

## CHAPTER 10

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### ANSWERING THE TERMS OF REFERENCE

1. This chapter answers the terms of reference by summarising our advice on the Norfolk Island Government's financial and administrative capacity:

- to meet its obligations associated with existing government functions, including its capacity to provide services at appropriate levels, and the capacity of the community to contribute towards those services;
- to fund existing and foreseeable infrastructure requirements (including its ability to service loans); and
- to meet its obligations if, in the future, it were given responsibility for additional government functions in an extension of the Island's level of self government.

It discusses an issue arising from these answers — whether the distribution of functions between governments might be changed. In response to issues raised in our discussions on the Island, the chapter also provides our views on:

- how the Norfolk Island Government might go about developing a strategic plan; and
- where the *Norfolk Island Act 1979* might be reviewed.

#### *Capacity to Meet Existing Service Obligations*

2. ***Level of service provision.*** Many services provided on Norfolk Island are at levels equal to or above those provided on the mainland. Examples of such services are:

- school education;
- hospital services;
- police; and
- National Parks.

3. However, some services that the Norfolk Island Government provides are below the level of those usually provided on the mainland. The areas most below standard are:

- vocational education and training;
- health insurance;
- waste disposal;
- employment conditions;
- social security;
- welfare; and
- planning and the environment.

4. In relation to those functions that are provided by State and local governments on the mainland, it is reasonable that the Norfolk Island Government largely decide the range and level of services it provides. It is a self governing Territory and, like the States and other self governing Territories, should have the right to make such decisions. There are, in fact, large differences in the levels of services being provided by State governments.

5. For some services, particularly those where national objectives have been established, State governments do not have as much freedom. In broad terms, the areas where national objectives apply are services usually provided by the Commonwealth, and services provided by the States but partly funded by Commonwealth specific purpose grants. Under this approach, minimum standards of service for some groups in society, particularly the disadvantaged, are addressed.

6. We note that in some of the areas in which national objectives have been established, the Norfolk Island Government is not providing the level of service expected on the mainland, or indeed by some members of the Norfolk community. Such services which we think are not provided at an appropriate level (that is, at or near mainland standards) are:

- vocational education and training;
- health insurance; and
- social security.

7. Health insurance has some special aspects. We believe that it is being provided at well below mainland standards. We also note the lack of reciprocity between Norfolk and the Commonwealth and the problems this causes for both Norfolk residents visiting the mainland and mainlanders visiting Norfolk. In 1988-89, there were discussions between the two governments to try to overcome the deficiencies, but these came to nothing. We believe that negotiations should recommence as a matter of urgency. They should consider how the service can be improved, which government is best placed to

provide it (either itself or under contract with the other government) and how the costs should be shared.

8. ***Capacity to provide services at appropriate levels.*** Administrative capacity and contributions by the community (revenue raising) need to be improved if services are to be provided at appropriate levels.

9. There is a relatively low level of administrative efficiency (and hence capacity) in the Norfolk Island public sector and more needs to be done to overcome the deficiencies. The parliamentary and legislative systems, the limited range of skills in the public workforce and the legislative framework in which it operates act against the Norfolk Island Government providing, efficiently and at appropriate levels, the services for which it is responsible. For administrative efficiency and capacity to be improved, it is essential that changes be made. Our main suggestions are that:

- an external analysis of administrative structures be undertaken to provide advice on the most efficient way of fulfilling Government responsibilities;
- with respect to the Assembly and legislative arrangements, and the public service, changes be made so that responsibilities are clarified and lines of authority more clearly defined;
- decisions be taken on what skills are needed in the public service, and what skills would be better purchased under contract;
- the skills of the public service be enhanced both by training and, where necessary, changes to the staff;
- the Norfolk Island Government give priority to strategic planning and take a greater role in influencing the Island's economic and community development;
- annual and forward budgeting be seen as part of the Government's planning process; and
- the Norfolk Island Government become more open in its discussions and decision making and that methods of communicating government action and performance standards to the community be improved.

Some of these changes would require amendments to relevant legislation, including the Commonwealth's *Norfolk Island Act 1979* and the Norfolk Island Government's legislation covering the electoral system and the public service.

10. Even if such changes were made, we are not certain that a community of less than 1800 could be expected to have the administrative capacity to provide itself with the range of Commonwealth, State and local government services for which Norfolk has responsibility. Nor are we sure that to continue direct provision of the range of services for which the Norfolk Island Government is now responsible would be the best way to go. Further contracting of functions to the Commonwealth, a State or the private sector could

assist the Norfolk Island Government to fulfil its responsibilities within the limits of an improved administrative capacity. For other functions, joint arrangements, such as those for KAVHA and police, might better provide the necessary expertise.

11. The Norfolk Island Government has the financial capacity to meet its current responsibilities at an appropriate standard. If the Island Government were prepared to use its revenue capacity, there is no financial reason why Island residents could not be provided with all their services at mainland levels. Of course, the administrative limitations outlined above would still need to be addressed.

12. Norfolk Island's revenue capacity depends critically on the viability of its economy. Norfolk clearly has a very vulnerable economy and any one of a number of developments could do serious damage. Another pilots' strike or the collapse of the air services to the Island would sharply reduce tourism. Greater economic stability requires predictability of the investment environment, adequate quality of supporting infrastructure, and greater diversification of industries. The provision by the Government of economic infrastructure (harbour facilities, roads and a greater availability of power) would assist by providing prospective investors with a service environment that improved Norfolk's competitive position.

13. A minor downturn in the Island's economy, caused either by an external influence or changes in Norfolk Island government policy, could have an influence on its revenue raising capacity. However, we believe that our estimates of the economy and of the Norfolk Island Government's revenue raising capacity are conservative.

14. If Norfolk's financial capacity were to be used by increasing taxes, care would be needed to ensure that detrimental impacts were minimised. Any new tax structure should:

- not damage the tourist industry;
- not be detrimental to diversification of the economy;
- be equitable in its impost so that contributions increased as income and wealth increased (this is not the case with the present taxation regime);  
and
- be imposed or administered in ways that kept avoidance to a minimum.

It would be a beneficial byproduct of a new tax structure if it generated information, through returns provided to the Norfolk Island Government, that led to a greater understanding, and therefore better management, of the Island's economy.

15. Another point to be borne in mind is that the taxes now levied on Norfolk are imposed at high rates by mainland standards. This suggests that raising those rates further could be detrimental to the economy. At the same time, little use is made of taxes on income and wealth, including land. There are possibilities for broadening the range of taxes imposed. The consumption tax (GST) is one such possibility but it could be at least partly

avoided by the more wealthy members of the community who could make their purchases off-Island. Unless there were some 'safety net' provisions, such as for food and medical services to be exempt, a consumption tax could also impose a greater percentage tax burden on those who can least afford it.

16. **Conclusion.** The Norfolk Island Government has the financial capacity to meet its existing service obligations, but could not do so at appropriate levels unless tax revenues (and charges) were increased and administrative capacity and efficiency improved. Community commitment would be required to achieve both objectives. Largely because of the wide revenue powers of the Norfolk Island Government, no Commonwealth assistance appears to be justified.

17. We estimate that total revenue collections by the Norfolk Island Government could be increased by at least 60 per cent before the Island's population would be contributing more to the provision of government services than is expected of people on the mainland. We estimate that revenues would need to be increased by less than 20 per cent to provide, at appropriate levels, those services for which the Commonwealth has established national objectives which we consider are not provided at appropriate levels at present; that is, \$1.7 million more would need to be raised to provide vocational education and training, health insurance and social security at appropriate levels.

18. The conclusion that the Norfolk Island Government has the capacity to meet its existing obligations is, to some extent, based on the patterns of demand for services and the population structure that exist at present. In looking to whether existing obligations can be met in the future, it is necessary to consider how these and other elements might change. As the population ages, for example, the number of social service beneficiaries is likely to increase, and as the number of Veterans Affairs beneficiaries decreases in the future, the proportion of beneficiaries funded by the Commonwealth will decrease. It is likely, therefore, that higher costs will fall on the Island Government. Such emerging additional costs need to be kept in mind in planning for the future.

### ***Capacity to Meet Infrastructure Requirements***

19. Based on our analysis of the Island's economy and potential for increasing revenues, we believe that the Norfolk Island Government has the capacity to fund its existing and foreseeable infrastructure requirements. The total revenue raising effort required would still be below mainland levels.

20. In our opinion, the more important infrastructure needs are for:

- better harbour facilities, to ensure delivery of goods and reduce the time and cost in unloading ships;
- better road building equipment and roads, to ensure the safe transport of people and goods;
- new airport terminal, to ensure a safe and comfortable environment for tourists and other travellers;

- a waste disposal system that meets mainland and international standards;
- street lighting and footpaths in the business precinct, to assist tourists and encourage commercial activity; and
- upgraded government assets such as plant and equipment, workshops and computers.

In addition, it will be necessary in the longer term to spend large amounts on community facilities such as the school, the hospital and aged care facilities. These costs also seem to be within the financial capacity of the Norfolk Island Government.

21. Provided Commonwealth and international standards were met with respect to the airport and the waste disposal system, whether or not to upgrade the infrastructure would be a matter for the Norfolk Island Government. There is already provision in the airport accounts for maintaining and upgrading the runways and for the new terminal. As shown in Chapter 8, upgrading the waste disposal system would cost less than \$1 million.

22. However, if Norfolk's infrastructure were to continue to be run down, the standard of services might become a disincentive for tourists to visit the Island. A program of infrastructure improvement would assist tourism and would probably help to attract other industries. It might well prove essential to the long term viability of the economy and the well being of the community.

23. Our assessment that Norfolk can fund its current and future infrastructure requirements does not require any specific assumption that it will use loan funds to assist in this process. But while it is probable that Norfolk could raise sufficient recurrent revenue to fund infrastructure requirements, the use of loans might, on occasions, be beneficial to more timely service provision and cash flow management. Norfolk Island does have the ability to service loans and can borrow, subject to the approval of the Commonwealth Treasurer. There is nothing inherently wrong with 'investing in the future' and taking out a loan to provide a necessary injection of capital into the economy, or with future users of infrastructure being asked to contribute to the cost of that infrastructure. The essential step is a realistic examination of the costs and benefits of the options.

24. As a final note on infrastructure provision, the Commonwealth might consider whether it has some obligation to provide financial assistance to the Norfolk Island Government to assist it to overcome deficiencies pre-dating self government, such as the safety problems associated with the Cascade Cliff and the inadequacies of the harbour facilities.

### ***Capacity to Meet Future Service Obligations***

25. As already noted, not all community expectations and national standards are being met by the current level of services on Norfolk Island. In particular, a number of Commonwealth type services are not being provided at an appropriate level. These matters need to be addressed before consideration of whether the Norfolk Island Government has

the capacity to meet additional obligations that might flow from an extension of self government. In relation to the additional responsibilities that the Norfolk Island Government is seeking, we conclude that:

- there are no financial constraints on the transfer of land management, but appropriate administrative resources and arrangements need to be in place before the transfer of these powers; and
- KAVHA, the National Park and control of the sea are probably better managed as joint responsibilities because of national interests.

26. It seems that both the present Norfolk Island Government and the Commonwealth have recognised the need for change. Before discussing an extension of self government, we think it would be worthwhile for both governments to examine their objectives and consider whether a different allocation of functions might allow them to achieve those objectives and meet community needs more satisfactorily.

27. Since the stated objectives of the two governments are incompatible, such an exercise would require both sides to approach the future with an open mind and a preparedness to compromise. A realistic evaluation should be undertaken of which services should be the responsibility of the Commonwealth and which of the Norfolk Island Government; and of which government has the expertise to set objectives for the service and which is best placed to deliver the service. An evaluation of the relative revenue raising capacities against the expenditure required to fund each service would also be necessary. There could be a re-arrangement of functions for each government so that they better suited the unique circumstances of Norfolk Island, or even perhaps the adoption of the usual mainland model, with a split of powers and responsibilities closer to that between the Commonwealth and the ACT or the Northern Territory.

28. For example, the Commonwealth is clearly best placed to provide defence and foreign affairs. Also, the Commonwealth might be thought to have the expertise and resources to provide social security and health insurance more easily and cheaply than does the Norfolk Island Government. These services are not provided at appropriate levels on Norfolk at present and their costs are likely to grow. Some revenue source, say departure tax, may need to accompany a transfer of them to the Commonwealth. Alternatively, it might be concluded that, while the services would be best delivered by the Commonwealth, Norfolk Island should maintain responsibility for them and contract with the Commonwealth for their delivery at appropriate standards. In that case, no revenue source would need to be transferred, but a reasonable contract price, based on marginal costing and recognising the joint interest of the Commonwealth and the Norfolk Island Government, would need to be negotiated. Such arrangements might require additional taxation to finance them.

29. It might also be concluded that a wide range of other services is best provided by the Norfolk Island Government because it is most aware of local conditions. For most services, there is little reason why the Norfolk Island Government should not be free to choose the standard at which they are provided. Such services might include land management and planning, provision of power, water and sewerage and motor vehicle control. However, for some services — those in which the Commonwealth has a particular

interest in ensuring that minimum standards are satisfied — the standards at which they are provided should be subject to negotiation between the two levels of government. When agreement is reached, the Norfolk Island Government should be free to decide how the required outcomes are to be achieved and how best to deliver the service. As part of the negotiations, the Commonwealth might need to consider offering specific purpose assistance to help the Norfolk Island Government meet the required level of service.

30. Such an approach might enable earlier negotiations on extensions of the degree of self government.

### ***Strategic Planning for the Norfolk Island Government***

31. Whether or not a re-assessment of the distribution of powers takes place, it will be essential for the Norfolk Island Government to push on with its proposal to develop a long term strategic plan. Such a plan would need to cover the overall objectives of the Government, a broad program for their achievement, methods of evaluating progress and a regular review and updating process for the plan itself. The plan will need to cover:

- the economy;
- the range and level of services to be provided;
- infrastructure needs for the next ten to twenty years;
- community contributions (revenue raising), and how any increase would best be achieved;
- administrative arrangements (structures, policy advice, service delivery practices);
- a broad legislative program and improved procedures for developing draft legislation and bringing it forward to the Assembly; and
- budgeting, including the introduction of a system of forward estimates in budget processes.

32. To improve administrative capacity, the plan should include the external review of administrative structures suggested earlier.

33. Strategic planning for a government is a large task and requires commitment not only by the government but by the community at large. It needs to include a clear statement of objectives, actions to be undertaken and a development timetable. It must be subject to regular review to ensure that it remains relevant in the light of changing circumstances and priorities.

### **Review of the Norfolk Island Act 1979**

34. One of the objectives of the Commonwealth is to use this report as a background document to a review of the *Norfolk Island Act 1979*. We think that such a review is needed, particularly to clarify responsibilities, to make the Act more administratively useful and to strengthen accountability and conflict of interest requirements. It will also be necessary if changes in responsibility for particular functions are to occur.

35. **Division of responsibilities.** We think that a future Norfolk Island Act would be simpler and easier to administer if powers reserved to the Commonwealth were specified and the powers available to the Norfolk Island Assembly remained unstated. This approach would avoid having to consider whether Norfolk should have all the generally unstated powers of the States or local government authorities.

36. We also think that a Schedule which specified any matters for which the Commonwealth has established national objectives would be helpful. It would be likely to include all functions which are normally the responsibility of the Commonwealth on the mainland, such as social security and health insurance. But there are other areas of national interest also which, for the States, are areas in which they receive specific purpose payments from the Commonwealth to ensure that national or minimum standards are met and to protect the interests of minorities or disadvantaged groups. Such functions include primary and secondary education, vocational education and training, health and national parks. The Norfolk Island Government could have responsibility for the provision of these services, but would need to accept that minimum standards were to be met.

37. **Accountability.** The present Act gives considerable attention to the auditing and presentation of the Norfolk Island Government accounts, and rightly so. However, we believe that it should also require the Assembly to account to the Norfolk Island people and to the Commonwealth. This might best be achieved through an annual report which covered all activities of the Norfolk Island Government, including all the GBE's, the hospital and the tourist bureau. It would record the extent to which the Government's objectives, as set out in its strategic plan, were being achieved.

38. Some administrative review mechanism should also be set up. This could involve an extension of the functions of the Administrative Review Tribunal or, as an alternative, the establishment of an Ombudsman's Office.

39. The present Act requires the audited statement to be 'laid before the Legislative Assembly within 65 days of receipt by the Speaker' but does not specify a date by which the auditor must provide it to the Speaker. We note that the audited Statements for the financial year ended 30 June 1996 were not available until 25 November 1996 and thus need not have been presented to the Assembly until the end of January 1997 — seven months into the next financial year. The Act should be amended to require more timely presentation.

40. **Conflict of Interest.** This issue is covered by Section 39 (3) of the present Act, which provides that Members of the Legislative Assembly shall not take part in debates, or vote, on matters in which they have an interest. The Commonwealth could

consider the expansion of this clause to ensure that the Norfolk Island Government passed legislation, rules or guidelines by which it would handle conflicts of interest in the Assembly, in the executive and in the public service.

***Conclusion***

41. We conclude that the Norfolk Island Government has the financial capacity to meet the obligations associated with its existing government functions, in terms of both service provision and infrastructure requirements. However, some services are not being provided at appropriate levels and some infrastructure is in poor condition. The Norfolk Island Government is not raising sufficient revenue to deal with these deficiencies, though the capacity to do so is clearly available. Its administrative capacity is also below standard.

42. On the assumptions we have made, the Norfolk Island Government would have the capacity to fund some additional responsibilities. Nevertheless, we suggest that, before any discussion of transfers of additional functions takes place, the Norfolk Island Government should take steps to meet its existing obligations, particularly in Commonwealth type functions.

43. In our view, change is needed. The Commonwealth has a responsibility to ensure that certain services are provided to Australians at appropriate levels and this is not happening on Norfolk. If the Norfolk Island Government were to do nothing to improve these services, it should expect the Commonwealth to reclaim responsibility for them and some revenue powers to pay for them. If the Norfolk Island Government were to do nothing to improve its administrative capacity and infrastructure, there would be a risk of the Island economy declining, of revenue capacity falling and levels of services deteriorating. The Commonwealth could then be forced to take responsibility for a wider range of service provision and revenue raising for the Island. The level of independence of Norfolk Island would thereby be reduced.