadly balanced in cash terms, but has deteriorated significantly, particularly in the past two years.
- When depreciation and amortisation is taken into account, Norfolk Island has recorded budget deficits in every year except 2007-08. Over 2004-05 to 2012-13 the budget is in deficit by some \$40.9 million.

1 Budgetary position of Norfolk Island Government



Note: In 2008-09 the Norfolk Island Government changed the way its financial accounts were presented. Prior to 2008-09, the accounts reported the revenue and expenses of just the Norfolk Island Administration. In 2008-09 (and thereafter) the accounts reported the revenue and expenses of the Administration and the various GBEs.

Source: Norfolk Island Administration.

For the last several years the Australian Government has been subsidising Norfolk Island. Between 2009-10 and 2013-14, the Commonwealth provided around \$28 million to the Norfolk Island Government.

The continued poor budgetary position has meant necessary expenditure to maintain and expand the stock of infrastructure has not occurred. The most recent Infrastructure Strategy and Capital Management Plan identified infrastructure/capital expenditure requirements of \$77 million over a 10 year period. The inability of the Norfolk Island Government (and tax base) to meet this necessary expenditure is not only impacting adversely on the quality of service provision (such as electricity supply and telecommunications), but also on private sector activity and development.

The economic impact of potential reforms

The CIE has modelled the impact of the following reforms on the Norfolk Island economy:

- Core Reform — at the core of the proposed reforms is inclusion of Norfolk Island in the mainland's welfare and Medicare systems. This would also necessitate participation in the mainland income taxation system
- Other tax related reforms — imposition of mainland Superannuation, Goods and Services Tax, import duty (tariffs) and Fuel Excise, plus a simulation where Norfolk Island's GST, import duty and Fuel Excise are all removed (without extending comparable mainland taxes)
- Other reforms — include applying the Australian minimum wage in Norfolk Island; and GBE reforms such as improved governance arrangements and the establishment of an independent pricing regulator for monopoly services (or the opening of sectors to competition).

The estimated economic impact of these reforms are summarised in table 2.

Extending mainland income taxation, welfare and Medicare to Norfolk Island represents a substantial change. On average, Norfolk households will lose 15.3 per cent of their income to taxation (equivalent to \$4.3 million in 2013-14), but will gain some \$4.9 million in additional welfare type payments and avoid around \$5 million in healthcare related expenses. The Norfolk Island Government will no longer have to fund social service type payments of over \$1.6 million nor allocate nearly \$2 million to subsidising the local hospital, which means greater resources being available to fund unmet expenses such as depreciation and/or reducing the reliance on Australian budgetary support. Combined, the income taxation, welfare payment and Medicare reforms are estimated to see a sizable increase in economic activity of around 14 per cent, but a larger increase in household consumption (the preferred welfare measure) of around 38 per cent.

- The higher level of economic activity, increased employment and wages combine to see (nominal) household consumption each year being some \$20 million higher than otherwise.

2 Economic impact of reforms on GTP

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Core Reform									
Income tax, welfare and Medicare	0.0	14.7	14.8	14.4	14.1	14.1	14.1	14.1	14.1
Other tax-related									
Super	0.0	-1.6	-2.1	-2.5	-3.4	-3.6	-3.6	-3.6	-3.6
Aus GST	0.0	8.8	8.8	8.8	8.7	8.7	8.7	8.7	8.7
Aus tariffs	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Aus Fuel Excise	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
No NI GST, Customs Duty, Fuel Excise	0.0	9.6	9.5	9.3	9.2	9.2	9.2	9.2	9.2
Other reforms									
Min wage	0.0	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
GBE reform	0.0	0.3	0.2	0.1	-0.1	-0.2	-0.2	-0.2	-0.2

Source: Norfolk Island economic model.

In summary, the GTP impacts of the other tax related reforms are as follows.

- Superannuation — employers experience higher wage rates, which acts to see a contraction in employment and economic activity (note that households would, presumably, have higher disposable income in retirement and hence lead to higher future consumption).
- Australian GST — compared to the Norfolk Island GST, the Australian GST is set at a lower rate (10 versus 12 per cent) and is approximately half the rate on the key

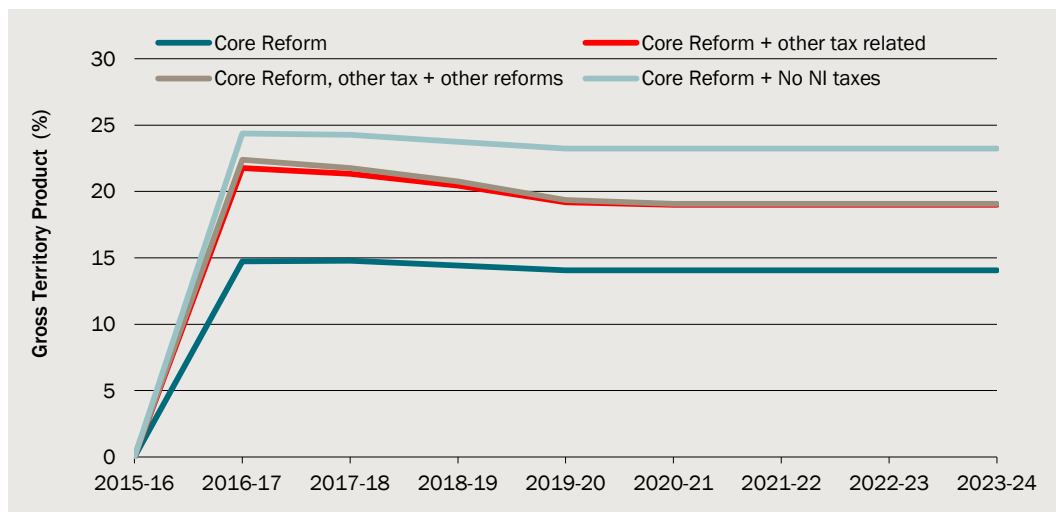
household and tourist consumption item of food. The lower rate of taxation sees lower prices and an increase in economic activity.

- Australian Customs duty and Fuel Excise — the impacts of these reforms are quite minor (the GTP impacts are observable at the first decimal point), as the taxes are either minor (Fuel Excise) or collected revenues broadly similar (import duty).
- No Norfolk Island taxes — removing the GST, import duty and Fuel Excise effectively sees prices fall and a subsequent increase in household purchasing power, which drives an increase in household consumption, employment, wages and GTP.

Note that if the other tax related reforms are implemented, then they will likely come as a ‘package’ of reforms. Chart 3 summarises the estimated impacts on GTP of the various reform packages of:

- Core Reform (income taxation, welfare and Medicare)
- Core Reform + other mainland taxes (latter comprising Superannuation, GST, import duty and Fuel Excise)
- Core reform + other mainland taxes + other reforms (latter comprising imposition of mainland minimum wage and Norfolk GBE reform)
- Core reform + no Norfolk Island taxes (latter comprising removal of Norfolk Island GST, import duty and Fuel Excise).

3 Economic impact of reform packages



Source: Norfolk Island economic model.

About this report

The Commonwealth Department of Infrastructure and Regional Development commissioned the CIE to build an economic model of the Norfolk Island economy, and then to use that model to quantify the economic impact on Norfolk Island of various reform scenarios, notably:

- extension of Australian mainland minimum wage, and market/business operations
- extension of mainland taxation (personal, company and Medicare levy) and superannuation systems
- extension of mainland social security (unemployment benefits, welfare payments, and Medicare)
- changes to the current Norfolk Island arrangements (such as removing the Norfolk Island GST and import duties, possibly in exchange for extension of mainland taxation) and implementation of a range of microeconomic reforms.

To gather data and information, and to gain an understanding of the structure and operation of the economy, a CIE team visited Norfolk Island in late August 2014 to consult with stakeholders. Meetings were held with the Norfolk Island Government and bureaucracy, the Administrator, private sector businesses and individuals.

This report and the developed economic model have been generated from data made available by the Norfolk Island Administration and other stakeholders. It should be appreciated that the Norfolk Island Administration collects only limited economic data.

The CIE would like to thank all of those stakeholders who participated in the consultation process, and who provided information and data in response to questions about the performance, operation and future of the Norfolk Island economy. The CIE is also appreciative of the large effort numerous people, particularly within the Norfolk Island bureaucracy, went to in sourcing requested data.

The report is structured as follows. Chapter 1 provides an overview of the state of the Norfolk Island economy, along with an estimate of gross territory product in 2013-14. Chapter 2 details the economic model developed, and considers what the Norfolk Island economy might look like going forward (the baseline). The approach taken to modelling the tax and welfare reforms is detailed in chapter 3, while the other reform scenarios modelled are detailed in chapter 4. The economic impact on Norfolk Island of the core reform set (personal taxation and welfare) and other tax related reforms is reported in chapter 5, while the impact of the various other reforms considered can be found in chapter 6. In chapter 7 options for reform implementation and timing are considered. Some practical issues needing to be considered/resolved if mainland taxation and welfare were to be extended to Norfolk Island are also discussed in this chapter.

1 *The Norfolk Island economy*

As no formal economic statistics on Norfolk Island are compiled, assessing the size and performance of the Norfolk Island economy is not straightforward. In this chapter the performance and size of the Norfolk Island economy is reviewed, and an estimate of Gross Territory Product in year 2013-14 provided.

Overview

Norfolk Island is a small, isolated island community of fewer than 1700 permanent residents. Most goods consumed on Norfolk Island are imported via Australia or New Zealand, while tourism related services are Norfolk Island's only significant export activity. The Norfolk Island Government plays a major role in the Norfolk Island economy, providing essential and other services.

Size of the Norfolk Island economy

Although there are no formal economic statistics compiled, there have been various attempts to estimate the size of the Norfolk Island economy, including several attempts by the Commonwealth Grants Commission (CGC). These estimates vary in the methodology used and time period to which they refer.

As can be seen from table 1.1, most estimates have Norfolk Island Gross Territory Product (GTP) in the \$80–90 million per year range.¹ The main outlier is the CGC's (2006) estimate that had Norfolk Island GTP much lower at around \$62 million per year.

On a per capita basis, these estimates equate to between \$45 000-50 000 per person (or around \$32 000 per person based on the CGC's 2006 estimate). This compares with GDP per capita for Australia of nearly \$67 000 in 2013-14.

1.1 Estimates of Norfolk Island Gross Territory Product

Source	Year	Estimated Gross Territory Product	Approximate population	GTP per capita
		\$ million	No.	\$
CGC (1997)	1995-96	80.3	1 772	45 343
CGC (2006)	2004-05	62.1	1 915	32 425

¹ GTP is a measure of the value of all of the goods and services produced in the economy and is analogous to the commonly used measures of economic activity, Gross State Product (GSP) for states and Gross Domestic Product (GDP) for the nation in aggregate.

Source	Year	Estimated Gross Territory Product	Approximate population	GTP per capita
		\$ million	No.	\$
CGC (2011) – production approach	2009-10	89.5	1 815	49 300
CGC (2011) – income approach	2009-10	82.0	1 815	45 169
ACIL Tasman	2010-11	87.9	1 795	48 969

Source: Commonwealth Grants Commission (1997); Commonwealth Grants Commission (2006); Commonwealth Grants Commission (2011); ACIL Tasman, Norfolk Island Economic Development Report: Reform of the Norfolk Island Economy, Prepared for the Department of Regional Australia, Regional Development and Local Government, March 2012, p. 35.

Norfolk Island's GTP in 2013-14

The developed economic model of the Norfolk Island economy (see the next chapter) provides an estimate of Norfolk Island's GTP from both the income and expenditure sides. As can be seen from table 1.2, Norfolk Island's GTP (at market prices) was estimated to be \$68 million in 2013-14. With around 1670 permanent residents, this equates to a GTP of nearly \$41 900 per capita.

While a GTP per capita of \$41 900 might appear 'healthy', it should be noted that Norfolk Island is an expensive location. For example, it would cost Norfolk Islanders 22 per cent more to purchase a (random) basket of household groceries than households in metropolitan Sydney, and fuel is around \$1 per litre more expensive on island.

The 2013-14 GTP estimate suggests that economic activity has fallen by around 22 per cent since 2010-11.

1.2 Norfolk Island GTP

GTP from expenditure side		GTP from income side	
Component	\$ million	Component	\$ million
Consumption	45	Compensation of labour	29
Investment	0	Gross operating surplus	29
Government	22	Tax on production	2
Exports	26	Taxes on consumption	7
Imports	-33	Tariff duty	1
Net taxes	8		
Total	68	Total	68

Source: CIE.

Indicators of recent performance

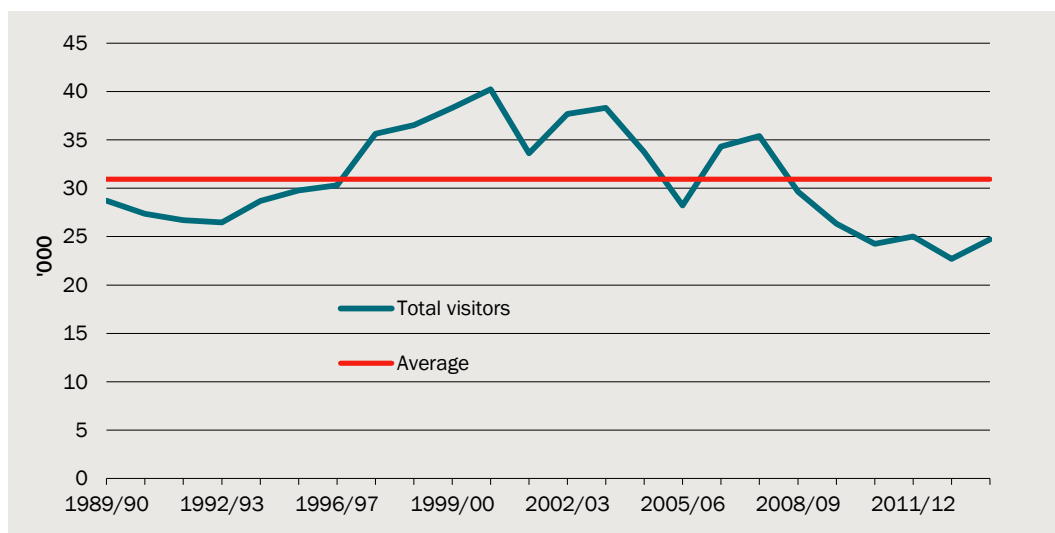
Given the different methodologies and data sources used to construct the GTP estimates reported in table 1.1, they are not necessarily comparable across time. Nevertheless, these estimates suggest that the Norfolk Island economy is unlikely to have grown significantly in nominal terms over the past 10–15 years. As the prices of goods and services will have increased over that time, this suggests a substantial decline in real economic activity.

Most available indicators point to a marked deterioration in the performance of the Norfolk Island economy over recent years.

Visitor numbers

As tourism is Norfolk Island's main export activity, the number of visitors to the island is a major driver of export performance. From chart 1.3 it can be seen that there was a strong upward trend in tourist numbers through the 1990s, followed by a significant contraction over the past 10–15 years. In the first few years of the new millennium, Norfolk Island received more than 37 000 visitors per year on average, peaking at more than 40 000 in 2000-01. By contrast, visitor numbers have been hovering around the 25 000 mark over recent years, a decline of around 35 per cent from the number of visitors in the early 2000s.

1.3 Visitor numbers



Source: Norfolk Island Government.

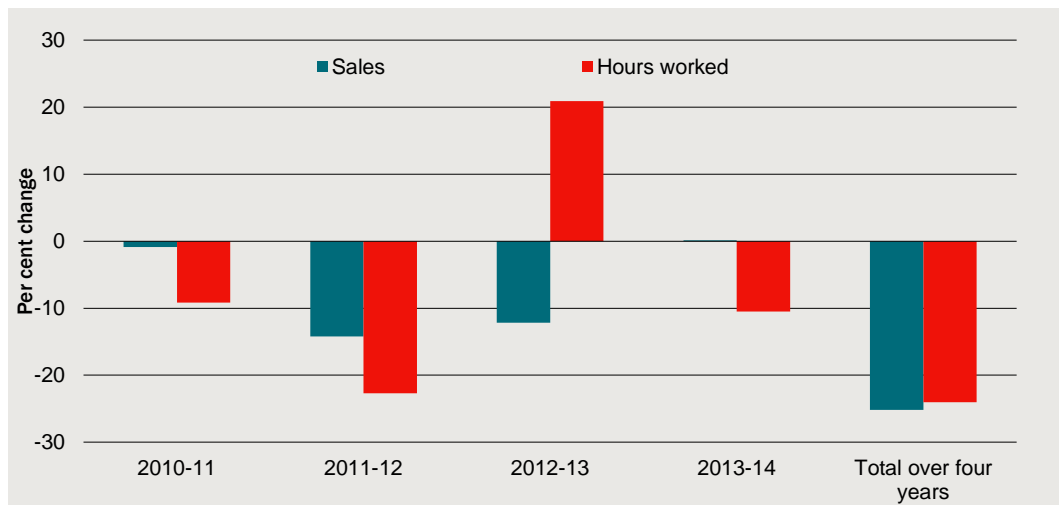
Tax receipts and hours worked

Tax collection is linked to underlying economic activity, and can therefore provide an indicator of the level of economic activity.

The Norfolk Island GST Office collects data on the total value of GST liable sales as part of the GST collection arrangements. As can be seen from chart 1.4, since 2009-10, the value of GST liable sales have fallen by around 25 per cent, or an average of 7 per cent per year. As prices are likely to have increased over this period, the volume of sales on Norfolk Island are likely to have fallen by even more.

The Norfolk Island Workers Compensation Levy is based on the number of hours worked, which is one measure of the demand for labour. Workers Compensation Levy receipts imply that the number of hours has been somewhat volatile over recent years, but has fallen by around 24 per cent since 2009-10, or around 6.6 per cent per year on average.

1.4 Value of sales and hours worked – percentage change



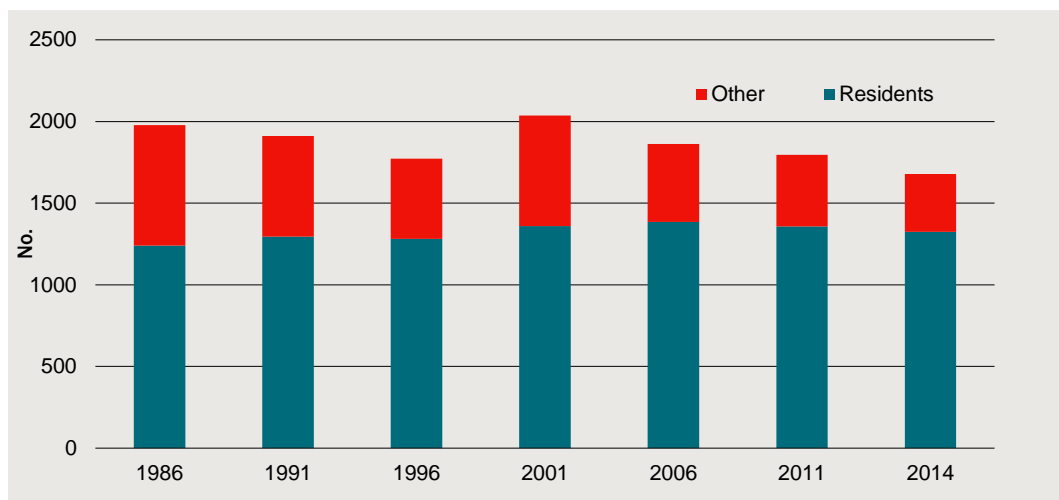
Source: Norfolk Island Government.

Population

To some extent changes in population will reflect economic conditions on Norfolk Island. With a limited welfare system, for many a lack of job opportunities will result in them leaving Norfolk Island.

From chart 1.5 it can be seen that the Norfolk Island population has declined steadily since 2001. As at September 2014, the population has fallen by around 360 people or 18 per cent since the 2001 census. The decline has mainly been in the number of permit holders and other residents, rather than Norfolk Island residents. There are currently only around half the number of permit holders living on Norfolk Island that there were in 2001. The number of permanent residents has fallen by only 2.5 per cent over the same period.

1.5 Norfolk Island – population



Note: Includes permanent residents and temporary visa holders.

Source: Norfolk Island Government.

2 *Modelling the Norfolk Island economy*

A computable general equilibrium (CGE) model of the Norfolk Island economy has been developed for the purpose of quantifying the economic impacts of extending mainland taxation and welfare to Norfolk Island and various other economic reforms.

The developed economic model

The economic model developed is based on the ORANI-G model framework, and combined with data describing the Norfolk Island economy in year 2013-14.²

Extensions were made to the model to allow simulation of the particular policy reforms being contemplated (in particular, changes to the tax regime). For example, income taxes were introduced and labour supply made responsive to post-tax income. Also, income accounting equations tracking the movement of income (generated by taxes, subsidies and dividends from government business enterprises) between sectors of economic activity, the Norfolk Island Government, Norfolk residents, and the Australian Government were introduced. The comparative static ORANI-G model was run in a sequential mode to emulate the phased introduction of reforms and generate time-paths for economic impacts.

The sectors of economic activity, factors of production, areas of final demand, and tax instruments identified in the developed model are reported in table 2.1.

2.1 Structure of the developed Norfolk Island economy model

Sectors of economic activity	Factors of production	Areas of final demand	Tax instruments and charges ^b
Agriculture, Forestry & Fishing	Capital	Household	Goods & Services Tax
Food stuffs	Labour	NI Government	Import Duties
Manufacturing		Investment	Gaming Tax
Fuel		Exports	Absent Landlord Levy
Energy (GBE)		Imports	Fuel Levy
Electricity (GBE)		Stocks	Waste Levy
Construction			Healthcare & Medivac Levy
Liquor Bond (GBE)			Workers' Compensation Levy
Trade			Business Transaction Levy

² ORANI-G is a development of the Centre of Policy Studies at Victoria University. Further details on the base model can be found at <http://www.copsmodels.com/oranig.htm>.

Sectors of economic activity	Factors of production	Areas of final demand	Tax instruments and charges ^b
Accommodation			Company Fees
Cafes & Restaurants			Land Title Fees
Lighterage (GBE)			Liquor License Fees
Transport			Tattersalls Commission
Airport (GBE)			Vehicle registration & licence
Communications (GBE)			Stamp Duty
Finance & Insurance			
Professional, technical & support services			Personal income tax
Recreation services			Company tax
Other private sector			Medicare Levy
Other NI Government ^a			
Dwellings			
Education			
Healthcare			
NI Government			
Aus Government			

^a Includes other areas of government activity/enterprise such as Cascade Cliff Rock, Museum(s), Tanalith Plant, Waste Management, Water Assurance, Broadcasting, Philatelic Bureau and the Tourist Bureau). ^b Note that fee for service type activities are excluded from 'Tax instruments and charges'. Fee for service activities are assumed to comprise company fees, crown lease rents and fees, immigration fees, pasture fees, planning application fees, and fines.

Source: CIE.

Underlying database

CGE models are extremely data intensive, and are underpinned by an input-output table of the economy being modelled. An input-output table quantifies the relationship/economic linkages between the various productive sectors of the economy and areas of final demand. It also specifies sectoral demand for the various factors of production (labour and capital), and identifies the various indirect and direct taxes and to whom that tax revenue flows. Essentially, the input-output table tells us what is produced, how it is produced, who buys it, and how it was paid for.

With a resident population of around 1700 people, Norfolk Island cannot justify the significant expense associated with developing an input-output table, nor devoting limited resources towards mining collected data/statistics to aid in a modelling exercise. This reality has meant that in some aspects, Norfolk Island is a data poor environment.

The input-output table underlying the Norfolk Island economic model has been put together using data from a wide range of sources, including:

- Norfolk Island GST Office
- Norfolk Island Customs
- Workers Compensation Fund
- Financial Statements for the various GBEs and Norfolk Island Government

- Norfolk Island Tourist Bureau
- Norfolk Island Social Services
- Norfolk Island Immigration
- Norfolk Island Administration
- private sector businesses (or business representatives)
- Norfolk Island 2014 Household Income and Expenditure Survey, and 2011 Census.

As could be expected when trying to align data from many disparate sources, it became clear during the construction of the input-output table that there appeared to be some data irregularities/inconsistencies.

This has implications for the economic modelling, as the accuracy of modelling exercises is highly dependent on the quality of the underlying database. Furthermore, and by definition, economic models are a simplification of reality and rely on numerous assumptions about economic parameters, behaviour and relationships. As such, the modelling results presented in later chapters should only be used to infer the outcome of extending mainland taxation and welfare systems etc to Norfolk Island (positive or negative) and the magnitude of such impacts (small or large). It would be inappropriate to, for example, report modelling results to the 2nd decimal point and claim that as the unambiguous impact of any taxation/welfare reforms. That is, only broad messages and trends should be taken from the modelling results.

An example of a data inconsistency — household expenditure

A key piece of required data for an economic model is household expenditure, that is, how much money are households spending on the various goods and services they consume. The 2014 Household Income and Expenditure Survey should be the obvious place for this data.

The 2014 HIES suggests that household expenditure totals \$906 per week (excluding some areas of expenditure, such as household furnishings, operation and maintenance; and medical, dental and optical expenses). With there being around 800 households, data from the 2014 HIES suggests that household expenditure accounts for \$2.33 million of the collected GST revenue in 2013-14.

The Norfolk Island Government General Revenue figures report that private sector expenditure is responsible for \$5.97 million in GST revenue, and as the GST is a tax on final demand, the \$5.97 million in GST revenue must be collected from household expenditure and on-island expenditure by tourists. It is estimated that tourist expenditure generates \$2.60 million in GST revenue. Hence household expenditure is estimated to generate \$3.37 million in GST revenue (given by \$5.97 million minus \$2.60 million).

However, from the 2014 HIES it is estimated that household expenditure generates \$2.33 million in GST revenue, well short of the required \$3.37 million. Indeed, for the GST figures to line up, it is estimated that household expenditure on GST liable goods and services needs to be around \$8.68 million greater than that reported in the 2014 HIES.

The baseline

The developed input-output table, and hence Norfolk Island model, is based on 2013-14 data.

To estimate the potential economic impacts of mainland taxation, welfare and other reforms, an appropriate counterfactual (the ‘baseline’) needs to be established for the Norfolk Island economy. The baseline represents the business-as-usual scenario — that is, what we can expect to happen in the absence of mainland reforms. It is against this baseline that the mainland taxation, welfare and various other economic reforms are simulated.

The baseline needs to encompass views about the future structure of the economy and include other (relevant) policy decisions, such as scheduled tax changes (or introduction of new taxes etc). In developing the baseline for the Norfolk Island economy, the following factors have been taken into account:

- tariff rate changes implemented during 2013-14
- changes to the Healthcare and Medivac levy implemented during 2013-14
- the introduction of a Municipal Rating system in 2014-15
- future tourist numbers and on-island expenditure
- the Norfolk Island Government budget deficit and expenditure on infrastructure, and Australian financial support
- business confidence.

The assumptions made under each of these areas is discussed below.

Tariff rate changes

On Norfolk, import duties differ across products and according to the purpose for which the product was imported. Imports for commercial use are duty free, whereas imports destined for use by households attract what can be a substantial tariff (depending on product).

Towards the end of the third quarter in 2013-14 the tariff on many household imports increased from 12 per cent to 18 per cent. While it is understood that there are no planned further tariff increases, the 18 per cent tariff is not fully reflected in the 2013-14 database (by virtue of it being higher for only the last 3 months of 2013-14). Hence going forward, there is a need to ensure that the database (and baseline) reflects the higher tariff rate on an annual basis.

Table 2.2 reports the change in tariffs on household imports used in the baseline.

2.2 Baseline tariff rate changes

Product category	Average import tariff 2013-14	Import tariff post 2013-14	Change in tariff
	Per cent	Per cent	Per cent
Building materials and supplies	13.2	18.0	36.5
Household appliances and furnishings	13.0	18.0	38.0
Consumer durables	13.7	18.0	31.4
Food and household supplies	12.4	15.4	24.6

Product category	Average import tariff 2013-14	Import tariff post 2013-14	Change in tariff
	Per cent	Per cent	Per cent
Tobacco and alcoholic beverages	62.3	62.3	0.0
Clothing and footwear	13.2	18.0	36.5
Motor vehicles	16.3	16.6	1.8
Rural and farming	12.9	18.0	39.7
Fuel	6.0	6.0	0.0
Miscellaneous	12.8	18.0	40.5

Source: Norfolk Island Customs and CIE analysis.

Changes to the Healthcare and Medivac Levy

As was the case with tariffs on household imports, the Healthcare and Medivac Levy was recently increased from (a total of) \$195 per quarter per person 18 years or older, to \$300.³ The recently increased Healthcare and Medivac Levy will not be reflected in the 2013-14 database, and hence needs to be included in the baseline. Table 2.3 shows the increase in household Healthcare and Medivac Levy costs factored into the baseline.

2.3 Baseline Healthcare and Medivac Levy changes

Component	2013-14	Post 2013-14	Change
	\$ raised	\$ raised	Per cent
Healthcare Levy	689 000	1 144 000	66.0
Medivac Levy	325 000	416 000	28.0
Total	1 014 000	1 560 000	53.8

Source: Norfolk Island Administration.

Municipal Rating scheme

The Norfolk Island Government has committed to implementing a Municipal Rating scheme in an attempt to raise more taxation revenue and to move the government's budget towards a more financially sustainable footing. Starting in year 2014-15, the Norfolk Island Government is intending to raise \$250 000 via Municipal Rates, with the amount raised increasing by \$250 000 per year until 2017-18 at which point \$1 million will be raised. Rates, presumably, will then be held constant thereafter. Table 2.4 shows the revenue raised from rates levied on residential and commercial properties and included in the baseline.

³ Note that if studying, people of age 18–25 are covered by the Healthcare and Medivac Levy but exempted from paying it. Singles/couples can also be exempted from paying the Levy based on income. Around 1300 people on Norfolk Island currently pay the Healthcare and Medivac Levy.

2.4 Municipal Rates built into the baseline

Municipal Rate revenue from	2014-15	2015-16	2016-17	2017-18 (and thereafter)
	\$	\$	\$	\$
Residential property	107 609	215 218	322 827	430 436
Commercial property	142 391	284 782	427 173	569 564
Total	250 000	500 000	750 000	1 000 000

Source: Norfolk Island Administration and CIE.

An issue concerns how will the additional \$1 million (in 2017-18 and thereafter) be used. The additional tax revenue could be used to fund an expansion in government service provision, or it could be used to reduce the budget deficit (and in so doing reduce reliance on financial support from the Australian Government). As the objective of the Municipal Rating scheme is to improve financial sustainability, as opposed to improved service provision, it is assumed that the revenue raised through rates acts to lower the required financial support from the Australian Government that would have otherwise been needed.

This issue of budget deficits is discussed further below.

Tourist numbers and on-island expenditure

The Norfolk Island economy is heavily dependent on tourism. During 2013-14 around 25 000 tourists visited Norfolk Island, spending an estimated \$24.3 million on-island (spanning accommodation, retail trade, cafes and restaurants, recreation services etc). The vast majority of these tourists arrived via air, and spent an average of 7 days on Norfolk Island. Cruise ships also, weather permitting, stop at Norfolk Island with passengers spending a day on-island.

The Norfolk Island Tourist Bureau believes that the number of tourists arriving via air will grow at 6 per cent over 2014-14 to 2016-17 (inclusive), before slowing to 3 per cent per annum thereafter. In comparison, the trend growth rate in tourist numbers (arriving via air) over the last 3 years has been 0.6 per cent per annum. It is estimated that each tourist arriving via air spends \$980 on-island.

With the current jetty and tender arrangements, cruise ships can only visit Norfolk Island under favourable weather conditions. Stakeholders suggest that there is only a 30 per cent chance that passengers of a visiting cruise ship will be able to disembark and spend a day on island. The calendar for cruise ship arrivals, combined with the 30 per cent probability of disembarkation, suggests that the number of cruise tourists visiting Norfolk Island will range between around 550–2200 between 2014-15 and 2019-20. Stakeholders suggest that each cruise passenger spends \$60 whilst on-island.

Table 2.5 reports tourist expenditure assumed in the baseline. Tourist arriving via air are held constant (at 32 186) in the years following 2019-20, which closely approximates the 25 year average of 30 846. Tourists arriving via cruise ship are held constant at 540, reflecting the 30 per cent probability of disembarkation and planned cruise arrivals in 2018-19 (the latest year for which data is available).

2.5 Tourist arrivals and on-island expenditure used in baseline

	Unit	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Tourists arriving via air	No.	26 215	27 788	29 455	30 339	31 249	32 186
Tourists arriving via cruise ship	No.	600	953	2 183	662	540	540
Air arrival on-island expenditure	\$ million	24.22	25.68	27.22	28.85	29.71	30.61
Cruise arrival on-island expenditure	\$ million	0.04	0.06	0.13	0.04	0.03	0.03
Total tourist on-island expenditure	\$ million	24.26	25.73	27.35	28.89	29.75	30.64

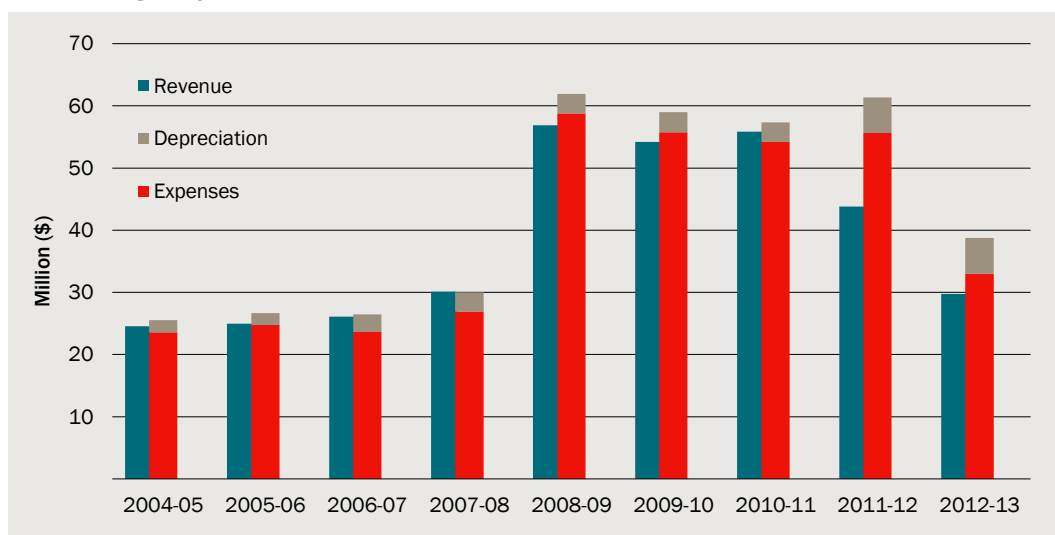
Source: Norfolk Island Tourist Bureau and CIE analysis.

Norfolk Island Government budget deficit and expenditure on infrastructure

Over the last decade or so the Norfolk Island Government and associated GBEs have been running a sizable budgetary deficit. As can be seen from chart 2.6, until recently the budget fluctuated between a deficit of \$1.9 million to a surplus of \$3.2 million when measured on a cash flow basis (revenue minus operating expenses). Over the period 2004-05 to 2010-11 the cash flow budget was \$5.1 million in surplus. In 2011-12 and 2012-13 the cash flow budget deteriorated significantly (combined cash flow deficit of \$15.1 million).

However, when depreciation and amortisation is taken into account, Norfolk Island records budgetary deficits in every year except 2007-08. Over 2004-05 to 2012-13 the budget is in deficit by some \$40.9 million.

2.6 Budgetary position of Norfolk Island Government



Note: In 2008-09 the Norfolk Island Government changed the way its financial accounts were presented. Prior to 2008-09, the accounts reported the revenue and expenses of just the Norfolk Island Administration. In 2008-09 (and thereafter) the accounts reported the revenue and expenses of the Administration and the various GBEs.

Source: Norfolk Island Administration.

For the last several years the Australian Government has been subsidising Norfolk Island. Between 2009-10 and 2013-14, the Commonwealth provided around \$28 million to the Norfolk Island Government. These transfers were (ballpark) sufficient to get the cash flow budget back into surplus. In 2014-15 the Commonwealth has allowed for

transfers to the Norfolk Island Government of up to, depending on certain milestones being achieved, \$7.5 million.

In terms of developing the baseline, of issue is whether the Australian Government is going to step in and continually fund Norfolk Island to ensure its cash flow budget is balanced. Ultimately, this is a decision for the Australian Government of the day. However, for the purpose of the baseline, it has been assumed that Australian funding moves to meet Norfolk Island budget deficits, with any additional taxation revenue raised by Norfolk (such as by the Municipal Rating scheme) acting to offset/lower the Australian funding. This baseline assumption embodies the idea that the Australian Government wants the Norfolk Island Government to be more financially sustainable.

The continued poor budgetary position has meant necessary expenditure to replenish depreciated assets and to expand the stock of infrastructure has not taken place. Indeed, the most recent Infrastructure Strategy and Capital Management Plan has identified infrastructure/capital expenditure of \$77 million being required over a 10 year period. The inability of the Norfolk Government (and tax base) to meet this necessary expenditure is not only impacting adversely on the quality of service provision (such as electricity supply and telecommunications), but also on private sector activity and development.

A case in point is the Cascade jetty. The Australian Government has committed \$13 million to improve the ability of the jetty to take containerised freight (which would substantially lower freight costs) and to facilitate cruise passenger arrivals. On this latter point, stakeholders suggest that the improved jetty, Norfolk Island owned tender crane and 4 tenders (\$1 million for the crane and \$4 million for the tenders; a co-funding condition of the \$13 million) could raise the probability of cruise passenger disembarkation from 30 to 70 per cent. Over the course of 2014-15 to 2019-20 this could see a 133 per cent increase in the number of cruise passengers visiting Norfolk Island, equivalent to over \$0.4 million being injected into the economy. This estimate is based on the current cruise ship arrival calendar. However, with an improved prospect of disembarkation, it is believed that more cruise ships would schedule a stopover at Norfolk Island, which would further increase the tourism benefits to Norfolk.

While there is no need for the Norfolk Island Government to own and operate the 4 tenders, it is believed that this is the government's preferred position. It is not immediately clear if the government (or underlying tax base) have the ability to fund the tender purchase, especially given the other funding requirements identified in the Infrastructure Strategy and Capital Management Plan, and given the fact that the government is already running a deficit of over \$9.3 million (including depreciation) in 2012-13.

The infrastructure funding requirements of the Norfolk Island Government raises the question of whether the Australian Government will step in and meet some of the infrastructure related funding needs. Once again, this is a decision for the Australian Government of the day. However, should the Australian Government decide to meet some of Norfolk Island's infrastructure costs, the challenge of building in a remote location etc will likely mean infrastructure improvements such as the Cascade jetty upgrade will not be operational for several years at best.

Infrastructure upgrades are therefore excluded from the baseline on the basis of:

- a question around the capacity of Norfolk Island to fund the upgrades itself
- if the Australian Government increased funding for Norfolk Island, it would likely be several years before expenditure took place and the improved infrastructure were operational.

The unfunded depreciation and non-funding of required infrastructure upgrades means there is a growing prospect of infrastructure failure and service collapse going forward (but any such events are excluded from the baseline).

Business confidence

The issue of whether or not to extend mainland taxation, welfare and microeconomic reforms to Norfolk Island has been under consideration for almost a decade. Faced with such uncertainty, private sector stakeholders have suggested that businesses are reluctant to make investments, and that the lack of certainty is contributing to the economic decline reported in chapter 1.

It could therefore be expected that whatever decision is made, this will provide businesses with sufficient certainty on the taxation regime that will apply for them to pursue investment opportunities should the business case exist. The important aspect here is that a final decision is made as soon as possible.

For the baseline, it is assumed that a final decision **not** to extend mainland taxation, welfare and other economic reforms to Norfolk Island is made in 2014-15. Furthermore, it is also assumed that the announced decision provides sufficient confidence to businesses to allow them to move on, which acts to arrest the recent decline in economic activity (note that the baseline increase in tourist numbers will also help to arrest the observed decline in economic activity).

3 *The reform scenarios modelled*

Extending mainland taxation, welfare and other economic reforms to Norfolk Island could see a large number of different reforms being rolled out across Norfolk. This arises as ‘mainland taxation’, for example, comprises personal income taxation, the Medicare Levy, company taxation, a different Goods and Services Tax, differing import duties and so on. And as mainland taxes are extended, it could be expected that some (now duplicated) taxes on Norfolk Island would be removed. For example, it would stand to reason that if the Medicare Levy were extended to Norfolk Island, then Norfolk’s own Healthcare and Medivac Levy would be removed.

The multitude of possible tax, welfare, and other reforms gives rise to the potential for a large number of modelling results, which can be unwieldy. The approach taken to the modelling has been to identify a core set of reforms, and then to incrementally add to this core reform set other reforms under consideration. This ‘building block’ approach also allows the impact of individual reforms to be identified. The tax and welfare related modelling scenarios conducted are further detailed below. The other economic reforms modelled are detailed in the next chapter.

Note that some of the reforms extended to Norfolk Island will in part depend on the governance model adopted. For example, if Norfolk Island retains responsibility for healthcare and education, then removing Norfolk’s Good and Services Tax (in absence of greater Commonwealth funding) is unlikely to be an option as Norfolk would need the revenue from its GST to fund its health and education services. In practice, the tax, welfare and other reforms extended to Norfolk will need to be determined in conjunction with the chosen governance model. This report does not investigate the appropriate governance model for Norfolk Island; instead, it reports only the economic impact of extending various mainland reforms to Norfolk Island. The reforms modelled should not be used to infer anything about the governance model being considered by the Commonwealth.

The Core Reform set

At the core of Australia’s reforms is inclusion of Norfolk Island in the mainland’s welfare and Medicare systems. However, participation in mainland welfare and Medicare would also necessitate participation in the mainland (personal and company) income taxation system.

The Core Reform set would see personal income and company tax being levied, and raised revenue flowing to the mainland. In return, the cost of welfare payments on Norfolk Island would be met by the mainland (with mainland welfare qualifying conditions applying), with Norfolk Islanders also being able to access unemployment benefits and the Family Tax Benefit. Medicare would necessitate a higher rate of income

taxation, offset by current medical related costs experienced by Norfolk Islanders being largely transferred to the Commonwealth.

Company and personal income taxation

The current Norfolk Island Government system of taxation does not include tax on personal income, nor on company profits.

A significant element of the Commonwealth taxation system is a progressive income tax, with increasing marginal tax rates across income brackets. Company taxation is currently set at a flat 30 per cent, with recipients of distributed dividends being able to avail of franking credits (which act to avoid double taxation of distributed company earnings). The extension of the Australian Commonwealth taxation regime to Norfolk Island could be expected to see a decrease in disposable household income, and hence lower household consumption on Island.

Company taxation

When an Australian company earns a (taxable) profit, the company will pay corporate tax on the profit at the rate of 30 per cent. The company may then decide to pay the profit to its shareholders in the form of a dividend.

Australia's dividend imputation systems allows investors who receive a dividend to take a personal tax credit (franking credit), since the company has already paid tax (at the rate of 30 per cent) on the dividend.

For example, if a company made a taxable profit of \$1000, then the company would pay \$300 in company tax, and \$700 would be available to distribute to shareholders as a dividend. Shareholders receive \$1000 from the company, comprising the \$700 dividend and \$300 in franking credits (for tax already paid on the profits). The returns from the company are included in the individual's assessable income, to be taxed at the individual's marginal rate of personal taxation. In this example, a total of \$1000 will be included in the individual's assessable income. The individual's taxation will be calculated on their total assessable income (from all sources), and then reduced by the amount of franking credits, as table 3.1 below shows. The imputation system was introduced to avoid double taxation of distributed company profits.

3.1 Company profits and individual taxation

Individual's tax liability	Amount
	\$
Wage and salary income	50 000
Dividend received from share ownership	700
Franking credit received	300
Total taxable income	51 000
Tax payable	8 302
Less franking credit(s)	(300)
Net tax payable by individual	8 002

Source: CIE.

With nearly all businesses on Norfolk Island owned by island residents, and assuming full distribution of (any) profits, then given the presence of franking credits under Australia's taxation system, for all intents and purposes the taxation of company profits can be rolled into the treatment of personal taxation (see below).

Personal income taxation

Australia's progressive personal income taxation system sees those on higher incomes paying more tax in absolute terms and as a share of their income. Table 3.2 shows Australian personal income tax brackets and rates for the year 2014-15.

3.2 Australian individual income tax rates 2014-15

Annual taxable income	Tax paid
Dollars	Dollars
0–18 200	Nil
18 201–37 000	19c for each \$1 over 18 200
37 001–80 000	3 752 plus 32.5c for each \$1 over 37 000
80 001–180 000	17 457 plus 37c for each \$1 over 80 000
180 001 and over	54 547 plus 45c for each \$1 over 180 000

Source: Australian Taxation Office.

The reported individual income tax rates exclude the Medicare Levy, which is 2 per cent of taxable income. Additionally, the tax rates reported in table 3.2 exclude the Temporary Budget Repair Levy, which is a 2 per cent levy applied to individuals with income over \$180 000. The Temporary Budget Repair Levy is scheduled to run until 2016-17 (inclusive).

To quantify the effect of the move to personal income taxation, we have sought to calculate the average amount of tax that would be paid per (working) Norfolk Islander. This is based on data on the distribution of incomes in Norfolk Island (obtained from the 2014 Household Income and Expenditure Survey) and the marginal tax rates that would apply to different people.

Data from the Norfolk Island 2014 Household Income and Expenditure Survey (HIES) indicates the distribution of income among the population.⁴ The HIES separately indicates the distribution of the following types of income:

- wage and salary income
- business and farm income
- workers compensation income

⁴ An alternative source of data is the Norfolk Island 2011 Census. We have not used the Census data because it is several years older than the HIES, and also because the census unit record was not available for analysis. Without the unit record it is not possible to determine the distribution of income accurately, in particularly relating to the coincidence of difference types of income. That is, do people with high wage and salary income generally have higher or lower business and other income?

- other income (including interest, dividends, rent, royalties, profit from sale, pension, endowments, superannuation, gratuities, gifts, etc.)

We have treated total personal taxable income as being the sum of all of these sources of income.

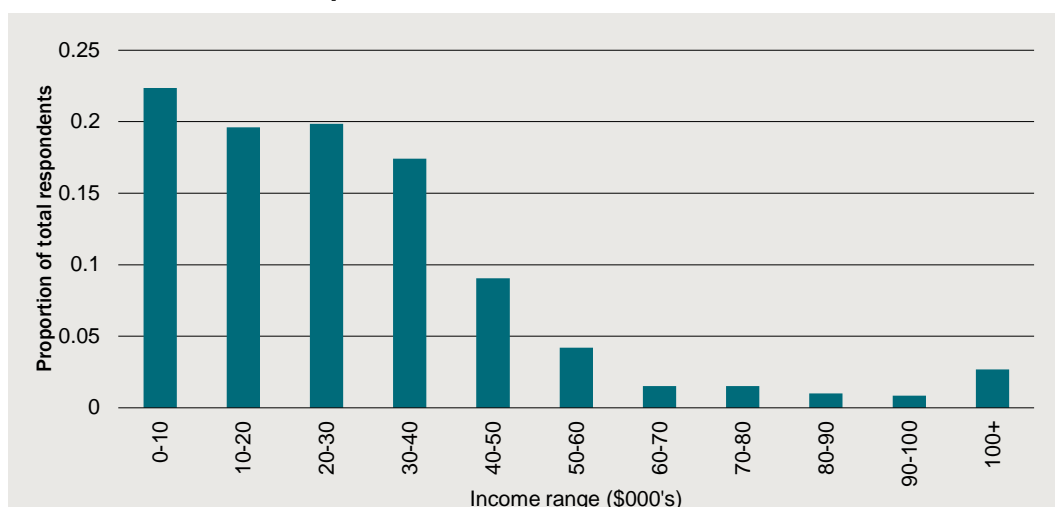
The HIES indicates the distribution of different types of income among the population. Income is reported in the survey in two forms:

- weekly income
- annual income.

We have sought to include respondents who indicated income in either form. Gross weekly income has been converted into an annual salary by assuming 48 working weeks per year.

The income distribution is presented in chart 3.3. This distribution is much more concentrated in the low-income range than the distribution of mainland incomes. The median individual has an annual income in the range of \$20 000–\$30 000. The average annual income is \$29 068.

3.3 Distribution of total personal income on Norfolk Island



Source: Norfolk Island 2014 HIES and CIE analysis.

The distribution of income among Norfolk Island residents has a substantially lower average than the distribution of mainland incomes. This has implications for taxation, because it means the rate of taxation faced by the median Norfolk Islander will be much lower than for the median mainland person. A significant proportion of Norfolk Islanders will have income below the tax-free threshold of \$18 200, and in general, most will face a lower average tax rate than mainland Australians because of lower incomes.

Having established the distribution of income on Norfolk Island, it is possible to identify the personal income tax that would be received from income-earners based on the tax rates applied under the Commonwealth income tax system.

We have calculated the anticipated tax receipts of every respondent to the Household Income and Expenditure survey. This includes the following taxes:

- personal income tax
- budget repair levy

Estimating anticipated tax receipts allows us to determine the average rate of taxation under the Commonwealth personal income tax system. This average rate can be determined in two ways, each of which has particular advantages.

Average tax rate calculation method 1

Firstly, we can take the simple average of tax rates each individual faces. That is, we determine the rate of taxation for each individual, which is:

$$\text{Individual tax rate} = \frac{\text{Tax paid}}{\text{Personal income}}$$

Then the average tax rate across all individuals is given as follows:

$$\text{Average tax rate} = \frac{\sum \text{Individual tax rates}}{\text{Number of taxpayers}}$$

This (simple) average tax rate, if applied to all taxpayers, would raise a lower level of taxation than the actual tax raised using the marginal tax rate system.

To illustrate this, consider two individuals, one with an income of \$10 000, and the other with \$100 000 in income. A marginal tax rate regime might charge the low income individual a tax rate of 0 per cent, yet charge the high income individual 20 per cent. This would collect \$20 000 in taxation. However, taking the average individual tax rate of 10 per cent (a simple average of the 0 per cent and 20 per cent rates), and applying it to each individuals' income would lead to only \$11 000 in tax receipts.

This scenario illustrates that using this method leads to an underestimation in the total amount of tax collected by a progressive taxation regime.

This calculation method estimates an average tax rate of 7.12 per cent. We do not believe this rate of taxation is suitable for use in the economic modelling because it underestimates total tax receipts and therefore leads to an overestimation of disposable income given particular wages.

Average tax rate calculation method 2

Alternatively, what is effectively a weighted average tax rate across all individuals could be calculated and used. This is determined by the following equation:

$$\text{Average tax rate} = \frac{\text{Total tax receipts}}{\text{Total income}}$$

This rate effectively weights the tax rates faced by individuals with more income more highly. This method identifies a rate of taxation that, if imposed to all individuals in the Norfolk Island economy, would lead to the correct total tax receipts. However, it overstates the rate of taxation paid by an individual with average or median income, given that higher weighting has been applied to the tax rates of high income individuals.

This method of calculation is deemed to be more appropriate as an input into the CGE model used for our analysis. It will accurately estimate the leakage from the local economy as a result of personal income tax, and lead to the correct amount of total disposable income among all households.

This calculation method produces an average tax rate of 13.55 per cent, which we deem to be a more accurate measure than that generated by method 1.

Welfare

The Commonwealth pension system is anticipated to provide payments to a larger base of Norfolk Islanders, with certain payments (such as Newstart) having no local equivalent or being rarely paid.

Table 3.4 summarises additional household income due to the transition to the Commonwealth welfare system. Note that these payments are in addition to welfare payments already received by Norfolk Islanders (and which would be taken over/funded by the Commonwealth).

The main data sources used to estimate these impacts are the Household Income and Expenditure Survey 2014, the Norfolk Island Census 2011 and estimates of the number of payment recipients supplied by the Department of Social Services.

3.4 Additional payments under Commonwealth welfare system

Payment	Eligible recipients of Commonwealth payment (before income testing)	Net income increase
	No.	\$000
Age Pension	326	883
Family Tax Benefit A	244	1 716
Family Tax Benefit B	99	329
Disability Support Pension	75	979
Newstart allowance	55	520
Other payments	88	457
Total		4 883

Note: Some individuals may receive multiple payments, however here each payment is allocated to one individual.

Source: Household Income and Expenditure Survey 2014, Norfolk Island Census 2011, Department of Social Services customer estimates and CIE analysis.

Below we have discussed the method used to estimate these net effects on income for major payment categories.

Age Pension

The Commonwealth and Norfolk Island pension have different eligibility rules and payment rates.

Some residents of Norfolk Island may already receive the Australian age pension for any of the following reasons:

- they are residing on the mainland of Australia for a part of the year
- they are eligible for Veteran's benefits
- they were a resident of mainland Australia and qualified for the pension when they applied for it, yet have since moved to Norfolk Island permanently.

These circumstances may create a situation where an individual is eligible for both the Commonwealth and the Norfolk Island pension. The Norfolk Island Administration does not allow people to receive both pensions, however recipients are not formally audited, with enforcement of the requirement being done by an honour-based system of self-reporting.

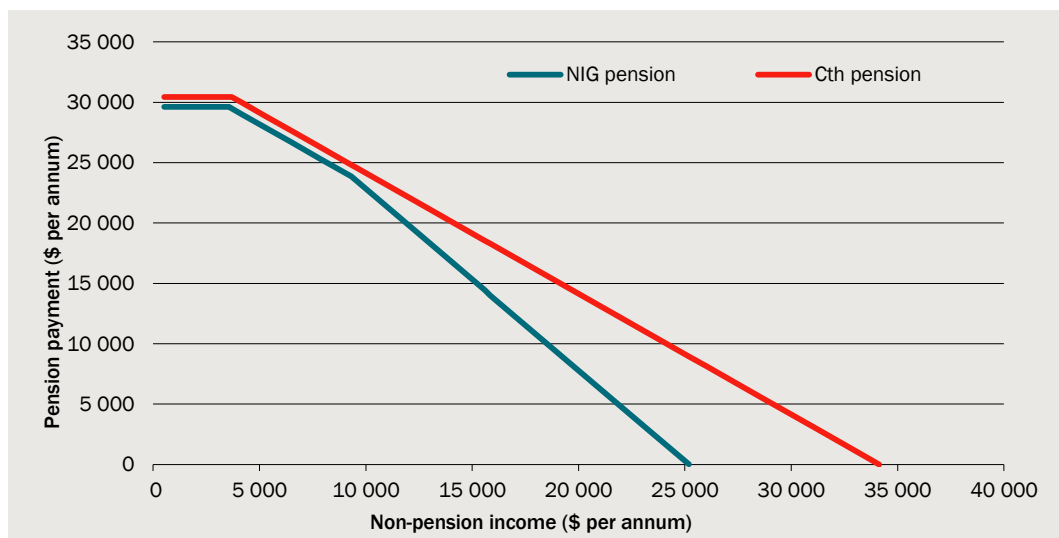
The effect on households of replacing the Norfolk Island age pension with the Commonwealth age pension is ambiguous, given that there are two counter-acting effects.

- Fewer people are eligible to receive the Commonwealth pension because the age requirement is 65, rather than 65 for men and 60 for women under the Norfolk Island pension.
- The amount of the aged pension payment is higher under the Commonwealth welfare system.

Therefore, the net effect of the change to the Commonwealth system on total household income will depend on firstly, the number of women in the 60–65 age range, and, secondly, the amount of people overall who receive the pension.

Chart 3.8 shows the difference between payment amounts under the Norfolk Island and Commonwealth pensions. It illustrates that the Commonwealth pension amount is higher, both in the sense that the average payment is higher and that a recipient may have a higher annual income (slightly more than \$34 000) before they no longer receive a pension payment due to the income test.

3.5 Comparison of payments under Commonwealth and Norfolk Island pensions



Source: Norfolk Island, Department of Social Services and CIE analysis.

Payments made under the Commonwealth's Age Pension are subject to an asset test, with payment received being reduced if the recipients assets exceed a certain threshold. We have not been able to estimate the effect of asset testing on pension payments, as the bulk of the data used for analysis of welfare and taxation has been from the 2014 Household Income and Expenditure Survey, which does not collect data on assets.

The net effect of shifting from the Norfolk Island Age Pension to the Commonwealth Age Pension is an increase in household income of \$883 488. This increase is accounted for by the following:

- the maximum rate of payment of the Commonwealth Age Pension is higher and for a given level of income, a recipient receives a greater amount of the pension after the income test is applied
- the number of recipients has increased to 237.

Our assumptions about the number of recipients of the Commonwealth and Norfolk Island pensions are shown in table 3.6. Below this is an explanation of why the number of age pension/benefit recipients has increased.

3.6 Number of pension recipients

Type of pension	With or without reforms?	Number of recipients
Commonwealth Age pension	Without	<20
Norfolk Island Age Benefit	Without	116
Commonwealth Age pension	With	237

Source: DSS customer numbers and estimates of customer numbers with reforms, Norfolk Island Administration and CIE analysis.

There are 382 people in the HIES dataset who meet the age requirements for the Norfolk Island Age Benefit. According to the same dataset 326 of these people are eligible for the Commonwealth Age Pension. However, only 116 people on Norfolk Island receive the Norfolk pension. If the Commonwealth pension system replaces the Age Benefit system on Norfolk Island then there are three possible outcomes:

- 1 roughly the same number of people receiving the Norfolk Island Age Benefit start receiving the Commonwealth Age pension
- 2 all people eligible for the Commonwealth Age Pension receive it
- 3 some proportion of people who are not currently receiving the Norfolk Island Age benefit start receiving the Commonwealth Age Pension and all those people currently receiving the benefit receive the Commonwealth pension.

The eventual outcome in terms of the number of Commonwealth pension recipients on Norfolk Island will depend on the reason why only 116 people receive the Norfolk Island Age Benefit despite there being 382 people eligible for it (in terms of the age requirement). The number of recipients is lower than 382 for the following potential reasons:

- the income test means that the individual receives no benefit
- the individual is working and thus does not feel the need to seek the age benefit (despite not earning enough to result in the income test reducing their payment amount to \$0)

- the individual is opposed to receiving welfare from the government
- some individuals already receive the Commonwealth pension.

It is unclear whether these reasons will persist for the Commonwealth Age Pension, and not just the Norfolk Island Age Pension. It is likely that individuals will have less opposition to receiving welfare from the Commonwealth Government than from the Norfolk Island Government.

Additionally, the number of people who currently receive the Commonwealth pension (less than 20 according to Department of Social Services data shown in table 3.6), is small. These people are, for our purposes, unaffected by the pension reforms because they are already eligible for the Commonwealth pension.

In the absence of a reliable explanation for the low take-up rate of the Norfolk Island Age Pension (considering the number of people eligible), we have conservatively assumed that the amount of recipients is somewhere between 116 and the total amount eligible (326). The most useful estimate of the actual amount is the estimate from the Department of Social Services of 237 recipients. Therefore, we assume that there will be 237 recipients of the Commonwealth Age pension on Norfolk Island.

The increase in total pension/age benefit payments of \$883 488 is mainly due to the increase in recipients to 237.

Family Tax Benefits

Family Tax Benefit payments are provided to help with the cost of raising children, and require that a family have a dependent child (or children) who is cared for at least 35 per cent of the time. Children applicable under this payment must be under 20 and if over 15 be undertaking secondary education.

There are two categories of family tax benefit payments:

- Family Tax Benefit A (FTB A) — applies to eligible families with children
- Family Tax Benefit B (FTB B) — applies to single parents (or families with one main income)

Eligibility for Family Tax Benefit A also includes an Energy Supplement. Both payments have an additional annual supplement payable upon lodgement of a tax return.

The Household Income and Expenditure Survey 2014 includes children 15 years old and over in the sample. This makes it unsuitable to determine a total Family Tax Benefit payment amount, as children younger than 15 are missed. Therefore, we have only used the HIES data to estimate the rate of payment after income testing and based on household composition (since the rate of payment of FTB A and B is dependent on these factors), and then extrapolated these results to include children aged 0–14.

We have estimated the number of children aged 0–14 using data from the Norfolk Island Census 2011. This data is used only as an estimate because it is several years out of date.

HIES includes 50 children aged 15 and over in the sample. We calculate the total amount of Family Tax Benefit A owing to the families of these children, which is equal to

\$278 750 per annum. This amount takes into account income testing and other modifiers to the payment amount of the Family Tax Benefit A. This amount, therefore, corresponds to a payment per child of \$5575.

The 2011 Census indicates that the Norfolk Island population includes 354 children aged 0–14. The payment per child for the families with these children is expected to be lower than the \$5575 amount estimated for children older than 15 in the HIES. We have estimate a payment rate of \$4059 per child for the 354 additional children based on the following factors:

- children aged 0–12 correspond to a lower payment rate per fortnight of \$176.82 (compared to \$230.02 for children aged 13–19 who are eligible)
- additional children beyond the first 50 (covered by the HIES) will be more likely to have reduced payments because of the effects of income testing. Income testing can include a decrease in payments associated with having additional children beyond the first.

It is straightforward to determine the effects of the first factor. The lower payment rate for younger children (77 per cent of the maximum rate for older children) implies that the payment per child will be 77 per cent of the maximum payment rate for older children. This amount is \$5411 per annum.

However, the second effect, that of income testing, is harder to estimate. We can firstly establish that the families of 50 per cent of the children included in the HIES had family income below to \$51 051 threshold, below which payments are not subject to income testing. Therefore the families of 50 per cent of the 354 children aged between 0–14 are assumed to be unaffected by income testing (and therefore receive \$5411 per child per annum).

However, we have assumed that the families of the other 50 per cent of children, which have family incomes above \$51 051, will receive on average half the amount they would receive if their income was below the income testing threshold. This amount is \$2706 per child.

Therefore the total amount of FTB A paid is the sum of the following components:

- \$328 648 paid to families of children 15 years old and over
- \$957 867 paid to families of children 14 years old and younger with family income less than \$51 051
- \$478 934 paid to families of children 14 years old and younger with family income greater than \$51 051

This yields a total payment amount of \$1 715 551 for Family Tax Benefit A.

Estimating the total payment of Family Tax Benefit B is simpler. We use the DSS estimate of 99 recipients of the payment together with an estimate of the average payment amount (given the size of the family, age of the youngest child etc.) to determine a total payment of \$328 648. There are two payment rates for Family Tax Benefit B:

- \$150.36 per week — where the youngest child is below 5 years of age

- \$105 per week — where the youngest child is between 5 and 18 years of age.

We have taken the simple average of these payment rates to determine the average rate of payment under Family Tax Benefit B.

Disability Support Pension

The most appropriate estimate of the number of recipients of the Disability Support Pension (DSP) is sourced from the Department of Social Services (DSS). An alternative data source is the Census, however, the number of people who report a disability in the census does not necessarily correspond to the number of people who are assessed to meet the eligibility requirements for the DSP.

Therefore, the estimate from DSS of 75 recipients is used. The fortnightly payment rates for the DSP are \$766 for single people and \$577.40 per person for couples. However, the disability support pension is income tested. If payments were unaffected by the income test, then Norfolk Islanders would be collectively eligible for \$1 305 205 in DSP payments. But this full amount would only be paid out if all recipients had incomes sufficiently low such as to be unaffected by the income test.

We necessarily assume a certain downscaling factor to be applied to the total amount of collective eligibility to determine the actual amount paid. In general, the downscaling factor would be as follows:

$$\text{Downscaling factor} = \frac{\text{Total amount actually paid after income testing}}{\text{Total amount population is eligible for}}$$

The total amount the population is eligible for is simply:

$$\begin{aligned} \text{Total amount population is eligible for} \\ = \text{Number of recipients} \times \text{Maximum payment rate} \end{aligned}$$

This downscaling factor is equal to 74 per cent under the current Norfolk Island welfare system.⁵

Use of downscaling factor is necessary because there is no data available that indicates the distribution of income among people who are eligible for these payments. That is, we do not know what the incomes are of each person who is eligible for the DSP. If we knew this, we could calculate the payment rate for each person based on their income, and then the total amount paid would be the sum of each person income level.

We have estimated this factor to equal to 75 per cent for the Disability Support Pension. A higher amount would be justified if fewer people would have their payments reduced

⁵ To illustrate, the amount of total eligibility for the age benefit is determined by taking the total number of recipients of various payments (for example, 116 people receive the Age Pension), multiplying that by the maximum payment rate (\$682.40 for singles and \$569.40 per person for couples). Then the downscaling factor is found by dividing the actual amount paid (known to be \$1.6 million across all payments for Norfolk Island) by the amount they are eligible for (estimated to be \$2.2 million across all payments). This yields a factor of 74 per cent.

because of their income level, whereas a lower level would be justified if more people would have their payments reduced because of their income level.

Newstart Allowance

Norfolk Island does not currently have/provide unemployment benefits, with unemployed persons often needing to leave the Island in search of work elsewhere. Hence there is little data available that could indicate the magnitude of impact to household income as a result of introducing an unemployment benefit.

We know that the Workers' Compensation Levy raised \$390 313 in revenue in 2013-14, at \$0.30 per hour. Hence in 2013-14 some 1 301 042 hours must have been worked, equivalent to around 713 full time equivalent years of employment. With a potential workforce of around 1300 people, the maximum number of unemployed persons would have been in the vicinity of 587 people, if all work was shared amongst the same 713 people. Alternatively, if work was shared equally across the entire workforce, then each person would have had paid employment for 55 per cent of the week, which would exclude the person from the Newstart Allowance (as they are employed). Hence the only available data suggests the number of unemployed would range somewhere between zero and nearly 600 people.

Based on mainland unemployment rates, it is estimated that 55 people on Norfolk Island would receive the Newstart Allowance.

The fortnightly payment rates for the Newstart Allowance are \$510.50 for single people and \$460.90 per person for couples. Given the total amount of recipients is 55 and the payments are given, we estimate that Norfolk Islanders are collectively eligible for \$693 662 in Newstart payments per annum.

However, given income testing and the potential that individuals do not quickly respond to unemployment and claim payments they are eligible for, we assume a downscaling factor of 75 per cent. That is, only 75 of the total amount for which Norfolk Islanders are eligible for is paid out.

Therefore, we estimate that the Newstart Allowance increases the income of the Norfolk Island population by \$520 246 per annum.

Other payments

We apply particular downscaling factors to different payments based on certain beliefs about the characteristics of recipients of those payments. In the absence of particular beliefs about recipients of the payment, we have used 75 per cent, which is approximately equal to the downscaling factor implied by the Norfolk Island social benefit system. The downscaling factors we use are:

- Youth Allowance — 25 per cent
 - This is a low factor due to the assumption that it is common for young people on Norfolk Island to be earning an income that would lead to them having their Youth Allowance being income tested
- Mobility Allowance — 100 per cent

- There is no income test to receive the mobility allowance
- Carer allowance — 75 per cent
- Carer payment — 75 per cent.

These payments are estimated to be less significant in magnitude than the other payments discussed above. Table 3.7 summarises our estimates of the total amount paid for each.

3.7 Summary of other welfare payments

Payment	Number eligible	Downscaling factor	Total amount paid
		Per cent	\$000's
Youth allowance	14	25	21
Mobility allowance	4	100	9
Carer allowance	49	75	113
Carer payment	21	75	314

Note: All estimates of the number of eligible recipients are sourced from DSS.

Source: Department of Social Services customer estimates for Norfolk Island and CIE analysis.

Medicare

The Australian Medicare Levy is set at 2 per cent of an individual's taxable income. Participating in Medicare would see the Norfolk Island Healthcare Levy (\$880 per person 18 years and older) and Medivac Levy (\$320 per person 18 years and older) being made redundant.⁶ It is also assumed that the Australian Government meets the costs of the Norfolk Island Hospital and, potentially through a funding arrangement with an external provider, meets the expense of Medivac services (costing \$543 498 in 2013-14).

The Norfolk Island Government incurred wage costs of just over \$46 000 in 2013-14 in administering its Healthcare Levy. With the Healthcare Levy being made redundant under Medicare, it is assumed that the Commonwealth picks up this wage cost, with that person now undertaking Medicare related tasks (of equal wage cost).

Commonwealth responsibilities

If Norfolk Island does enter into the Commonwealth tax and welfare system, it stands to reason that the Commonwealth will also assume responsibility for the Commonwealth level responsibilities of immigration and quarantine. In 2013-14 the Norfolk Island Government spent nearly \$214 000 on wages in carrying out its immigration and quarantine responsibilities.⁷

⁶ Note that there are income tests associated with the Australian Medicare Levy. For example, if a person's annual taxable income is less than \$20 542, then that person is exempt from paying the Medicare Levy. When the income tests and income of Norfolk Islanders are taken into account, the average Medicare Levy that would be paid is estimated to be 1.69 per cent. It is this average Medicare Levy that is used in the modelling simulation.

⁷ The full cost of carrying out Norfolk Island's immigration and quarantine responsibilities will likely have been higher once other operating costs (accommodation, capital upkeep,

While, strictly speaking, not a tax or welfare related reform, it is assumed that the Commonwealth takes over (pays for) Norfolk Island's immigration and quarantine responsibilities as part of Norfolk's participation in the Commonwealth taxation and welfare system.

Other tax related reforms

The following tax related reforms have also been considered:

- imposition of, or replacing Norfolk Island taxes/levies with, mainland taxes
 - Superannuation Guarantee
 - Goods and Services Tax
 - import duties
 - Fuel excise
- removing Norfolk Island taxes
 - GST, import duties and fuel excise removed and not replaced with mainland taxes.

Details of the scenario simulated under each of these other tax related reforms is provided below.

Superannuation

Under this reform the Australian superannuation system is extended to Norfolk Island. But unlike the core reforms which, due to the interrelationships of the systems, need to be introduced in an 'all or nothing' approach, superannuation is phased in on Norfolk, starting at 3 per cent in 2016-17 before reaching 9.5 per cent of wages in 2020-21.

The compulsory superannuation contribution rate is assumed to increase gradually under a phased introduction of the scheme, as shown in table 3.8.

3.8 Introduction of superannuation on Norfolk Island

	2016-17	2017-18	2018-19	2019-20	2020-21
	Per cent	Per cent	Per cent	Per cent	Per cent
Superannuation guarantee	3.0	5.0	7.0	9.0	9.5

Source: CIE.

Note that some (government and related) sectors on Norfolk Island already implement a superannuation type scheme, hence the imposition of the Australian superannuation system on Norfolk will not necessarily equate to an equivalent increase in net labour costs for all sectors. For example, it is estimated that the Norfolk Island Government and GBEs already make superannuation contributions equivalent to around 5.5 per cent of wages. The move to 9.5 per cent superannuation will have less of an impact on the total wage bill for these sectors than say the private sector, which currently does not pay superannuation.

depreciation etc) are taken into account. However, these later costs were not known. The cost of immigration and quarantine responsibilities met by the Commonwealth is therefore limited to the associated wage bill.

The impact on sectors' wage bill, is not, however, straightforward. There are two extreme outcomes, namely:

- the total wage bill rises by (up to) 9.5 per cent — superannuation payments are made with no change in wages paid to employees
- there is no change in the total wage bill — superannuation payments are made but wages paid to employees are lowered so that there is no net financial impost on the employer.

Which of the above prevails depends in part on the magnitude of the superannuation impost, the approach taken to wage negotiations, the competition for labour, and sector of the economy (private versus public).

It is hard to perceive of a situation where a sector could accommodate an (up to) 9.5 per cent increase in wage bill, even the more so when the state of the Norfolk Island economy is taken into account. The question then turns to what bargaining power employees have to avoid losing (up to) 9.5 per cent of their income in forced savings. The introduction of the Newstart Allowance strengthens labour's negotiating position, as employees have a fall back position if they are not willing to accept a superannuation induced reduction in their income.

However, 'getting by' on Newstart is not considered to overly strengthen the negotiating position of labour, and it is therefore likely that employers on Norfolk Island have superior bargaining power. The negotiating position of employers is strengthened by the fact that there are few employers on Norfolk Island, and thus workers do not have many alternative options to their current employer. Furthermore, the latest business survey suggests that some firms are already struggling to make a profit, and therefore may not be able to bear the costs of superannuation without decreasing the size of their workforce.

The assumption is made that half of the superannuation impost will be reflected in a higher wage bill (and hence born by employers), and half in lower wages (hence born by employees). Table 3.9 reports the change in wage bill and income received used in simulating the extension of the Australian superannuation system to Norfolk Island.

3.9 Impact of superannuation on wage bill and wages received

Sector	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Private						
Wage bill	0.00	1.50	2.50	3.50	4.50	4.75
Wages received	0.00	-1.50	-2.50	-3.50	-4.50	-4.75
Total wage impact	0.00	3.00	5.00	7.00	9.00	9.50
Public						
Wage bill	0.00	0.00	0.075	0.775	1.68	1.92
Wages received	0.00	0.00	-0.075	-0.775	-1.68	-1.92
Total wage impact	0.00	0.00	0.15	1.55	3.36	3.83

Sector	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Education						
Wage bill	0.00	0.00	0.00	0.00	0.325	0.56
Wages received	0.00	0.00	0.00	0.00	-0.325	-0.56
Total wage impact	0.00	0.00	0.00	0.00	0.65	1.11
Health						
Wage bill	0.00	0.855	1.84	2.83	3.815	4.06
Wages received	0.00	-0.855	-1.84	-2.83	-3.815	-4.06
Total wage impact	0.00	1.71	3.68	5.66	7.63	8.12

Note: Numbers may not add due to rounding.

Source: CIE analysis.

Goods and Services Tax

Norfolk Island's Goods and Services Tax is set at the rate of 12 per cent, and is levied on all goods and services with the major exceptions of electricity, financial and insurance services, healthcare, education, real property and goods directly imported by households. The simulation sees the Norfolk Island GST being replaced with the Australian GST. This sees Norfolk Island foregoing its GST revenue, valued at nearly \$7 million in 2013-14. The Commonwealth is assumed to meet any budgetary shortfalls. It is also assumed that the wage costs (\$74 275) met by the Norfolk Island Government in administering its own GST system is met by the Commonwealth, with that person undertaking Australian GST related activities (of equal wage cost).

Import duties

Under this reform scenario Norfolk Island's (average 33 per cent) tariff on goods imported by households is replaced by the Australian tariff (averaging 2 per cent) on all imports (that is, those goods imported by both businesses and households). This reform would see the Norfolk Island Government foregoing its import duty revenue, valued at just over \$1.1 million in 2013-14. Offsetting some of the revenue loss would be the fact that Customs related costs would now be met by the Commonwealth. During 2013-14 the Norfolk Island Government incurred wage costs of nearly \$351 000 in running its own Customs system.

3.10 Norfolk Island versus Australian tariffs^a

Product category	Norfolk Island tariff post 2013-14	Australian tariff
	Per cent	Per cent
Building materials and supplies	18.0	2.6
Household appliances and furnishings	18.0	2.6
Consumer durables	18.0	2.7
Food and household supplies	15.4	0.9
Tobacco and alcoholic beverages ^a	62.3	44.3
Clothing and footwear	18.0	4.0

Product category	Norfolk Island tariff post 2013-14	Australian tariff
	Per cent	Per cent
Motor vehicles	16.6	2.9
Rural and farming	18.0	0.6
Fuel	6.0	0.1
Miscellaneous	18.0	2.2

^a Australia has trade agreements with most of its major trading partners, which would see tariffs of zero (or very close to zero) being levied on imports from ASEAN members, Chile, Japan, New Zealand, South Korea and the United States. However, it is conservatively assumed that all imports are sourced from a country that Australia does not currently have a trade agreement with (say China). ^b The Norfolk Island import duty on tobacco ranges between 60–1000 per cent and between 20–30 per cent on alcohol; and averages 62.3 per cent on tobacco and alcoholic beverages. In comparison, the average Australian import tariff on tobacco and alcohol is 2.1 per cent. However, the Australia tariff excludes excises (as by definition, excises are not tariffs/import duties), and hence may understate the 'tax' levied on tobacco and alcohol products. To enable (as best as possible) a like-for-like comparison, the applicable Australian import tariff has been increased to include tobacco and alcohol excises.

Note: Australia uses the international Harmonised System to categorise/identify imports and the applicable tariff. Norfolk Island uses its own system of import categorisation, which seems to focus more on end use of the product than its type/nature. Hence there is not always a direct concordance between the Norfolk Island tariff, and that which would apply if the Australian tariff schedule were followed. The tariffs levied on the various product categories reported in table 3.10 are further aggregated to the merchandise sector level used in the economic model.

Source: Norfolk Island Customs, Australian Department of Foreign Affairs and Trade and CIE analysis.

Fuel excise

Under this scenario the Norfolk Island fuel excise of \$0.20 per litre of fuel (used by road vehicles) is replaced by the Australian fuel excise of \$0.38 per litre, with raised revenue flowing to Australia.

The higher fuel excise will see the pump price of unleaded and diesel on Norfolk Island rising by some 6.9 per cent, to just under \$2.80 a litre (all other things the same). With the fuel excise revenue flowing back to the Commonwealth, the Norfolk Island Government stands to lose its fuel excise revenue of just under \$294 000 in 2013-14.

Removing various Norfolk Island taxes

This scenario sees Norfolk Island's GST, import duties and Fuel Excise being removed, with the Commonwealth meeting budgetary shortfalls (the Norfolk Island Government collected nearly \$8.4 million in revenue from these taxes in 2013-14).

4 *Other reforms*

Other reforms that could potentially be considered include extending the Australian minimum wage to Norfolk Island; and various microeconomic reforms that have been implemented across the rest of Australia over the past 20 years.

Minimum wage

The minimum wage on Norfolk Island is currently \$10.70 per hour. This is significantly lower than the minimum wage that applies in Australia of \$16.87 per hour. Consequently, extending the Australian minimum wage to Norfolk Island would involve a 55 per cent increase to the Norfolk Island minimum wage.

How will an increase in the minimum wage affect wages?

Estimating the impact of changes to the minimum wage on wages more generally is not straightforward. Extending the Australian minimum wage to Norfolk Island would directly increase the wage rate of those earning less than that level. It may also affect the wages of those further up the wage distribution. This could occur for a number of reasons, the most plausible of which is to preserve wage differentials in Norfolk Island that are potentially important for worker motivation and productivity. An increase in the minimum wage may also affect perceptions of fairness and increase the reservation wage (the lowest wage rate at which workers are willing to accept a particular type of job) and therefore raise the wages that employers must pay in those sectors.⁸

The impact of extending the Australian Minimum Wage to Norfolk Island on Norfolk Island wages therefore depends on a range of factors, including:

- the number of people earning less than the Australian minimum wage
- whether the increase in the minimum wage affects only those earning less than the Australian minimum wage, or also affects those further up the wage distribution — the so called ‘ripple effect’.

During consultations, most stakeholders suggested that very few people are paid the Norfolk Island minimum wage. There are, however, likely to be a significant number paid less than the Australian minimum wage.

In constructing the model of the Norfolk Island economy, we estimated average wages by industry using data from the 2014 Household Income and Expenditure survey and other sources (see table 4.1). Based on these estimates there are six private sector

⁸ Phelan, B. J. 2013, *Labour Supply Substitution and the Ripple Effect of Minimum Wages*, p. 3.

industries where average wages are currently below the Australian minimum wage (Agriculture, Forestry & Fishing, Food stuff, Trade, Accommodation, Cafes and Restaurants and Recreation services). This suggests that the wages of a significant share of private sector workers on Norfolk Island are likely to be below the Australian minimum wage.

As will be seen from chapter 5, the modelling results from the Core Reform simulation suggest that extending the mainland's income tax and welfare system will result in a significant increase in wages on Norfolk Island. Nominal wages are estimated to rise for two reasons, namely:

- the Core Reform set sees an increase in economic activity of around 6 per cent, which drives up the demand for labour, and hence wages
- the additional household wealth and expenditure sees inflationary pressure and price rises of around 4 per cent, which flows through to further increase (nominal) wages.

The Core Reform set is estimated to see an economy wide increase in nominal wages of 17 per cent. And as can be seen from table 4.1, the increase in nominal wages acts to push wages in many sectors, at the time of reform implementation in 2016-17, above the mainland minimum wage (assuming the mainland minimum wage remains constant at \$16.87 per hour). Hence if the minimum wage reform was introduced in isolation, then wage increases of up to 24 per cent could be expected in some sectors and a likely decline in economic activity anticipated. But if the minimum wage reform accompanies the Core Reform set, then the minimum wage reform is expected to only impact on wages in the Agriculture, Forestry & Fishing sector, pushing those wages up by 2.6 per cent.

These estimates could potentially understate the impact on wages for several reasons, including:

- workers earning below average wages in 'low paying industries' would require even larger pay increases to comply with the mainland minimum wage
- the wage rate of some workers in 'high paying industries'⁹ may be below the minimum wage, meaning there may be some impact on wages in those industries.

On the other hand, employees already earning above the mainland minimum wage would require a smaller wage increase (or no wage increase at all), although they may receive some wage increase due to the 'ripple effect' described above. Studies often show that minimum wage increases have a minimal impact on overall wages, although minimum wage increases are generally more modest than we have estimated above. For example, a recent review of the UK minimum wage suggested that the impact of the National Minimum Wage reaches only the 6th percentile.¹⁰

Nevertheless, we consider the direct wage increases outlined in table 4.1 are plausible in the Norfolk Island context. Unlike larger economies where there is significant variation in wages within industries (for example, the CEO of major retailers such as David Jones

⁹ Here we use the term 'high paying industries' to mean those industries where the average wage is above the Australian minimum wage.

¹⁰ Resolution Foundation, *More than a Minimum: The Resolution Foundation Review of the Future of the National Minimum Wage — The Final Report*, 12 March 2014, p. 18.

and a retail assistant on the minimum wage are both recorded as working in the ‘retail trade’ industry), there is likely to be much less wage variation within an industry in a small economy like Norfolk Island. While there may be some variation in incomes within industries, higher incomes are likely to be earned business owners, rather than wage earners. Incomes for business owners were reported separately in the survey and are therefore not included in the wage estimates above.

4.1 Private sector wages by industry

Sector	Estimated wage in 2016-17	Minimum wage reform in isolation		Minimum wage reform accompanied by Core Reform	
		Minimum wage	Required wage change	Estimated wage after Core Reform	Required wage change
	\$ per hour	\$ per hour	Per cent	\$ per hour	Per cent
Agriculture, Forestry & Fishing	13.62	16.87	23.9	16.43	2.6
Food stuffs	15.43	16.87	9.3	18.62	Na
Manufacturing	21.45	16.87	Na	25.88	Na
Fuel	21.68	16.87	Na	26.16	Na
Construction	23.74	16.87	Na	28.64	Na
Trade	16.71	16.87	1.0	20.16	Na
Accommodation	15.60	16.87	8.2	18.82	Na
Cafes & Restaurants	15.60	16.87	8.2	18.82	Na
Transport	21.57	16.87	Na	26.02	Na
Finance & Insurance	20.46	16.87	Na	24.68	Na
Professional, Technical and Support Services	24.70	16.87	Na	29.81	Na
Recreation services	20.57	16.87	Na	24.82	Na
Other private sector	17.71	16.87	Na	21.37	Na

Source: CIE analysis.

Microeconomic reforms

The microeconomic reform agenda developed as part of the Norfolk Island Economic Development Report was broadly based on the National Competition Policy (NCP) template, including the following key elements:

- implementation of the *Competition Principles Agreement 1995* agenda
- introduction of an economic regulator
- legislative reform
- tax reform

- public sector reform.¹¹

The specific actions around each of these themes are summarised in table 4.2.

4.2 Microeconomic reforms

	Specific reforms — Phase One	Specific Actions — Phase Two
Implementation of the Competition Principles Agreement 1995 agenda	<ul style="list-style-type: none"> ■ Privatisation of the liquor bond ■ Remove accommodation bed licence restriction on development ■ Norfolk Island Government to cease operating in areas of direct competition with the private sector. ■ Reform of the Telecommunications Act. ■ Removal of any remaining restrictions on Australian residents with demonstrated financial capacity moving to Norfolk Island. ■ Removal of any remaining restrictions on Australian residents establishing a business on Norfolk Island. ■ Extension of all mainland consumer protection legislation to Norfolk Island. 	<ul style="list-style-type: none"> ■ Privatisation of most remaining GBEs; the corporatisation of any remaining GBEs, such as the airport; and external price oversight and regulation of utilities. <p>Complete asset revaluation exercise of Norfolk Island Government assets to ensure appropriate provisioning to undertake capital works.</p>
Introduction of an economic regulator		
Legislative reform	<ul style="list-style-type: none"> ■ Revision and updating of Norfolk Island legislation to improve consistency with mainland regulation. ■ Introduction of strata title legislation to Norfolk Island is a priority action. 	
Tax reform	<ul style="list-style-type: none"> ■ Introduction of a land tax. ■ Reform of the alcohol taxation system to a volumetric basis, rather than a value basis. 	
Public sector reform	<ul style="list-style-type: none"> ■ Introduction of an efficiency dividend policy for all major Norfolk Island government departments of at least 1 per cent per year in real terms. ■ Implementation of the recommendations of the public service review. 	

Source: ACIL Tasman, *Norfolk Island Economic Development Report: Reform of the Norfolk Island Economy*, Final Report, Prepared for the Department of Regional Australia, Regional Development and Local Government, March 2012, pp. 99-103.

¹¹ ACIL Tasman, *Norfolk Island Economic Development Report: Reform of the Norfolk Island Economy*, Final Report, Prepared for the Department of Regional Australia, Regional Development and Local Government, March 2012, p. 99.

A number of these key reforms have either already been implemented or will be implemented in the near future. These reforms include:

- removal of restrictions on Australian residents with demonstrated financial capacity moving to Norfolk Island
- removal of restrictions on Australian residents establishing a business on Norfolk Island
- introduction of land tax (due to be implemented in 2014-15).

These reforms are therefore implicitly included in the baseline. Furthermore, major tax reforms (such as imposing key elements of the mainland tax system on Norfolk Island) have already been considered in previous chapters.

The remaining microeconomic reforms include:

- reforms to GBEs — while the scope to privatise GBEs is likely to be limited, there are nevertheless several reforms that could deliver significant benefits, including:
 - establishing governance arrangements that replicate private sector arrangements, such as establishing independent Boards with a clear commercial focus
 - establishing an economic regulator
- review of legislation that restricts competition.

What are the expected benefits from GBE reforms?

The ultimate aim of microeconomic reforms (including GBE reforms) is to improve economic efficiency. Currently, there is very little accountability for Norfolk Island's GBEs. While referred to as GBEs, they mostly do not operate as separate businesses and effectively amount to government service provision.

Improving the governance arrangements for GBEs is an essential to improve their accountability of GBEs to the Norfolk Island community. Improved accountability and a clear commercial focus is an essential step towards improving GBE performance.

Another key element of GBE reform would also involve establishing an independent pricing regulator. The role of a regulator is to set prices for essential services provided by a public (or private) monopoly provider. This is likely to be particularly important for services where there is no real prospect of competition in the Norfolk Island context.

Regulators generally try to set prices that reflect the 'efficient cost' of providing the service.¹²

- In the absence of price regulation, the monopoly service provider has the power to set prices above the efficient cost of providing the service. This results in unnecessarily high prices for consumers, as well as above-normal profits for the owner (often the government); inefficiencies in supply because there is no market discipline on the service provider to minimise costs and/or provide a high quality service; or a combination of the above.

¹² Efficient costs are generally defined as the cost of providing the service as efficiently as possible, including a fair rate of return on capital.

- Alternatively, where prices of essential services are a politically sensitive issue, government may set the price below the efficient cost of providing the service. This would result in over-consumption of the service, which is subsidised by taxpayers.

In Norfolk Island, some GBEs have tended to be used as a source of revenue for the government, resulting in price increases when additional revenue has been required. This has contributed to unnecessarily high prices for some essential services on Norfolk Island (this operates in the same way as a tax on those services).

Price regulation can also be used as a signal to the service provider to improve its efficiency. Regulators can set a price that require service providers to make efficiency gains in order to achieve a fair rate of return on their assets. This replicates the discipline provided by the market in competitive markets.

Price regulation must also be accompanied by reforms to the governance arrangements of GBEs to increase accountability. Following the NCP reforms, many GBEs are run by Boards (similar to private companies) that are accountable to the people through a relevant Minister.

A Productivity Commission Inquiry into National Competition Policy reforms found that:

- NCP and related reforms were a significant (and sometimes major) contributors to significant reductions in the prices of several key economic infrastructure services falling in real terms between the early 1990s and the mid 2000s
- in general, the price reductions did not appear to have come at the cost of reduced service quality. Indeed, the Productivity Commission noted that service quality has improved in some areas
- there was a pronounced improvement in the financial performance of GBEs between the early 1980s and the mid 2000s and this was attributable to NCP and related governance reforms.¹³

It is important to note that it would be necessary to both improve governance arrangements for GBEs and establish an independent price regulator to achieve the benefits of reform.

- Improved accountability with no price regulation would allow GBEs to improve their financial performance by raising prices, rather than improving productivity. Price regulation is essential to replicate the discipline provided by the market for monopoly service providers.
- Similarly, price regulation without improved accountability is likely to result in GBEs continually making losses, which must ultimately be covered from other sources of government revenue. This is effectively a government subsidy.

¹³ Productivity Commission, *Review of National Competition Policy Reforms*, Productivity Commission Inquiry Report No. 33, 28 February 2005, p. 53.

What productivity gains can be expected from GBE reform?

Productivity gains in relevant sectors were key drivers of the improved outcomes identified above, including lower prices. In sectors relevant to the Norfolk Island context, the Productivity Commission noted the following:

- in electricity generation, labour productivity more than doubled on average across Australia between 1993 and 2002 and more than trebled between 1991 and 1999 in Victoria (where reforms were introduced earliest)
- in telecommunications — where entry restrictions have been removed and an industry specific access regime and anti-competitive conduct code introduced — multi-factor productivity (MFP) increased by around 7 per cent per year between 1996/97 and 1999/2000
- in postal services — where contestability has been introduced to non-standard letter delivery — MFP increased by an average of 3.5 per cent a year between 1992 and 2002.¹⁴

While the Commission noted that it is difficult to disentangle the impacts of NCP reforms from other factors, several participants to the inquiry argued that a sizeable part of these productivity gains and ensuing broader economic benefits can be directly attributed to NCP reforms.

Moreover, the Commission noted that productivity improvements as a result of NCP reforms may be even higher than had been observed to that point because:

- the lags between reform implementation and observed improvements in productivity can be quite long
- the dynamic benefits arising from competition, particularly in terms of greater process and product innovation, are longer term benefits and may not be readily observed.¹⁵

In practice, the Norfolk Island market is likely to be too small to have any real prospect of competition, implying that Norfolk Island may not be able to capture all of the benefits that were attributable to NCP. Nevertheless, significant productivity gains may be possible with improved pricing and governance arrangements for key GBEs.

As an indicator of the possible benefits from reform, we consider it plausible that all GBEs could achieve labour and capital productivity gains of around 1 per cent per year over a five year period (starting 2016-17).

Reduced 'taxes' on essential services

As discussed above, where the price of essential services is set at a level above the cost of providing services (including a fair rate of return on assets) in order to raise government revenue, this is effectively a tax on the service. GBE reforms (including the introduction

¹⁴ Productivity Commission, *Review of National Competition Policy Reforms*, Productivity Commission Inquiry Report No. 33, 28 February 2005, pp. 45-47.

¹⁵ Productivity Commission, *Review of National Competition Policy Reforms*, Productivity Commission Inquiry Report No. 33, 28 February 2005, pp. 45-47.

of a price regulator) could be expected to reduce prices to a level that reflects the cost of providing the service.

In practice, the only GBEs that appear to be making an excessive return on assets are:

- Telecommunications — based on data provided by the Norfolk Island Administration, the telecommunications GBE appears to make a 31 per cent return on its asset base
- Liquor Bond — the liquor bond appears to make a 271 per cent return on its asset base. The liquor bond is able to achieve this excessively high rate of return as it is not subjected competition from the private sector.

In previous years, the electricity GBE has also made a significant profit that was returned to the Norfolk Island Government. However, its performance has deteriorated significantly over recent years, due partly to the increased use of solar power on Norfolk Island. Consequently, there appears to be little scope to immediately reduce electricity prices.

An independent price regulator is likely to recommend significant price reductions for those GBEs earning excessive returns on their assets. As an indicator of the potential impact, we assume that prices would fall to a level that reduced the return on assets of these GBEs to around 15 per cent, plus a 5 per cent allowance for depreciation.

We estimate this would result in:

- a 17 per cent decrease in the price of communications
- A 69 per cent decrease in the wholesale/retail margin on liquor (see table 4.3).

4.3 Impact of price regulation

	Communications	Liquor Bond
	\$'000	\$'000
Current production costs		
Value adding – capital	1 367	888
Other production costs	2 369	310
Total value of supply	3 736	1 198
Efficient production costs		
Value adding – capital	751 ^a	64 ^b
Other production costs	2 369	310
Total value of supply	3 120	375
Estimated impact of price regulation		
Change in price required to achieve efficient costs (per cent)	-16.5	-68.7

^a Based on a 15 per cent return on capital and a 5 per cent allowance for depreciation on an estimated capital stock of \$3.75 million.

^b Based on a 15 per cent return on capital and a 5 per cent allowance for depreciation on an estimated capital stock of \$322 000.

Note: There is likely to be some demand response to a decrease in prices; however, this has been overlooked for simplicity.

Source: Norfolk Island Government and CIE analysis.

We use the model to simulate the impact of these price decreases on the Norfolk Island economy more generally.

What are the costs of reform?

As well as delivering benefits, reforms can also impose costs. For example, establishing the ‘efficient costs’ associated with providing services can require significant resources, which would need to be funded by the Norfolk Island Government. The form of regulation used has a large impact on the cost of such an exercise. Given the size of the Norfolk Island economy a simple form of regulation, with minimal costs would be appropriate.

We also note that the mainland’s legislation review program under the NCP took around ten years to complete and involved significant government resources. The benefits to the Norfolk Island economy of such reforms are likely to be modest and there is a legitimate question as to whether the benefits to Norfolk Island would outweigh the bureaucratic cost. We have not therefore estimated the (net) benefits of legislative reform for Norfolk Island.

5 *Tax and welfare reforms*

The developed model of the Norfolk Island economy has been used to simulate the modelling scenarios identified in the previous chapter. The economic impact of the core reform set and other tax related reforms is reported below. The economic impact of the various microeconomic reforms considered is reported in the next chapter.

It is assumed that reforms are announced in 2014-15, and implemented (or commenced) in year 2016-17. This would give Norfolk Island (up to) two years to prepare for the impending changes.

Economic impact of the Core Reform set

Extending mainland income taxation, welfare and Medicare to Norfolk Island represents a substantial change. On average, Norfolk households will lose 15.3 per cent of their income to taxation, but will gain some \$4.9 million in additional welfare type payments and avoid healthcare related costs of some \$5 million. The Norfolk Island Government will no longer have to fund social service type payments of over \$1.6 million, which means greater resources being available to fund unmet expenses such as depreciation and/or reducing the reliance on Australian budgetary support.

The economic impact of the core set of reforms on a number of macroeconomic type indicators over the period until 2023-24 is reported in table 5.1. While the income taxation, welfare and Medicare reforms will occur together, their impacts have been separately identified to aid analysis.

As would be expected, lowering disposable income by 13.6 per cent has a detrimental impact on the Norfolk Island economy. The taxation impacts in two ways. Firstly, it decreases disposable household income, which leads to a contraction in household consumption (around 12 per cent lower). Secondly, income taxation lowers the return to labour, and for the same post tax wage, employees need a higher wage rate. Nominal wages are estimated to be around 9 per cent higher; and as wages increase and household consumption contracts, employment falls (by around an estimated 6 per cent). With higher wages prices are expected to be 2 per cent higher.

The lower household consumption and higher wages combine to see GTP being some 6 per cent lower. The decline in GTP is not larger due to tourists, which account for around 37 per cent of the economy, not being directly impacted by the extension of mainland income tax.

Extension of the mainland welfare system to Norfolk Island is estimated to see the Commonwealth making welfare payments to Norfolk Island of around \$6.5 million per annum. This represents a net \$4.9 million increase, as residents on Norfolk already

receive welfare payments of \$1.6 million from the Norfolk Island Government. With the Commonwealth taking over welfare payments, the ‘welfare payment’ burden on the Norfolk Island Government would \$1.6 million lower.

The additional welfare transfers see a substantial (15 per cent or so) increase in household disposable income. The now wealthier Norfolk Island households can be expected to consume more, and household consumption is estimated to be some 29 per cent higher. The higher household consumption drives an 11 per cent increase in economic activity (GTP). The increased economic activity and local production sees increased demand for labour, with both employment and nominal wages estimated to rise by around 8 per cent. The increased employment and wages provides another source of gain to household income, which acts to provide a second round consumption increase. The increase in demand and nominal wages sees prices rising by around 1–2 per cent.

The increase in wages (both nominal and real) in both the Welfare payment simulation reflects a unique feature of the Norfolk Island labour market — it is isolated. This means as wages increase labour cannot (easily) enter the labour market, increase labour supply, and mitigate the wage rises. In the absence of a larger labour supply, wage rates substantially increase, which in turn brings about price rises (inflation).

Extending Medicare to Norfolk Island sees households losing another 1.69 per cent of income to the Medicare Levy, but avoiding healthcare costs of around \$3.5 million and the Norfolk Island Healthcare Levy and Medivac Levy of \$1.5 million. The Norfolk Island Government also no longer needs to subsidise the local hospital, saving expenditure of around \$2 million (in 2013-14). Having such costs met by the mainland allows Norfolk Islanders to devote spending elsewhere, which sees an increase in economic activity of 8–9 per cent.

5.1 Economic impact of the Core Reform set

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Income taxation									
GTP	0.0	-6.2	-6.1	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0
Consumption	0.0	-12.6	-12.5	-12.4	-12.3	-12.3	-12.3	-12.3	-12.3
Nominal wages	0.0	9.0	9.2	9.2	9.3	9.3	9.3	9.3	9.3
Employment	0.0	-6.2	-6.1	-6.1	-6.0	-6.0	-6.0	-6.0	-6.0
Prices	0.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Welfare payments									
GTP	0.0	12.0	12.0	11.7	11.5	11.5	11.5	11.5	11.5
Consumption	0.0	29.9	30.0	29.6	29.2	29.2	29.2	29.2	29.2
Nominal wages	0.0	8.7	8.7	8.5	8.3	8.3	8.3	8.3	8.3
Employment	0.0	8.0	8.0	7.9	7.7	7.7	7.7	7.7	7.7
Prices	0.0	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Medicare									
GTP	0.0	8.9	8.9	8.7	8.4	8.4	8.4	8.4	8.4
Consumption	0.0	21.5	21.5	21.1	20.7	20.7	20.7	20.7	20.7
Nominal wages	0.0	3.1	3.1	3.0	2.9	2.9	2.9	2.9	2.9
Employment	0.0	6.5	6.4	6.3	6.2	6.2	6.2	6.2	6.2
Prices	0.0	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Income taxation, welfare and Medicare									
GTP	0.0	14.7	14.8	14.4	14.1	14.1	14.1	14.1	14.1
Consumption	0.0	38.8	39.0	38.5	37.9	37.9	37.9	37.9	37.9
Nominal wages	0.0	20.8	21.0	20.8	20.6	20.6	20.6	20.6	20.6
Employment	0.0	8.2	8.3	8.1	7.9	7.9	7.9	7.9	7.9
Prices	0.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2

Source: Norfolk Island economic model.

Combined, the income taxation, welfare and Medicare reforms are estimated to see an around 14 per cent increase in economic activity, but a substantially larger increase in household consumption of around 38 per cent (the preferred welfare measure).

Economic impact of other tax related reforms

The Core Reform set has been simulated in conjunction with each of the other tax related reforms (comprising the mainland Superannuation Guarantee, Goods and Services Tax, import duties Fuel Excise; and removal of Norfolk Island's own GST, import duties and Fuel Excise).

For brevity, only results for the impact on economic activity (GTP) are reported (full modelling results can however be found in appendix A). The modelling results, which are presented in table 5.2, are all premised on the Core Reform set having been implemented as well. The modelling results are broadly additive. Hence the economic impact on GTP of the Core Reform set plus, for example, Superannuation in year 2023-24 would be 10.5 per cent, given by the Core Reform result of 14.1 per cent plus the Superannuation result of -3.6 per cent.

In summary, the GTP impacts of the other tax related reforms are as follows:

- Superannuation — employers experience higher wage rates, which acts to see a contraction in employment and a decline in economic activity of around 3–4 per cent (note that households would, presumably, have higher disposable income in retirement and hence lead to higher future consumption)
- Australian GST — compared to the Norfolk Island GST, the Australian GST is set at a lower rate (10 versus 12 per cent) and is approximately half the rate on the key household and tourist consumption item of food. The lower rate of taxation sees a fall in prices, leading to an increase in household purchasing power, which increases

consumption (and tourism exports), with there being an around 8–9 per cent increase in economic activity

- Australian import duty and Fuel Excise — the impacts of these reforms are quite minor (the GTP impacts are observable at the first decimal point), as the taxes are either minor (Fuel Excise) or see broadly similar revenue collected (import duties)
- No Norfolk Island taxes — removing Norfolk's GST, import duties and Fuel excise sees prices falling by around 10 per cent on Norfolk, which acts to increase the purchasing power of households and subsequently increases consumption (and tourism exports), with economic activity being some 9–10 per cent higher.

5.2 Impact on GTP of other tax related reforms

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Core Reform	0.0	14.7	14.8	14.4	14.1	14.1	14.1	14.1	14.1
Super.	0.0	-1.6	-2.1	-2.5	-3.4	-3.6	-3.6	-3.6	-3.6
Aus GST	0.0	8.8	8.8	8.8	8.7	8.7	8.7	8.7	8.7
Aus tariffs	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Aus Fuel Excise	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
No NI taxes	0.0	9.6	9.5	9.3	9.2	9.2	9.2	9.2	9.2

Source: Norfolk Island economic model.

Required financial support from the Commonwealth

The tax and welfare reforms are typically associated with the shifting of taxation revenue and/or expenditure from Norfolk Island to the Commonwealth. For example, the imposition of Australian import duty would see Norfolk Island losing its tariff revenue, which amounted to just over \$1.1 million in 2013-14. Unless expenses are similarly reduced, then the Norfolk Island will clearly face a larger budget deficit, and hence need increased financial support from the Commonwealth. Assuming responsibility for welfare payments, healthcare etc will also impose an additional financial impost on the Commonwealth.

The need for Commonwealth financial support is also impacted by what the various reforms do to the size of the underlying Norfolk Island economy, and hence tax base. As an example, consider the extension of income taxation to Norfolk Island. With wages of around \$30 million (in 2013-14), levying a personal income tax (at an average rate of 13.6 per cent) could be expected to see a net inflow of taxation revenue to the Commonwealth of \$4 million or so. However, the modelling results suggest that income taxation will see the Commonwealth collect nearly \$2 million in taxation revenue; well below the expected \$4 million. The reason for the lower than expected revenue collection concerns what extension of income taxation does to the underlying economy (and tax base). From table 5.1 it was seen that income taxation is expected to see a contraction in GTP of 6 per cent, and a contraction in household consumption of 12 per cent. Lower household spending, and a smaller economy generally, means taxes such as Norfolk Island's GST

raise less revenue. And if levels of Norfolk Island Government service provision are not to deteriorate in line with falling revenue, then greater budgetary assistance will be required from the Commonwealth. Hence in this example, the Commonwealth needs to send an additional \$2 million to Norfolk Island to make up for lost taxation revenue brought about by the smaller economy.

Table 5.3 provides an estimate of the net (nominal) financial impost on the Commonwealth of extending the various taxation and welfare reforms to Norfolk Island. Note that the estimated financial impost is in addition to what the Commonwealth would already be providing under the baseline. (Any capital expenditure or infrastructure provision undertaken by the Commonwealth would be in addition to these costs.)

5.3 Net financial impost of reforms on the Commonwealth

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Core Reform	0.0	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Super.	0.0	-0.2	0.1	0.4	0.9	1.1	1.1	1.1	1.1
Aus GST	0.0	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Aus tariffs	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Aus Fuel Excise	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
No NI taxes	0.0	4.1	4.2	4.3	4.3	4.3	4.3	4.3	4.3

Note: A positive number indicates an increase in Commonwealth financial support of Norfolk Island, while a negative number indicates a decrease in financial support.

Source: Norfolk Island economic model.

The net financial impacts can reflect a combination of factors, namely:

- change in the size of GTP and underlying tax base
- the taxation revenue raised from Norfolk Island is not sufficient to cover the inflow of welfare payments or meet healthcare costs (Core Reform)
- the mainland GST is set at a lower rate than that on Norfolk Island, and even though the taxation revenue lost by the Norfolk Island Government is greater than that returned to the Commonwealth, the GTP expansion effect of the lower GST sees a larger tax base and hence lower required Commonwealth funding (Australian GST)
- removing Norfolk's GST, import duties and Fuel Excise sees the Norfolk Island Government losing a large amount of revenue, and, despite an expansion of GTP, there is a sizable budget deficit that the Commonwealth meets (No Norfolk Island taxes).

It should also be appreciated that the net financial impost figures reported in table 5.3 are in nominal terms. From table 5.1 and tables A.1 to A.5 in appendix A, it can be seen that some of the reforms lead to price changes on Norfolk Island. The price changes will act to change the size of the nominal budget deficit even if there are no real changes. In the case of rising prices, as government expenses go up in line with price increases, taxation revenues do not rise enough to offset the increase in expenditure. The required Commonwealth financial support therefore increases. Allowing financial support to increase in line with inflationary pressure also embodies a Commonwealth decision that

current levels of service provision will not be allowed to diminish, and if the cost of providing that level of service increases, then so too does Commonwealth support.

6 *Economic impact of other potential reforms*

In addition to the core reforms simulated in the previous chapter, we also use the model of the Norfolk Island economy to simulate other reform scenarios identified in chapter 4. These reforms include extending the Australian minimum wage to Norfolk Island and GBE reforms.

As was the case with the Core Reforms and other tax related reforms, it is assumed that reforms implemented (or commenced) in year 2016–17.

Economic impact of minimum wage reforms

The Core Reforms are estimated to see substantial increases in nominal wages, which typically acts to raise wages on Norfolk Island above the Commonwealth's minimum wage. It is only wages in the Agriculture, Forestry and Fishery sector that are expected to be impacted by implementing the Commonwealth minimum wage. With only one sector being affected, and only a small increase in wage rates (2.6 per cent), the economic impacts of this reform are relatively minor. As can be seen from table 6.1, the minimum wage reform is estimated to see a small contraction in economic activity and household consumption.

Nominal wages and employment are also estimated to be slightly lower. The minimum wage sees nominal wages in the Agriculture, Forestry and Fishery increasing, and the now more expensive labour results in a slight contraction in employment in that sector. In an attempt to find employment elsewhere, the now surplus labour moves to other sectors, with the increase in labour seeing a slight contraction in nominal wages elsewhere.

6.1 Economic impact of extending the Australian minimum wage to Norfolk Island

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
GTP	0.0	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Consumption	0.0	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Wages	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Employment	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Prices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Norfolk Island economic model.

Economic impact of GBE reform

As discussed in chapter 4, we expect GBE reform would result in two separate impacts:

- a 1 per cent annual labour and capital productivity improvement (assumed to last for 5 years)
- a one-off reduction in prices for those GBEs earning an excessive return on their assets.

Table 6.2 reports the estimated economic impacts of the two streams of GBE reform.

GBEs providing services on a commercial basis make up a significant proportion of the Norfolk Island economy, and having each of these entities achieve labour and capital productivity gains of 1 per cent (per year for 5 years) could be expected to benefit economic activity. However, productivity gains mean fewer inputs are required, including labour and capital. And if there is not an alternative use for that now surplus labour and capital, then employment will decline (marginally) as will returns to capital. This will see a contraction in household consumption and GTP. Hence even though prices are lower due to the GBE productivity gains, the lack of use for those now surplus factors of production means households are not better off.

Having Norfolk Telecom and the Liquor Bond earn more commercially realistic rates of return sees an increase in both GTP and household consumption. Households, and other sectors of the economy using those services, are better off as the services provided by these GBEs are now cheaper. This leads to a 0.4 per cent expansion in economic activity, and a slight increase in employment.

6.2 Economic impact of GBE reforms

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Impact of productivity gains									
GTP	0.0	-0.1	-0.2	-0.3	-0.4	-0.6	-0.6	-0.6	-0.6
Consumption	0.0	-0.3	-0.7	-1.0	-1.4	-1.7	-1.7	-1.7	-1.7
Wages	0.0	-0.2	-0.6	-0.9	-1.2	-1.5	-1.5	-1.5	-1.5
Employment	0.0	-0.1	-0.3	-0.5	-0.6	-0.8	-0.8	-0.8	-0.8
Prices	0.0	-0.1	-0.3	-0.4	-0.5	-0.7	-0.7	-0.7	-0.7
Impact of price reductions									
GTP	0.0	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Consumption	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Wages	0.0	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
Employment	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Prices	0.0	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6

Source: Norfolk Island economic model.

7 Options for extending mainland taxation, welfare and microeconomic reforms to Norfolk

From chapters 5 and 6 it can be seen that the proposed tax, welfare and various other reforms are estimated to have large impacts on the Norfolk Island economy. The reforms being considered are not trivial and will profoundly affect the operation of the economy. An issue therefore confronting the Commonwealth is the speed with which (any) reforms are implemented, and the ordering of those reforms. During the consultation phase stakeholders also raised several concerns that they had with what implementation of (some of) the reforms could mean for business costs, employees' disposable income and pension payments in practice. These issues are discussed below.

Speed of reform implementation

From chapters 5 and 6 it was seen that some of the reforms have the potential to have negative impacts on the Norfolk Island economy. (However, it should be remembered that these impacts are relative to the baseline, and in the baseline there is no funding of the Asset Management Plan, which brings into question the ability of Norfolk Island to meet expected/required levels of service provision going forward.) It should also be appreciated that GTP is not necessarily the best indicator with which to gauge reforms, a better indicator is household consumption, which reflect how households are impacted by the various reforms. For example, while the Core Reform has GTP being 14 per cent higher than baseline, household consumption is 38 per cent above baseline. Hence households clearly benefit more under the Core Reform than would be indicated if the impact on GTP was used as the indicator.

Given the potential for some reforms to have adverse impacts, an issue confronting the Australian Government is the ordering and speed with which any reforms are introduced on Norfolk Island. Ideally, the welfare reforms would be introduced first (economic stimulus and safety net), followed by taxation related, and then the microeconomic type reforms.

However, it is understood that legislative arrangements mean that the core taxation and welfare reforms need to be introduced simultaneously. And if Norfolk Island is within the Commonwealth's taxation and welfare system, then defined tax rates and welfare payments need to be adhered to. It would likely be costly and administratively difficult to accommodate tax rates and welfare payments that vary by postcode. However, it may be possible to phase in some areas of reform, most notably the superannuation guarantee and minimum wage, over longer time periods so as to minimise any adverse economic impacts.

As was seen from chapter 5, the introduction of the superannuation guarantee is associated with a decline in economic activity (-3.6 per cent), an increase in unemployment (3.5 per cent), and a contraction in household consumption income (-7.6 per cent) in the medium term. (However, over the longer term it could be expected that households will have greater wealth to support higher living standards in retirement, which is clearly of benefit. Hence superannuation, a form of 'forced saving', sees the shifting of consumption from today to the future.)

One option would be to extend the period over which the superannuation guarantee is introduced (and in line with the adjustments to superannuation done in Australia). For example, if the superannuation guarantee was introduced at the rate of 0.5 per cent per year, then it would take 19 years before the (to be required) mainland rate of 9.5 per cent were achieved. However, businesses are much more likely to be able to accommodate annual wage bill increases of 0.5 per cent within normal productivity gains, and in so doing impose no (or small) financial impost on the business and whilst maintaining current employee wages. Of course, the trade-off for employees is that their savings may not be as high on retirement.

The move to the mainland minimum wage could see wages on Norfolk Island increasing in the Agriculture, Forestry and Fishery sector. It was estimated that the minimum wage reform would see GTP and employment being marginally lower if the mainland minimum wage were introduced in 'one hit' in 2016-17. One option to lessen the negative impacts would be to move to the mainland minimum wage more gradually, say over a 10 year time period (with 10 per cent of the difference between Norfolk Island and mainland minimum wage being removed each year). The minimum wage impacts would be more pronounced if the mainland minimum wage grew between 2013-14 and 2016-17.

Finally, compared to the tax and welfare arrangements currently in place on Norfolk Island, the mainland taxation and welfare system is notably different and more complex. It is hard to see businesses, employees and the wider community seamlessly moving to the mainland systems in the absence of extensive and sustained capacity building and familiarisation programs. To this end, it is recommended that, at least with respect to taxation reforms, Norfolk Island undertakes a 1–2 year 'tax dry run' process. This would see businesses and employees completing tax returns (and GST Business Activity Statements etc) but not paying mainland taxes.

Of further issue is whether the on-island accounting expertise exists to assist local businesses/employees with their participation in the mainland taxation system. Participation in the mainland tax and welfare systems will therefore require extensive support from the Australian Taxation Office and Australian Department of Social Services.

Ordering of reforms

Some of the reforms, especially the introduction of competition policy into the GBE sector and requiring GBEs to operate on a commercial basis, could be associated with labour shedding. If this occurs, then the process of adjustment will be greatly facilitated by already having a welfare system in place. Hence implementation of the mainland's

welfare system should be the first reform. And due to legislative linkages, implementation of the mainland's welfare system will require simultaneously implementing the mainland's company and personal taxation system. After that, there is some flexibility with respect to the ordering, however, the (net) impact on households' should be a primary consideration. If household consumption is used as a proxy for net impact, then the modelling results suggest the reforms should be ordered as follows:

- Welfare and taxation
- Other tax related reforms
 - Medicare
 - Mainland GST, Customs duties and Fuel Excise (implemented as a package)
 - Superannuation Guarantee (with implementation occurring over a sufficiently long time period)
- Microeconomic type reforms
 - Minimum wage (with implementation occurring over a sufficiently long time period)
 - GBE reform.

Tax over-collection for second jobs

An issue raised by stakeholders in the consultations was the potential for the Australian Tax Office (ATO) to withhold more tax than is needed where a worker has more than one job.

Two claims were made in the consultations:

- 1 income from a second job is withheld at the top marginal tax rate
- 2 the ATO over-collects income tax from individuals with second jobs and the delay between the time the income is earned (and taxed) and when it is returned via a tax return would cause hardship for people with more than one job.

The first of these matters appears to be based on an outdated understanding of the policies of the tax office in withholding tax on a second job. The present policy is to simply not allow an income-earner to claim the tax-free threshold for more than one job.¹⁶ This means that, say an individual has two jobs paying \$15 000 each, they cannot claim the tax free threshold of \$18 200 for both jobs and thus have no tax withheld.

The second matter is essentially true, however the extent of over collection is much smaller than the level cited in consultations. Table 7.1 illustrates where the ATO will over-collect or under-collect income tax for a second job. It shows that for low income individuals there will be a moderate over-collection, however tax is under-collected for higher income individuals.

¹⁶ The following page of the ATO website discusses the policies around withholding tax for individuals with multiple payers/jobs: <https://www.ato.gov.au/individuals/working/in-detail/tfn-declaration/when-you-have-income-from-two-payers/>

Note that these scenarios are constructed to show the upper end of the scale of over/under-collection, in that income from each job is roughly equal. The difference between tax withheld and the tax liability (total amount of tax calculated on annual income) is smaller where the second job generates substantially lower income than the primary job.

7.1 Tax over-collection scenarios

Total income	Income		Tax withheld		Tax liability	Tax return
	Job 1	Job 2	Job 1	Job 2	Total	
\$/year	\$/fortnight	\$/fortnight	\$/fortnight	\$/fortnight	\$/year	\$/year
29 900	600	550	0	124	3 224	2 223
49 400	1 000	900	76	226	7 852	7 602
104 000	2 000	2 000	366	608	25 324	26 427

Note: Job 1 (the primary job) is defined as the job with higher (or equal highest) income.

Source: ATO Fortnight tax tables and CIE calculations.

Pension age

A potential issue with the implementation of changes to the age benefit/pension is that the minimum age to meet eligibility requirements is different between the Norfolk Island and Commonwealth systems. Table 7.2 shows the minimum age requirement for each welfare payment.

7.2 Minimum age for Norfolk Island Age Benefit and Commonwealth Age Pension

Welfare System	Minimum age	
	Men	Women
Norfolk Island Age Benefit	65	60
Commonwealth Government Age Pension	65	65

Note: Over the period from 1 July 2017 to 1 July 2023 the Commonwealth age pension minimum age will increase from 65 to 67.

Source: Norfolk Island Administration and Department of Social Services.

The implication of this difference is that if the Norfolk Island Age Benefit was immediately replaced with the Commonwealth Age Pension, women aged between 60–65 on Norfolk Island would no longer be eligible for a pension.

This may be undesirable given that it is likely to be difficult for those who are already retired to re-enter the workforce at the age of 60–65, particularly given the employment climate of Norfolk Island. Additionally women may have acted in reliance on the fact they would receive the Norfolk Island age benefit and stopped working before 65.

An alternative means of implementation may to avoid this issue. Two alternative implantation regimes are:

- 1 women currently between 60–65 are covered, however excluding this group, the age requirement for the pension is still 65. This means that women currently aged 60 will

receive the pension, however women aged 59 will not receive the pension until they reach 65

- 2 the minimum age requirement for the pension is gradually transitioned to 65 over a period greater than 5 years.

The amount of additional women covered by this scheme compared to immediately changing to the Commonwealth system is summarised in table 7.2. This assumes that the implementation of any regime occurs in 2015, and therefore those people aged 64 in the HIES sample are then aged 65 in 2015.

There is a total of 41 additional people eligible for the pension under the first regime and 105 additional people eligible under the second regime. The additional cost of the regimes are \$774 037 and \$2 136 045 beyond the default implementation strategy (immediate change to minimum age of 65). This cost may either be borne by Norfolk Island (funded by some tax instrument such as a temporary levy) or borne by the Commonwealth Government.

7.3 Additional cost of alternative implementation regimes for the Commonwealth Pension

Age	Women of specified age in HIES sample	Number of years receiving the pension before age 65		Additional pension paid compared to immediate transition to minimum age 65	
		Regime 1	Regime 2		
years	number	years	years	\$	\$
54	21	0	0	0	0
55	17	0	1	0	126 525
56	8	0	2	0	119 083
57	16	0	3	0	357 248
58	13	0	4	0	387 019
59	10	0	5	0	372 133
60	10	4	4	297 707	297 707
61	13	3	3	290 264	290 264
62	7	2	2	104 197	104 197
63	11	1	1	81 869	81 869
64	15	0	0	0	0
65	16	0	0	0	0
Total				774 037	2 136 045

Note: The additional amount of pension payments assumes a take up rate of 72.6 per cent.

Source: CIE.

Distribution markups

Stakeholders suggested that a potential consequence of a changing perception of Norfolk Island as no longer being an external territory is that prices for goods may increase. This may occur if Norfolk Island is no longer considered an export market by distributors and instead considered part of the domestic Australian distribution network.

It is not expected that the reforms this report is concerned with would involve a change of Norfolk Island from being an external self-governing territory to some other classification. There is no apparent legal change expected to occur to the status of Norfolk Island that would compel distributors to treat Norfolk Island as a part of the Australian domestic distribution network.

However, if perceptions of the status of Norfolk Island change, despite no legal change, then this may lead to Norfolk Island being arbitrarily included in the domestic distribution chain. If there is no change to the status of Norfolk Island, it is expected that there would be no change to the costs of supplying goods to the Norfolk Island. Therefore, distributors would only be able to change prices if they have market power. Given that there are limited options for the importation of goods to Norfolk Island, it is foreseeable that distributors could charge higher prices and on-island retailers would have little power to prevent this.

However, this does not mean that a price increase will necessarily occur. If it were the case that distributors can unilaterally determine prices, this price increase could occur without the taxation/welfare reforms.

Ultimately, whether the reforms will lead to price increases is unclear, however, if they do it will be because of a change in perceptions rather than a legal change.

A Modelling results for other tax related reforms

Table 5.2 reported the impact on GTP of the other tax related reforms. Tables A.1 to A.5 below report key macroeconomic results for the other tax related reforms of Medicare, Superannuation Guarantee, no Norfolk Island GST, Australian GST, Australian import duties and the Australian Fuel Excise.

A.1 Economic impact of Superannuation Guarantee

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
GTP	0.0	-1.6	-2.1	-2.5	-3.4	-3.6	-3.6	-3.6	-3.6
Consumption	0.0	-3.2	-4.3	-5.4	-7.2	-7.6	-7.6	-7.6	-7.6
Nominal wages	0.0	2.3	3.3	4.2	5.9	6.3	6.3	6.3	6.3
Employment	0.0	-1.6	-2.1	-2.5	-3.3	-3.5	-3.5	-3.5	-3.5
Prices	0.0	0.6	0.8	1.0	1.5	1.5	1.5	1.5	1.5

Source: Norfolk Island economic model.

A.2 Economic impact of the Australian GST

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
GTP	0.0	8.8	8.8	8.8	8.7	8.7	8.7	8.7	8.7
Consumption	0.0	8.7	8.7	8.6	8.4	8.4	8.4	8.4	8.4
Nominal wages	0.0	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3
Employment	0.0	4.3	4.3	4.2	4.2	4.2	4.2	4.2	4.2
Prices	0.0	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5

Source: Norfolk Island economic model.

A.3 Economic impact of Australian import duties

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
GTP	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Consumption	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Nominal wages	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Employment	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Prices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Norfolk Island economic model.

A.4 Economic impact of Australian Fuel Excise

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
GTP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Consumption	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Nominal wages	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Employment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prices	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Source: Norfolk Island economic model.

A.5 Economic impact of removing various Norfolk Island taxes

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
GTP	0.0	9.6	9.5	9.3	9.2	9.2	9.2	9.2	9.2
Consumption	0.0	12.5	12.4	12.2	12.0	12.0	12.0	12.0	12.0
Nominal wages	0.0	-3.6	-3.7	-3.8	-3.9	-3.9	-3.9	-3.9	-3.9
Employment	0.0	6.2	6.1	6.1	6.0	6.0	6.0	6.0	6.0
Prices	0.0	-9.7	-9.7	-9.8	-9.8	-9.8	-9.8	-9.8	-9.8

Source: Norfolk Island economic model.

Table A.6 reports the estimated impacts on GTP and consumption (welfare) of the following reform packages:

- Core Reform (income taxation, welfare and Medicare)
- Core Reform + other mainland taxes (latter comprising Superannuation, GST, import duty and Fuel Excise)
- Core reform + other mainland taxes + other reforms (latter comprising imposition of mainland minimum wage and Norfolk GBE reform)
- Core reform + no Norfolk Island taxes (latter comprising removal of Norfolk Island GST, import duty and Fuel Excise).

A.6 Economic impact of reform packages

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Core Reform									
GTP	0.0	14.7	14.8	14.4	14.1	14.1	14.1	14.1	14.1
Consumption	0.0	38.8	39.0	38.5	37.9	37.9	37.9	37.9	37.9
Core Reform + other mainland taxes									
GTP	0.0	21.8	21.3	20.4	19.2	19.0	19.0	19.0	19.0
Consumption	0.0	43.9	43.1	41.4	38.8	38.4	38.4	38.4	38.4

Reform	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Core Reform + other mainland taxes + other reforms									
GTP	0.0	22.4	21.8	20.8	19.4	19.1	19.1	19.1	19.1
Consumption	0.0	43.5	42.2	40.2	37.3	36.5	36.5	36.5	36.5
Core Reform + no Norfolk Island taxes									
GTP	0.0	24.4	24.3	23.7	23.2	23.2	23.2	23.2	23.2
Consumption	0.0	52.0	52.2	51.4	50.6	50.6	50.6	50.6	50.6

Source: Norfolk Island economic model.



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1.24 EVENT BRIEF – Dinner at Dino’s Restaurant

Date and Time:	Thursday 15 November 2018, 7.00 pm
Location:	Dino’s Restaurant, Bumboras Road
Meeting with:	Cross section of those working towards promoting Norfolk Island as a ‘foodie’ destination – 11 people
Attendees:	Eric Hutchinson, Administrator Juliette Yager – Burnt Pine Travel Tania Anderson – Norfolk Island Tourism Fiona Anderson – President of Norfolk Island Food Festival Mardi Pye – Picnic in Paradise Kurt Menghetti – The Forager Naomi Thompson – Olive Café, the Olive Branch Sarah Robinson – Anson Larder Carli Christian – The Blue Kingfisher Emily Ryves – The Hilli Goat Farm Jo Elliott – The Bounty Restaurant Rod McAlpine – Two Chimneys Winery

Outcomes Sought:

- Gain an understanding of the challenges and opportunities for those actively promoting and working towards Norfolk Island as a ‘foodie destination’.
- Experience a popular restaurant for visitors and locals.
- Engage with a broad range of operators.

Key Issues:

- Identifying and tapping into the foodie destination/tourism market.

Background:

- Dino’s is an award winning restaurant set in an old island home. It is extremely popular with visitors.

Sensitivities: Nil

Attachments: Nil



DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.25 EVENT BRIEF – Cyclorama, Gallery Guava and morning tea with Tourism industry stakeholders

Date and Time:	Friday 16 November 2018, 10.00 – 11.30 am
Location:	Gallery Guava & Cyclorama, Hills Restaurant & Cafe
Attendees:	Eric Hutchinson, Administrator Tracey Yager & Sue Draper (artists)

Outcomes Sought:

- Experience a unique and world class tourist attraction, and local artwork

Key Issues:

- Identifying what is unique to the island, the ‘Norfolk product’, marketing and exposure.
- Increasing visitors to the island without losing what is unique.

Background:

- The Cyclorama provides a total experience, bringing to life the history of the Norfolk Island people and their connection with the infamous mutiny on the ‘Bounty’.
- An outstanding attraction and Tourism Awards winner, this stunning 360° panoramic painting with realistic 3D effects has been impressing visitors to Norfolk Island with its ‘wow’ factor for over 13 years. In 2014 the Cyclorama achieved the impressive ranking of No 5 in Australian Landmarks in the Tripadvisor Travellers Choice Awards.

Sensitivities: Nil

Attachments: Nil



Name	Position(s)	Departmental atte	Day	Time	Place	Outcomes Sought	Key issues	Background
[REDACTED]	[REDACTED]	Eric Hutchinson, Administrator	Tuesday, 13 Nov 18	3:15 pm to 3:30 pm	Administrator's Office	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Eric Hutchinson, Administrator	Tuesday, 13 Nov 18	3:30 pm to 3:45 pm	Administrator's Office	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Eric Hutchinson, Administrator	Tuesday, 13 Nov 18	3:45 pm to 4:00 pm	Administrator's Office	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Eric Hutchinson, Administrator	Tuesday, 13 Nov 18	4:15 pm to 4:30 pm	Administrator's Office	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Eric Hutchinson, Administrator	Wednesday, 14 Nov 2018	11:45 am to 12:00 pm	Administrator's Office	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Eric Hutchinson, Administrator	Wednesday, 14 Nov 2018	12:10 pm to 12:25 pm	Administrator's Office	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	Eric Hutchinson, Administrator	Wednesday, 14 Nov 2018	12:30 pm to 12:45 pm	Administrator's Office	[REDACTED]	[REDACTED]	[REDACTED]



NORFOLK ISLAND PEOPLE FOR DEMOCRACY INC.

Associations Incorporation Act 2005 (Norfolk Island)
(the Act)

CONSTITUTION

NORFOLK ISLAND PEOPLE FOR DEMOCRACY INC.

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1. DEFINITIONS AND MEANINGS

Where appearing or used herein and unless the context otherwise requires:

"Act" means the *Associations Incorporation Act 2005* (Norfolk Island) and/or any statutory enactment or Ordinance in lieu of or in replacement of the *Associations Incorporation Act 2005* (Norfolk Island).

2. NAME OF ASSOCIATION

The name of the Association is **NORFOLK ISLAND PEOPLE FOR DEMOCRACY Inc.** (also to be known by the acronym **NIPD Inc.**); hereinafter collectively or singularly referred to as "the Association".

3. OBJECTS AND GOALS

The Objects and Goals of the Association are:

3.1 To establish itself as an Association representative of the people of Norfolk Island so as to achieve the following Goals:

- (a) to have Norfolk Island inscribed onto the United Nations List of non-self-governing Territories;
- (b) to develop a consultative framework within the Association, which gives the opportunity, incentive and confidence to the entire Community of Norfolk Island –

- (i) to be informed and educated on; and
- (ii) to participate and be involved in,

the process of re-building the Island's governance and sustainability as a self-governing Territory in free association with Australia;

- (c) such other Goals as evolve or arise from either or all of the above Goals (a) and/or (b) and from such other Goals as may be adopted and pursued by the Association from time to time.

3.2 To affiliate with or seek membership of, any group or body having similar or complementary Objects or Goals to those of the Association.

3.3 To be a lobby group to the Australian Federal Government including all Federal and State authorities and instrumentalities, on issues arising from the pursuance by the Association of its Objectives and Goals.

4. POWERS

For the purpose of carrying out, furthering or achieving the above Objects and Goals or any of them and subject to the provisions of the Act, the Association has the power to:

- 4.1 Make rules, regulations and/or bylaws for the proper governance of the Association and to carry out the Objects and/or Goals of the Association in conjunction with any Mission Statement it might adopt and do all such other lawful things as are incidental to the attainment of those objects or Mission Statement (if any), or any of them;
- 4.2 Undertake projects and seek grant funding from time to time;
- 4.3 Promote, organise and conduct any public events on Norfolk Island;
- 4.4 Publish, disseminate, make or issue communications of any type and by any mode available to Association members and to the public at large;

- 4.5 Purchase, own, occupy or in any other manner hold and deal in and with real and personal property, estates and interests;
- 4.6 Open and operate bank accounts;
- 4.7 Invest its money in any security in which trust monies may lawfully be invested; or in any other manner authorised by the rules of the Association;
- 4.8 Borrow money upon such terms and conditions as the Association thinks fit
- 4.9 Give such security for the discharge of liabilities incurred by the Association as the Association thinks fit;
- 4.10 Appoint agents to transact any business of the Association on its behalf;
- 4.11 Enter into any other contract it considers necessary or desirable;
- 4.12 Subject to the provisions of the Act to otherwise do all acts and things and to sign all deeds documents and papers for the better carrying out of the Objects and Goals;
- 4.13 Apply the property and income of the Association solely towards the promotion of the Objects and Goals of the Association and no part of that property or income may be paid or otherwise distributed, directly or indirectly, to members, except in good faith in the promotion of those Objects and Goals.

5. MEMBERSHIP

- 5.1 As from the date of incorporation of the Association, the membership of the Association comprises those individuals, Associations, groups or Corporations who were registered with the Association as supporters of the Association immediately prior to incorporation of the Association under the Act.
- 5.2 Membership of the Association post incorporation is open to application from Individuals, Associations (incorporated or not), and Corporations who in the opinion of the Management Committee, have agreed to accept the above Objects of the Association and paid the prescribed membership fee, if any.
- 5.3. Every new Applicant for membership of the Association shall complete and sign such form as the Management Committee from time to time directs; and submit the completed form to the Secretary.
- 5.4. Where the Applicant for membership is an Association (be it incorporated or not), or a Corporation, the Applicant shall in applying for membership nominate a member (also referred to as a "Member's representative"), of that Association or Corporation who is to represent the Association or Corporation in this Association. Upon being admitted to membership, such Association or Corporation may during its membership of this Association, nominate a replacement member to represent it in this Association.
- 5.5 The Management Committee shall consider all applications for membership to the Association by reference to or comparison with the objects and goals of the Association.
- 5.6 The Management Committee is empowered to create such class or classes of membership (such as but not limited to, "supporters", "volunteer members/workers)", with such rights and entitlements (such as full or limited involvement and/or voting rights), as it determines.
- 5.7. The Management Committee shall not assign nor be required to assign any reason for its refusal to accept a nomination.
- 5.8 The Management Committee is empowered to determine and set the membership fees (if any), applicable to membership to the Association.
- 5.9 An applicant on being admitted to membership of the Association becomes and remains liable, for payment of the membership fees (if any) for the period of membership.

6. MANAGEMENT COMMITTEE

- 6.1. As from the date of incorporation of the Association the membership of the Management Committee comprises those fourteen (14) individuals, who were elected pre incorporation of the Association and who are then to hold that position until the first Annual General Meeting of

the Association is held in accordance with clause 9.

- 6.2 A member of the Management Committee, including an Office Bearer on the Management Committee, holds that position until the conclusion of the Annual General Meeting of the Association following incorporation, at which election of members of the Management Committee is to occur.
- 6.3 The number of members comprising the Management Committee may be varied at a subsequent General Meeting of the Association.
- 6.4 Apart from the appointment of the initial Management Committee as provided by clause 7.1, each Office Bearer or member of the Management Committee holds that position until the conclusion of the next General Meeting of the Association at which election of members of the Management Committee and Office Bearers, is to occur. All Management Committee members shall be elected from members or in the case of members, who are Associations or Corporations, then from members' representatives.
- 6.5 If a Management Committee member fails to attend three (3) consecutive meetings of the Management Committee without having obtained leave of absence from the Management Committee, the Management Committee may declare that member's position on the Management Committee vacant.
- 6.6 A Management Committee member is not entitled to nominate or appoint a substitute to take or fill that member's place on the Management Committee. The Management Committee may fill a casual vacancy for the position of an office bearer or Management Committee member until the next election of that person's office or position.
- 6.7 All meetings of the Management Committee shall be chaired by the President and failing him/her, then the Vice President. In the absence of both ~~the~~ President and Vice President, a Management Committee person chosen to do so by those present at such Management Committee meetings shall chair any such meetings.
- 6.8 Questions arising at a Management Committee meeting shall be decided on a majority vote from those members present and voting. Each Management Committee member present at a Management Committee meeting including the representative of a member who is an Association or Corporation, shall be entitled to one vote on any question. If there is an equality of votes on a question before a Management Committee meeting, the Chairperson of that meeting shall have a deliberative vote only and no casting vote and unless carried by a majority vote, the question shall be deemed to have passed in the negative.
- 6.9 The Management Committee may delegate any of its powers or functions (other than this power of delegation), to a Management Committee member or to a Sub Management Committee the membership of which need not necessarily be drawn from Management Committee members but who must be members of the Association and may vary or revoke such delegation. Procedures of a Sub Management Committee shall as far as possible and unless otherwise determined by the Management Committee, follow the procedures and directions of the Management Committee.
- 6.10 Any Sub Management Committee so appointed may co-opt any person being an Association member, to assist as required and a co-opted person shall be entitled to a vote on any matter before that Sub Management Committee.
- 6.11 Unless otherwise expressly provided to the contrary by this Constitution or by the Act, the Management Committee shall determine its own procedures.
- 6.12 The Association indemnifies each officer and Management Committee member and each of their respective heirs, executors, administrators and assigns against all charges, expenses, costs, claims or loss which is incurred or is sustained in the proper execution of a duty or function authorised by the Management Committee or otherwise arises from the proper performance by the officer or a Management Committee member of that person's duties or functions.

- 6.13 A quorum of the Management Committee shall be seven (7) Management Committee members.

7. OFFICERS BEARERS

- 7.1. Within fourteen (14) days after incorporation of the Association, the initial Management Committee is to appoint from within its membership, the following Office Bearers:

President;
Vice President;
Treasurer;
Secretary.

- 7.2 The Secretary shall be a resident of Norfolk Island.
7.3 The Office Bearers shall hold office until the next General Meeting of the Association at which election of Office Bearers by the members of the Association is to occur.
7.4 In the event of a casual vacancy in the position of Office Bearer on the Management Committee, the vacancy can be filled from within the membership of the Management Committee effective until the next scheduled election of that Office Bearer's position. The member of the Management Committee filling the casual vacancy retains one vote only on the Management Committee.

8. POWERS AND FUNCTIONS OF THE MANAGEMENT COMMITTEE

The Management Committee shall –

- 8.1. Manage and control the Association's finances including grants or funds of the Association.
8.2 Define the responsibilities of Office Bearers and if appropriate, of other Management Committee members.
8.3. Resolve any questions as to procedures and practices of the Association.
8.4. Make, introduce, alter and vary from time to time By Laws for the operation of the Association and its activities and objectives.
8.5. Do all things necessary and desirable for the promotion of the Association's Objects, Goals and Mission Statement (if any) and not being inconsistent therewith.
8.6. The Management Committee has no power to borrow or incur any liability on behalf of the Association other than in the ordinary course of business of the Management Committee as authorised by this Constitution and otherwise as authorised by the Association in General Meeting.
8.7. Where a matter or issue comes before a Management Committee meeting in which or as to which a Management Committee member has an actual or perceived pecuniary interest or in which or as to which the Management Committee member has an actual or perceived conflict of interest, then that Management Committee member must –
8.7.1 disclose that possible pecuniary interest or conflict of interest; and
8.7.2 if so directed by the Chairman of that Management Committee meeting on the vote of the remaining Management Committee members present at that time, refrain from voting on any such matter or issue including withdrawing from the Management Committee meeting until that matter or issue is dealt with.

9. ANNUAL GENERAL AND OTHER MEETINGS

- 9.1. An Annual General Meeting (the AGM) of the Association shall be held on a date to be determined by the Management Committee but to be no later than as may be required by the

Act. The Agenda of Business for such AGM shall be as set by the Management Committee and shall include those matters as required to be dispensed with and otherwise attended to by the Act at an AGM of an incorporated Association. Written Notices of Motion by any member (other than those motions originating from the Management Committee), are to be given to the Secretary at least twenty one (21) days before the AGM or before the General Meeting at which they are to be moved.

- 9.2. The Secretary or upon his or her failure to do so, the Management Committee, shall convene the AGM or any other General Meeting. Twenty one (21) days' notice at least of every AGM or General Meeting and an Agenda including details of the business to be conducted thereat shall be given to members either in writing to each member or by publication of such notice in a newspaper published in Norfolk Island. The proceedings at an AGM or General Meeting shall not be invalidated by any inadvertent noncompliance with the requirements of this clause.
- 9.3 The Management Committee may convene a General Meeting of the Association at any time.
- 9.4 The Secretary or, if he or she fails to do so, the Management Committee shall convene a General Meeting of the Association if the Management Committee receives a written requisition to do so signed by 150 members of the Association. Such requisition shall state the business and any motions to be considered at the proposed General Meeting, which is to be held no later than twenty one (21) days after the requisition is received by the Management Committee. No item of General Business shall be considered at a General Meeting requisitioned in accordance with this clause unless notice of the intention to include an item of General Business is first given to members.
- 9.4 In the absence of a President or Vice President of the Association, then the members present shall elect a Chairperson from those members present to conduct that General Meeting.
- 9.5 Proxies shall be allowed at General Meetings provided that the instrument of appointment of proxy signed by the member is delivered to the Secretary at or before commencement of the General Meeting. Where members of the Association are liable for payment of membership fees, the member appointing a proxy must be a financial member (if applicable).
- 9.6 Questions at a General Meeting shall be decided on a majority vote of those members present being financial (if applicable), and voting in person, or by the representative of a member which is an Association or Corporation or by proxy. If there is an equality of votes on a question at a General Meeting, the Chairperson shall have a deliberative vote but shall not have a casting vote and the question shall then be deemed to have passed in the negative. A poll may be called by the Chairperson at any time on any unresolved issue before a General Meeting.
- 9.7. The quorum for an Annual or General Meeting shall be no less than thirty members attending in person or by proxy.

10. AUDITOR and FINANCIAL ACCOUNTS

Financial accounts of the Association are to be kept and maintained to the extent and in the manner as required by the Act. The Association shall comply with the provisions of section 37 of the Act as to the preparation and if so resolved, the auditing and filing of the Association's financial accounts or in applying for exemption from such auditing requirements

11. BANK ACCOUNTS

Unless otherwise directed by the Management Committee, the Secretary and at least one other Management Committee member shall be the signatories to any Association bank or cheque account with all withdrawals from any Association bank or cheque account being first approved by the Management Committee.

12. DISCIPLINARY POWERS AND PROCEDURE

- 12.1. If the Management Committee is of the view after hearing any member upon a complaint in writing made about that member that the conduct of a member is injurious to the interests of the Association, the Management Committee shall deal with such matter to the extent as

determined by it including but not limited to:

- 12.1.1 Expelling the member;
- 12.1.2 Suspending the member's membership for such period and on such terms as the Management Committee determines including counseling or reprimanding the member; and
- 12.1.3 If warranted, report any possible criminal conduct or breach of laws to the Police.

12.2 A member aggrieved by and being the subject of a decision of the Management Committee under sub-clause 12.1 has the right to have that decision reviewed at a General Meeting of the Association called on the written request of that member to the Secretary who shall convene such General Meeting of the Association within twenty one (21) days of receipt of such written request. A General Meeting has on such review the same powers as the Management Committee including the right of reinstatement of such member on such terms and conditions as determined by that General Meeting.

13. MEMBERS BOUND BY RULES

Every member shall be bound by and submit to this Constitution and any By Laws (if any), or procedures made or determined by the Management Committee from time to time.

14. ALTERATIONS TO ASSOCIATION CONSTITUTION

All additions or alterations to the Constitution of the Association shall be made according to the provision of the Act or otherwise as provided or permitted by law.

15. ASSOCIATION LIABILITY

Without departing from the indemnity provisions of clause 6.12, the Association shall not be responsible for personal injuries and loss sustained personally by members participating in the Association's activities or using or accessing Association's facilities or property.

16. WINDING UP OF ASSOCIATION

If upon the winding up or dissolution of this Association, there remains, after satisfaction of all its debts and liabilities, any property or interests whatsoever, these shall not be distributed or paid among the Association members, but shall be given or transferred to another wholly charitable or not for profit organisation or association, whose purpose and constitution prohibit the distribution of income or assets among its members to an extent no greater than is permissible under the Constitution of this Association.

17. COMMON SEAL

The Management Committee shall provide for the safe keeping of the Common Seal of the Association which shall be titled - **NORFOLK ISLAND PEOPLE FOR DEMOCRACY INC.** and which shall be used and affixed only on the authority of the Management Committee or a Sub Management Committee authorised by the Management Committee to that extent. Every document to which the Common Seal is affixed shall be signed by a Management Committee member and countersigned by another Management Committee member, Secretary of the Association or other person or persons so authorised by the Management Committee. The Common Seal shall be held in a safe place by the Secretary of the Association.

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

1.28 EVENT BRIEF – Norfolk Island Tourism Brand Launch

Date and Time:	Wednesday 14 November 2018, 5.00 pm – 6.00 pm
Location:	Paradise Hotel
Attendees:	Eric Hutchinson, Administrator Mayor Robin Adams Lotta Jackson, General Manager <u>Invited:</u> Councillors Tourism Advisory Committee ATA members Tourism industry stakeholders Chamber of Commerce representatives

Outcomes Sought:

- Attend an event that was open to tourism industry stakeholders for the launch of the updated brand utilised to promote tourism by Norfolk Island Tourism and Economic Development (NI Tourism).

Key Issues:

- NI Tourism provide branding and logos that can be utilised by tourism providers in individual and group marketing and campaigns.
- NI Tourism received feedback on multiple occasions and over an extended period of time in relation to dissatisfaction with current branding and logos.

Background:

- There are two main roles that NI Tourism is responsible for:
 - Responsible for the marketing of Norfolk Island as an ideal holiday destination.
 - To encourage and increase visitation numbers.
- To work with local industry stake holders, wholesale partners in Australia and New Zealand, to deliver outcomes outlined in the *Norfolk Island Tourism Strategic Plan 2013-2023*.
- To implement a Public relations programme in hosting media and trade familiarisation visits.
- The management of Brand awareness. 360° of Wonder/ There's more to Norfolk Island.
- To maintain the website and all social media channels.
- To maintain and utilise a database of past visitors for online marketing purposes.

DEPARTMENT OF INFRASTRUCTURE, REGIONAL DEVELOPMENT AND CITIES

Responsible for the operation of the Visitors Information Centre (VIC)

- The VIC is a 7 day trading business that aims to provide a best practice visitor service by warmly welcoming all visitors and providing informative, impartial advice and answers to any queries.
- The VIC operates the Book Easy reservation system for on island bookings and off shore bookings via the website.
- Deals with enquiries received by walk-ins, email, phone, social media or the official website Norfolk Island Tourism.
- A VIC staff person also meets and greets every commercial flight into the island.

Brand and Logo

- Feedback from the Norfolk Island tourism industry indicated they were not happy with the existing Brand and logos used were limiting.
- Rather than rebrand (a massive and risky task), NI Tourism chose to update the existing brand creative - so this is NOT a new Brand but an UPDATE
- The Brand hasn't been updated since 2014 but the unique selling proposition "There's More to Norfolk Island" continues to be a strong message in NI Tourism marketing - so remains as the focus of Branding.
- Core message "360 degrees of Wonder" also remains as an adaptable tag line which resonates how wonderful Norfolk Island is as a destination.
- NI Tourism have encompassed everything unique about Norfolk Island as a destination and embraced the cultural, historical and natural elements in the design creative of the updated branding
- The catalyst for the brand update was the Norfolk Island Tourism Industry. The designer of the brand creative and development of the new logo is Rob Nisbet from Insprint. The driver of the project was Rose Evans, Team Leader Tourism & Economic Development.

Sensitivities: Nil

Attachments: Nil

