



Australian Government

Commonwealth Grants Commission

UPDATE OF THE FINANCIAL CAPACITY OF NORFOLK ISLAND 2011

STAFF FINDINGS

2 DECEMBER 2011

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ACKNOWLEDGMENTS

We are grateful for the ready co-operation extended to commission staff by the Norfolk Island Government and its staff, the Administrator and Official Secretary and their staff and the Australian Government Department of Regional Australia, Regional Development and Local Government.

We also acknowledge with gratitude the participation of members of the Norfolk Island community and external entities, in providing data and responding to information requests.

These contributions have assisted staff understanding of Norfolk Island circumstances and provided valuable input to the writing of this report.

LETTER OF REQUEST 2011



Australian Government

**Department of Regional Australia,
Regional Development and Local Government**

Secretary

File Reference: DRA11/114

Mr John Spasojevic
Secretary
Commonwealth Grants Commission
First Floor, Phoenix House
86-88 Northbourne Ave
BRADDON ACT 2612

Dear Mr Spasojevic

Update of 2006 Review of the financial capacity of Norfolk Island

As you may be aware, the Australian Government is currently considering long-term reform options to ensure the economic sustainability of Norfolk Island. The Department of Regional Australia, Regional Development and Local Government is currently consulting with relevant Commonwealth agencies to develop a Cabinet submission detailing a preferred self-government model, to be considered by Cabinet early next year.

The Department chairs an Inter-Departmental Committee on Norfolk Island Governance. The Committee comprises all central agencies, along with smaller agencies with an interest in Norfolk Island. The Committee has been tasked with progressing the development of self-government models. The Central Agencies are of the view that a refresh of the analysis undertaken by the Commonwealth Grants Commission on Norfolk Island in 2006 is a necessary step in developing advice for Ministers on the long terms sustainability of Norfolk Island.

The Australian Government recently considered Stage One of a Norfolk Island Reform Package, which provides emergency financial assistance to Norfolk Island. Stage One also sought guidance as to preferred long-term reform options. It was agreed that the Commission be engaged to provide an update of the 2006 report, noting that this information was necessary in consideration of reform options.

As such, I would like to request your assistance in updating the 2006 report using the same methodology. I understand this could be done by Commission staff, and would not be a full Commission inquiry.

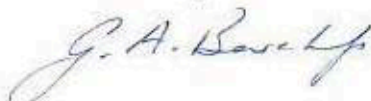
While the CGC is updating its earlier work, I consider there would be considerable value in any observations the CGC may be able to make on the relative costs of services, and the broader cost of living expenses of the Norfolk Island community, compared to similar remote mainland Australian communities.

I understand that officers from the Department of Finance and Deregulation and my Department have discussed the possibility of updating the 2006 report with Catherine Hull, Assistant Secretary. Ms Hull confirmed that provided all relevant information was available, the Commission staff may be able to update the report between September and November 2011, providing a completed report by the end of November 2011.

I understand that no Commission staffing costs would be incurred, however my Department will fund airfares, accommodation and travel allowance, as well as printing and incidentals for the report.

Due to timing considerations, I would be grateful for your response as soon as possible. The contact officer in the Department is Stephen Clay, who can be contacted on 6274 8118.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'G. A. Beauchamp', written in a cursive style.

Glenys Beauchamp

9 September 2011

TERMS OF REFERENCE FOR THE NORFOLK ISLAND INQUIRY 2006

Pursuant to Section 16C of the Commonwealth Grants Commission Act 1973, I ask the Commission to advise on the financial capacity of Norfolk Island (henceforth, the Island) to provide State and local government services comparable to the services available in comparable communities in the States and Territories (henceforth, the States)¹, having regard to the circumstances of the Island and assuming that the Island makes the Australian average revenue raising effort from its State and local government equivalent revenue bases and that the Island operates at the average level of efficiency.

In particular, advice is sought on:

- (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island Government operates at the same level of efficiency as State and local governments;
- (ii) the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges;
- (iii) the amount of financial assistance needed from the Australian Government to allow the Island to meet the cost of providing the services mentioned above (including the actual cost of servicing its existing loan agreements) having regard to the Island's capacity to raise revenue also mentioned above; and
- (iv) how much local government funding the Australian Government might provide to Norfolk Island on a basis consistent with local government funding arrangements applying in the rest of Australia.

The Commission is to provide a preliminary report by end June 2006 and a final by the end of September 2006.

Source: Commonwealth Grants Commission (2006) Review of the financial capacity of Norfolk Island 2006, p 6.

¹ In the remainder of this report, the words 'State' and 'States' include the ACT and the Northern Territory unless the context indicates otherwise.

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OVERVIEW

THE TASK

- 1 Commission staff were asked by the Department of Regional Australia, Regional Development and Local Government (the Department) to update the Commonwealth Grants Commission's (the commission's) 2006 report on the financial capacity of Norfolk Island.
- 2 In addition, the department asked for any observations on the relative cost of services and the broader cost of living of the Norfolk Island community compared with similar remote mainland communities. It also asked for an examination of the federal-type taxes and expenditure Norfolk Island administers.
- 3 The request from the Secretary of the Department, together with the terms of reference for the 2006 review, is at the front of this report. The commission's 2006 report is available on the website:
http://www.cgc.gov.au/publications2/other_inquiries2/norfolk_island_inquiry_2007/norfolk_island_review_2006.
- 4 Chapter 1 explains how staff have approached the task.

FINDINGS

- 5 The commission's 2006 report found the Australian Government would have needed to provide \$9.1 million in 2004-05 to enable comparable State¹ and local government services to be delivered on Norfolk Island if comparable revenue efforts were made and services were delivered at average levels of efficiency and for the existing loans to be repaid.
- 6 Table 1 shows that in 2009-10 the financing 'gap' is some \$13 million.²
- 7 The figure differs from the 2006 estimate because there have been significant changes on Norfolk Island and in comparable communities since 2004-05.

¹ In the remainder of this report, the words 'State' and 'States' include the ACT and the Northern Territory unless the context indicates otherwise.

² In this report, data in table columns may not add due to rounding.

- Economic conditions on the Island have weakened, notably tourism — the main industry — has contracted. This has weakened the capacity of the Island to raise revenue.
- The Island population has declined.
- The finances of the Norfolk Island Administration (the Administration) are in a weaker position with overall negative net financial asset holdings.
- Comparable communities' levels of spending and revenue raising have increased.

8 This financing gap reflects assessments which recognise that:

- Norfolk Island's revenue raising capacity is below the Australian average but that it could raise more than it is currently raising, particularly from land — land taxes and municipal rates — insurance taxation and motor taxes, if it applied comparable community revenue raising efforts to its own tax bases
- Norfolk Island needs to spend more on providing comparable services than the Australian average, and much more than it is currently spending, particularly in relation to health, electricity subsidies and general public services, if it provided services at comparable community standards
- the airport resurfacing loan needs to be repaid.

Table 1 Financing gap between comparable State and local government revenue and expenses on Norfolk Island, 2009-10

	2009-10	
	\$pc	\$'000
Gap between comparable State revenue and expenses (A)	6 040	10 974
Gap between comparable local revenue and expenses (B)	526	955
Loan repayment over 10 years (Chapter 3) (C)	627	1 140
Total gap (A) + (B) + (C)	7 193	13 069

Source: Table 4-3.

9 The figures for comparable revenue and spending on Norfolk Island reflect what is known of the actual levels of economic activity and the population of the Island in 2009-10.

- Revenue estimates are based on 2009-10 tax bases, some of which are much smaller than in 2004-05.
- For spending, the lower population and the comparatively fewer young and unemployed people on Norfolk Island than in similar communities have been recognised.
- The special circumstances of the Island insofar as they affect the use and cost of State and local government type services and tax bases have also been taken into account. The higher per capita costs of governing a small, remote, tourism-dependent community have also been recognised — the 5% higher costs arising from isolation and the 13%

impact of tourist numbers. The lower level of wages also reduced service delivery costs by 30%. This adjustment is the same as that used in the 2006 report.

- 10 Chapter 2 explains how we have dealt with special circumstances and Chapter 3 summarises the assessments of comparable revenues and expenses. Chapter 4 explains the calculation of the financing gap.

In context

- 11 The financing gap of \$13 million between comparable services and comparable revenues should be placed into context. In 2009-10, total Australian Government financial transfers to State and local government represented 43% of their spending on service delivery. If transfers represented the same proportion of comparable service delivery expenses on Norfolk Island, they would be some \$8 million.
- 12 If Norfolk Island were to receive State and local government financial assistance at the all-State average per capita level, it would have received about \$6.9 million. However, if it were funded like Tasmania, it would have received \$9.8 million and like the Northern Territory, \$26.3 million. These figures are not strictly comparable to the \$13 million financing gap calculated above because they include support for infrastructure investment.

Australian Government financial support

- 13 Two special circumstances should be recognised in determining the financial assistance that might be provided by the Australian Government — Norfolk Island's post 2009-10 interest earning capacity and the existence of a federal-type Goods and Services Tax (GST) on the Island.
- 14 Table 2 illustrates possible adjustments. If it were accepted that Norfolk Island now has only half the capacity to raise revenue from interest earnings as comparable communities, then the financial assistance required would increase. If the Norfolk Island Government retained its GST, at least part of it could be seen as equivalent to Australian Government financial assistance to comparable communities funded through the Australian GST.
- 15 The assistance required from the Australian Government would then be reduced to \$5.4 million. This figure would be different if:
 - it were assumed that some of the Norfolk Island Government GST should be used to fund federal services
 - adjustments were made for differences in scope and rate between the Norfolk Island Government GST and the Australian Government GST.

Table 2 Financial assistance 2009-10 adjusted for special circumstances

	2009-10
	\$'000
Total financial assistance required (Table 4-3)	13 069
Plus interest earnings deficit (Attachment E)	169
Less GST (Table A-1)	7 845
Adjusted financial assistance required	5 394

Source: Commission staff calculation — Table 4-5.

INTERPRETING THE RESULTS — IMPORTANT CAVEATS

- 16 The question of the sustainability of Norfolk Island was an issue identified in the letter commissioning this work. As discussed in Chapter 4, the Island would not be fiscally sustainable with the financial assistance calculated above. It makes no allowance for investment in new assets or investment in any backlog in the replacement of existing infrastructure.
- 17 The estimate of financial assistance is based on 2009-10 and would need to be adjusted for more recent developments.
- 18 The revenue and expenditure estimates reflect the average policies in comparable communities applied to the special circumstances of Norfolk Island, not the policy position of the Norfolk Island Administration. Nor do they represent recommendations on the appropriate level or structure of revenue raising or of the appropriate level of service provision on the Island.
- 19 This report updates the analysis contained in the commission's 2006 report using the same methods underpinning that report wherever possible. In some calculations, data limitations precluded this. In other cases, better data were available and have been used. In addition, some methods were no longer appropriate given changed circumstances. These instances are highlighted in the report.

KEY ASSUMPTIONS

- 20 In preparing these estimates we have assumed that the adoption of average tax policy and new service delivery arrangements have no impact on tax bases or on economic and social conditions on the Island. The same assumption was made in the 2006 report. However:
 - The imposition of State and local government taxes at average levels could be expected to lead to some contraction of the bases, implying care needs to be taken in introducing any changes to the tax system for Norfolk Island and our estimates of potential revenue collections and financial assistance would change. However, given the additional revenue Norfolk Island would need to collect to achieve average revenue raising effort, we would not expect major impacts.

- Any introduction of Australian Government services or taxes or possible changes to governance arrangements could affect the Island's fiscal capacity. For example, if income tax were imposed the level of economic activity and wages and prices may change. Such changes would have wide-ranging implications for our analysis of potential revenue and spending because they would change tax bases and the cost of providing government services. Adjustments to our estimates would be required.

LOCAL GOVERNMENT ASSISTANCE

- 21 Table 1 includes estimates of the assistance that might be provided for local government if it were provided in the same way as for the Indian Ocean Territories (IOT). For the IOT, an assessment of revenue raising capacity and the cost of providing services at average levels is made and the Australian Government funds the gap between these through general purpose assistance, untied local road funding and National Partnership Payments (NPPs).
- 22 However, a different model of local government funding is applied in the rest of Australia. If funding for local government were provided in the same way as for local government in the States, the Northern Territory or for the ACT, total funding of some \$229 000 would be provided to Norfolk Island. That amount is based on a common per capita figure, rather than being geared to the financial capacity of local government on the Island. Table 3 provides further information.

Table 3 State-like funding for local government funding, 2009-10

	2009-10	
	\$pc	\$'000
General purpose funding	62	112
Local roads funding	27	50
Australian Government SPPs	37	67
Total	126	229

Source: Table 4-6.

FEDERAL-TYPE REVENUES AND SPENDING ADMINISTERED BY NORFOLK ISLAND

- 23 In response to the additional request from the Department, this report has examined the federal-type functions the Norfolk Island Government performs. But it does not provide a detailed study of all taxes imposed and services provided by the Australian Government in other parts of Australia.
- 24 Federal-type taxes imposed by the Norfolk Island Government principally include the GST and customs duties, a fuel levy and immigration charges. The federal-type services it administers include general public services, welfare services and a health insurance scheme (funded by a levy on Island residents).

- 25 These federal-type revenues and services are shown in Table 4. They are not taken into account in the calculation of the financing gap between comparable State and local government revenue and expenses. However, as noted above, if an Australian GST is not imposed on the Island then the Norfolk Island Government's GST may be seen as equivalent to general purpose assistance provided by the Australian Government to other States.

Table 4 Revenue and expenses for federal-type activities administered by Norfolk Island Government, 2009-10

		2009-10
	\$pc	\$000's
Federal-type revenue		
GST	4 318	7 845
Customs duty	731	1 328
Health care/medivac levy	505	917
Fuel levy	7	13
Other federal-type revenue	2	3
Total federal-type revenue	5 562	10 106
Federal-type expenses		
Health benefits	103	188
Pensions	674	1 224
General public services	667	1 212
Other federal-type expenses	122	222
Total federal-type expenses	1 566	2 846
Net expenses for federal-type purposes	-3 996	-7 260

Source: Table A-1.

OBSERVATIONS ON COSTS OF SERVICE DELIVERY AND COSTS OF LIVING

- 26 We conclude that when looking at what needs to be spent to deliver comparable services to Norfolk Island residents, lower wages (30% lower) more than offset the effects of isolation, leaving service unit costs about 20% lower. Where labour inputs are low, or provided at Australian wage levels (such as for schools), other special circumstances such as the very small scale of operation over which to spread overhead costs can bring unit service costs up to, or above, the Australian level.
- 27 We also observe that tourists, who use government services, such as health and culture and recreation, are a much larger addition to the resident population (the basis for the per capita estimates) than in the rest of Australia. The per capita spend in comparable communities needs to be increased by 13% to account for this.
- 28 Conflicting evidence was available on costs of living. With significantly cheaper housing, but considerably more-expensive goods and services, it is difficult to estimate the net impact on the overall cost of living compared with a comparable community. While some bulky or heavy

goods, including food, are likely to be more expensive than average because of freight, other smaller or luxury items can be cheaper. Fuel is much more expensive, but the quantity used by the average resident is much less than they would be elsewhere in Australia, especially in remote communities, because of the small size of the Island. Health, electricity and transport costs compared to the mainland are high, but with reduced user charges or a subsidy, would become comparable. Housing costs tend to be lower because of relatively cheap construction costs (despite higher material costs) and the absence of municipal rates.

CHAPTER 1

INTRODUCTION

THE TASK

- 1 Commission staff were asked by the Department of Regional Australia, Regional Development and Local Government (the Department) to update the commission's 2006 report on the financial capacity of Norfolk Island. The letter of request from the Secretary of the Department dated 9 September 2011 is at the front of this report.
- 2 In the 2006 review, the commission was asked to advise on how much financial assistance the Australian Government would need to provide to enable State and local government-type services to be provided on the Island at comparable Australian levels, if comparable Australian revenue raising efforts were made, and if services were delivered at the average level of efficiency. Advice on how Norfolk Island might be funded, consistent with local government funding arrangements applying in the rest of Australia, was also sought. A copy of the report is available at http://www.cgc.gov.au/publications2/other_inquiries2/norfolk_island_inquiry_2007/norfolk_island_review_2006.
- 3 The department has, in addition to the update of the 2006 estimates, asked staff for any observations on the relative cost of services and the broader cost of living of the Norfolk Island community compared with similar remote communities. It has also asked for an examination of the federal-type taxes and expenditure Norfolk Island administers.

APPROACH TO THE UPDATE

- 4 Because staff have been asked to update the estimates contained in the commission's 2006 report, replicating the methods used in that report, we have used the 2006 methods and relied on the decisions made by the commission at that time wherever possible. Methods have been changed, and explained in the attachments, when:
 - data to replicate the old method were unavailable

- new more appropriate data were available, or
 - circumstances had changed.
- 5 As in the 2006 review, staff have measured the financial capacity of Norfolk Island to provide State and local government-type services in the most recent year for which audited data were available. This was 2009-10.
- 6 The measure of the fiscal capacity of Norfolk Island is based on the premise that State and local government taxes, charges and services comparable to those in other small remote Australian communities are imposed or delivered on Norfolk Island. It is not based on the taxes and charges imposed and services provided on Norfolk Island.
- 7 The same caveats that applied to the commission's 2006 results apply to these findings.
- These estimates make no allowance for changes to the Island economy and circumstances that might occur if the average revenue and service delivery policy of comparable communities were introduced to the Island or any Australian Government services or taxes were introduced.
 - They relate to 2009-10 data which would need to be adjusted for any more recent data on Island population, tourist numbers, movements in wages and prices, and in economic conditions.
 - Different decisions could be made on what services to provide or how revenues are collected from Norfolk Island from those of comparable State and local governments. This would mean what services cost or what revenue is actually raised would differ from our assessments.
 - The assessments of service cost often rely on the observed cost in comparable communities, adjusted for known special circumstances on the Island. If services were delivered in a different way, say with a different level of efficiency, costs could be higher or lower than we have estimated. If a service were provided by a contractor, the price could be marginal or average cost based and could differ from our estimates. Decisions on how services are actually delivered may mean that costs differ from those we have estimated.

UPDATE PROCESS

- 8 Commission staff visited Norfolk Island from 25 to 29 September 2011 to hold discussions with the Administrator, the Chief Minister, other Ministers, Norfolk Administration personnel and a number of business people. The focus was on changes to Norfolk Island's circumstances since the 2006 review and collecting data to allow the calculations undertaken then to be updated.
- 9 A draft of staff findings was released on 2 November 2011 and comments sought.

- 10 The changes in the assessments since the draft findings are the result of comments and additional information received. Attachment G summarises the main changes since the 2006 report and since the draft. Attachment H provides a list of contributors.

METHODS

- 11 As for the 2006 report, we have calculated:
- how much revenue would be raised if comparable Australian revenue raising efforts were made (comparable revenue)
 - how much would need to be spent to deliver comparable State and local government services on Norfolk Island (comparable expenses)
 - how much is needed to repay existing loans, and
 - how much financial assistance would be required to cover the gap between expenses, loan repayments and revenue.
- 12 We have updated the 2004-05 calculations using 2009-10 data.

Comparable communities and special circumstances

- 13 As for the 2006 report, we have recognised what is now done in comparable communities and how the present circumstances of the Island influence its comparable revenue raising capacity and expenses. The comparable communities and special circumstances concepts recognise that while Norfolk Island requires services similar to those available in comparable communities, there might be circumstances that mean those services will not be provided at the same cost. Also, they recognise that while Norfolk Island could make the same effort to raise revenues as in a comparable community (impose the same tax rates), the special circumstances which define Norfolk Island tax bases may mean that a different amount of revenue per person can be raised.
- 14 In its 2006 report, the commission considered Norfolk Island as being comparable to a small, remote community in an existing State, requiring services from State and local tiers of government. It included an allowance for the cost of both a local government legislature and administration and a State legislature and administration, appropriately scaled. This allowance carries forward in this update.
- 15 However, the comparable community concept did not rely on a direct comparison with another actual community. It required the establishment of a base (from a comparable community), with adjustments to this for the circumstances of Norfolk Island, such as its economy, demography, size and isolation.
- 16 Two approaches were used:
- A virtual comparable community was constructed using averages from real communities or the States as a whole, and adjustments were made for Norfolk Island's special

circumstances. For example, for most State revenue assessments, the commission applied all-State average tax rates to Norfolk Island revenue bases. For many expense assessments, the commission used the all-State average expense and adjusted this to reflect the lower salary levels that apply on Norfolk Island, the higher isolation costs and the impact of Norfolk Island's large tourist population. Sometimes the King Island¹ or Northern Territory experience was used to provide the base before adjustment for the Island's circumstances.

- What actually happens on Norfolk Island was sometimes accepted as what would happen in comparable communities in the rest of Australia. Where appropriate, further adjustments were made to align service costs with a fully comparable level. School education is an example of a service for which this model has been used. Service provision is by a teaching service contracted from the New South Wales Department of Education using the curriculum and the standards of that education system.

- 17 The choice of approach depended on the information available on each type of State or local government service, the way the service was delivered on the Island and availability of information for a comparable community.
- 18 However, the 'Norfolk way' is not treated as a special circumstance. The commission regarded it as a choice about what and how services are provided made by the Norfolk Island people that would result in either some excess fiscal capacity that could be used for other purposes or a fiscal gap that would need to be closed.
- 19 The same approach has been followed in this update, relying on the comparability decisions made by the commission in 2006. Chapter 2 describes the special circumstances of Norfolk Island and Chapter 3 summarises the assessments. Attachment G summarises where changes have been made.

Average efficiency

- 20 As for the 2006 report, the estimates have been updated based on what it would cost to deliver the service at an average level of efficiency in comparable communities in the rest of Australia. Again, we have assumed that the average level of efficiency is reflected in the average amount spent by the States or comparable communities.
- 21 Staff have again recognised the one exception made by the commission: overhead costs. The assessments do not include the full allowance that might be required to enable Norfolk Island to cover the additional head office costs that it might incur if it were a State independently performing the full range of functions of, for example, a department of education, health or a separate treasury. The commission did not consider that necessary or sensible for a community of fewer than 2 000 people. It therefore made some allowance for the higher per capita costs of

¹ King Island is a remote and isolated island off the coast of Tasmania in Bass Strait. It has a population of 1 638 and a relatively healthy economy dependent on primary production and tourism.

general public services, such as the operation of the Legislative Assembly but did not make large scale allowances for service delivery head office costs.

Financial assistance

- 22 The financial assistance that Norfolk Island would have required in 2009-10 is calculated in Chapter 4. It has been calculated as the sum of the comparable expenses Norfolk Island would have incurred for all State and local government services provided in comparable communities less the comparable revenue it could raise. The amount required to repay the airport resurfacing loan is also added. This is the same approach as taken in the 2006 report.
- 23 However, in this update, staff have also considered how special circumstances might affect how much financial assistance the Australian Government might provide.

CHAPTER 2

SPECIAL CIRCUMSTANCES

INTRODUCTION

- 1 The terms of reference for the 2006 review asked the commission to advise on the financial capacity of Norfolk Island, 'having regard to the circumstances of the Island'. As the commission did in its 2006 review, staff have interpreted 'circumstances' as those characteristics of the Island, its people or community which would:
 - increase or reduce the cost of delivering similar services, compared to the cost in a comparable community elsewhere in Australia
 - vary the revenue that could be collected from comparable revenue policies.
- 2 The commission noted that these 'characteristics' were not always matters of choice for those living on the Island. Sometimes they are inherent characteristics which have an impact on what revenue can be raised and what it will cost to deliver services. These differences between the Island and comparable communities are treated as 'special circumstances'. Those which arise because of policy choices on the Island are not.
- 3 It said that the characteristics that make Norfolk Island different from many other Australian communities were:
 - its remoteness and isolation
 - its island status
 - its economy, including its tax bases, the large number of tourists on the Island at any one time and its low wage levels
 - its population characteristics
 - its culture
 - its governance arrangements.
- 4 In addition to these, staff have identified a number of other characteristics that make Norfolk Island different in 2009-10. These include:

- the agreement that the Commonwealth Government will underwrite the provision of an air service
 - the introduction of a GST by the Norfolk Island Government
 - the budgetary situation of the Norfolk Island Government, including its low level of cash holdings on which to earn interest and its associated lack of depreciation provisions with which to replace its infrastructure.
- 5 Some of these differences are relevant to Norfolk Island's financial capacity and are treated as special circumstances. Some are not. This chapter sets out the staff's understanding of these circumstances in 2009-10. We have identified how the special circumstances of the Island might cause its revenue raising capacity or the cost to deliver comparable services to differ from that of comparable communities. The details of the calculations pertaining to these special circumstances are provided in the attachments. We have also considered how the special circumstances might influence the amount of financial assistance the Australian Government needs to provide.
- 6 This chapter also responds to the request from the Secretary of the Department for observations on the relative cost of living of the Norfolk Island community compared with similar remote mainland communities.

LOCATION

- 7 Norfolk Island is located in the South Pacific Ocean, some 1 500 kilometres from the eastern Australian coast. It is some two hours flying time from Brisbane and two and a half from Sydney, the nearest major cities.

Isolation

- 8 The costs of providing government services are strongly influenced by this isolation. It increases the cost of freight, fuel and electricity, communications, training and recruitment. Bringing visiting experts to the Island is expensive because of the distance and the need for them to stay for the period between air flights. This impacts directly on the cost of delivering government services, such as education and health, and indirectly on the need to provide subsidies to government business enterprises (GBEs), or to accommodate a reduced return on equity. The impact of isolation on government costs is estimated in Attachment B and taken into account in estimating what it would cost to deliver services on the Island.
- 9 Norfolk Island has no deep water harbour and relies on a lighterage service to transport essential goods and equipment from non-container ships to the jetties on the Island.
- 10 The Island relies almost exclusively on air services for movement of people to and from its shores. Based on aircraft and passenger movements, its airport is the equivalent of a regional airport elsewhere in Australia. However, its costs reflect a requirement to operate at the standard of an international airport for immigration, customs, emergency and security services

and the need to accommodate large aircraft. While current immigration and customs functions are administered under Norfolk Island legislation, the emergency and security arrangements reflect Australian Government requirements. These combined requirements are reflected in a high user charge for airport services and differentiate the Norfolk Island airport from those operating in regional centres in most other parts of Australia.

- 11 Passenger air services to and from the Australian eastern seaboard are currently provided by a Norfolk Island Government air charter which has been a drain on the Island's budget. However, this arrangement will be terminated in 2012 and the Australian Government has let tenders for an alternative service which it will underwrite. This should have a positive impact on the Norfolk Island Government's fiscal position as it will remove the need for it to fund a transport subsidy.
- 12 Issues of air and sea transport, including the impact of Australian Government border arrangements, are part of the special circumstances affecting the Island. Transport issues are addressed in Attachment D.

Other effects of remoteness and isolation

- 13 The remoteness of the Island also impacts on other aspects of service provision.
- 14 **High cost of electricity for consumers.** The cost of generating electricity is high on Norfolk Island because a stand-alone diesel plant is used. The cost of importing the fuel required to run the generators is high and there is a high level of in-built redundancy. This high cost to consumers is recognised as a special circumstance in the assessment of an electricity subsidy in Attachment D. We note that the introduction of solar cells has not reduced the retail price of electricity.
- 15 **Waste management.** Being a small island creates special problems for waste disposal. Waste management regimes need to meet the requirements of international treaties and protocols for the prevention of sea pollution. Consequently, options are fewer and more expensive for a small, remote island community. This special circumstance affects our local government expense assessments in Attachment E.
- 16 **Access to tertiary medical services.** Medical services for Norfolk Island residents are delivered through the Hospital Enterprise, which operates the single hospital on the Island. For major surgery and other high level specialist care, residents have to travel to larger centres in Australia or New Zealand. The cost of that travel is recognised as a special circumstance in the health assessments in Attachment D.

ECONOMY

- 17 The characteristics of the Norfolk Island's economy affect its tax bases and its costs of delivering services.

Tax bases

- 18 The Norfolk Island tax bases reflect its economic circumstances. In 2004-05, Norfolk Island had a very strong land tax and municipal rates base reflecting the value of its tourist industry for accommodation and commercial purposes and the desirability of residential properties, given the amenity of the Island and its views. It also had a strong gambling tax base, again reflecting the influence of the off-shore advantages for gambling and tourists. In 2009-10, these tax bases remain stronger than the all-State average but not as strong as they were in 2004-05, largely because of the downturn in the tourist industry.

Tourists

- 19 As for the 2006 report, we have recognised that tourists increase the Island's revenue raising capacity in a number of areas, including land revenue (increasing land values), gambling and motor taxes and revenue for the water, sewerage and electricity authorities.
- 20 We have also recognised that tourists increase the cost of providing services such as health when they use services provided at the hospital, culture and recreation when they visit the museums and use the parks and recreational facilities, and water, sewerage and electricity when they are visiting the Island. Sufficient capacity must be provided to deliver government services to this group. Attachment B explains how we have recognised the impact of tourists in our assessments.
- 21 Table 2-1 shows that the average daily number of tourists on Norfolk Island in 2009-10 increased the 'on-Island' population above the ordinarily resident population by 27.6%. In the rest of Australia, international tourists represented 2.3% of the population.
- 22 The incidence of tourists on Norfolk Island has fallen since 2004-05, when a ratio of visitors to resident population of 35.6% was recorded. This reduction is compounded by an increase in the Australian ratio of 1.8% to 2.3%.

Table 2-1 Ratio of visitors to resident population, Norfolk Island and Australia, 2004-05 and 2009-10

	2004-05		2009-10	
	Norfolk Island	Australia	Norfolk Island	Australia
Average visitor population	717	354 027	501	500 485
Resident population	2 013	20 210 819	1 817	22 152 984
Ratio of tourists to total population	0.356	0.018	0.276	0.023

Note: Average visitor population is calculated as the average of 12-monthly tourist populations. Calculated from the number of tourists on Norfolk Island and average length of stay, provided by the Norfolk Island Administration.

Source: Table B-4.

Unemployment

- 23 As in 2004-05, Norfolk Island did not have significant unemployment in 2009-10. This is because it is difficult for Norfolk Islanders to remain on the Island, or to return to it, without work. There is no income support as there is in Australia.
- 24 The ability to remain in employment is also a condition for granting a Temporary Entry Permit. Those temporary residents who are unable to retain work generally are required to leave the Island.
- 25 Table 2-2 shows a greater proportion of persons in the labour force on Norfolk Island than in the rest of Australia. The unemployment rate is also much lower. We have recognised the impact of this in our welfare assessment.

Table 2-2 Labour force statistics, Norfolk Island and the rest of Australia

	Norfolk Island	Rest of Australia
	%	%
Percentage of persons in the labour force		
Labour force participation	76.9	65.7
Unemployed	2.0	4.9

Source: Deloitte Access Economics (April 2011) Wellbeing Report — Norfolk Island. Report to the Department of Regional Australia, Regional Development and Local Government. Data for Australia from ABS, 6202.0 Labour Force, Australia, April 2011.

Wage levels

- 26 An unusual feature of the economy is the low level of wages. Wages in many areas of the public sector are said to be about 70% of Australian levels. In the hospitality sector, wages tend to be in the lower part of the Australian range. These lower wage levels in part reflect the tax free status of most Island incomes (no Australian income tax is payable on incomes earned on the Island), and possibly also the desirability of living on the Island.
- 27 Lower wages mean that government services on Norfolk Island can be provided at a lower cost than in other Australian communities. We have made adjustments for this special circumstance in our assessments when we have used Australian average expenses as the benchmark of what Norfolk Island would need to spend to deliver comparable services. Attachment B provides the details.
- 28 If a different tax regime were introduced, especially one including income tax, such adjustments would need to be re-examined.

POPULATION ISSUES

- 29 The characteristics of Norfolk Island's population that need to be addressed in any assessment of its financial capacity are:
- its size and

- its characteristics, which increase the demand for some services and reduce it for others.
- 30 The ordinarily resident population of Norfolk Island, which includes residents and people staying on General Entry or Temporary Entry Permits (see Table 2-3), is small and has declined since 2004-05 when it was 2013. The August 2011 Census show the ordinarily resident population as 1795. This represents a further decline from 2009-10. We were told that many young family men had been leaving the Island to work in the Queensland mines because they could not obtain adequate employment on the Island.

Table 2-3 Ordinarily resident population of Norfolk Island, 2007-08 to 2009-10

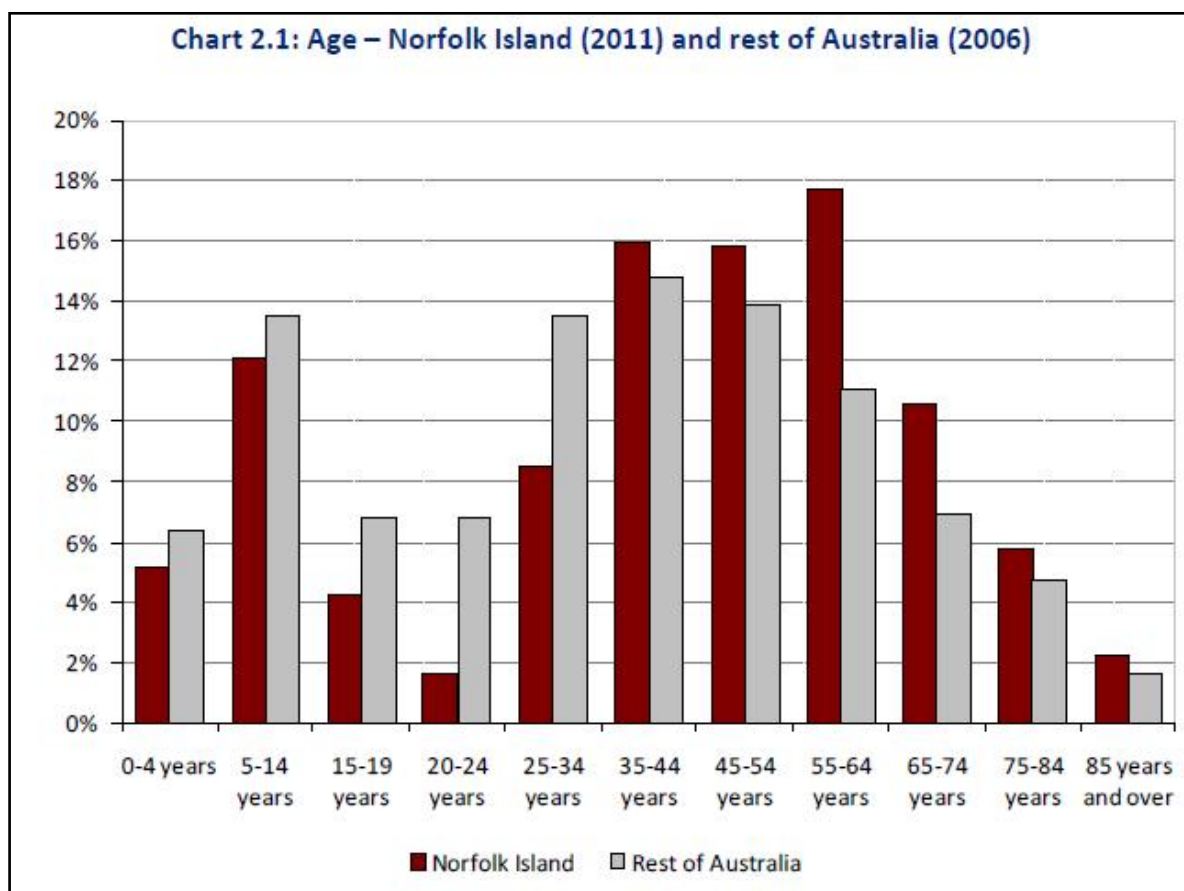
	2007-08	2008-09	2009-10
Residents and those on general and temporary entry permits	1 844	1 830	1 817

Note: January populations have been estimated for each financial year as a linear trend between Norfolk Island Census numbers for August 2006 and 2011.

Source: Norfolk Island Government Census 2006, 2011 and commission staff estimates.

- 31 Norfolk Island's population is older on average than the combined population of the Australian States. Figure 2-1 below shows that the proportion of the population in all age groups below 35 years was much lower on Norfolk Island than it was in the rest of Australia. For the older age groups, the proportions were all higher on Norfolk Island.
- 32 As a result, Norfolk Island has a relatively lower number of people aged under 25, reducing its requirement for some services such as education. It also had a larger population aged 65 and over, imposing a higher requirement for some services, such as health.

Figure 2-1 Age distribution: Norfolk Island and Australian States



Source: Deloitte Access Economics Wellbeing Report — Norfolk Island, April 2011. Report to the Department of Regional Australia, Regional Development and Local Government.

COMMUNITY AND CULTURE

- 33 Descendants of the Bounty Mutineers and others, who relocated from Pitcairn Island to Norfolk Island in 1856, made up 48% of the ordinarily resident population at the 2006 Census. This group, and its history, influences the culture on the Island in various ways, including through certain behaviours and attitudes described as ‘the Norfolk Way’, use of a Pitcairn language and the holding of cultural ceremonies recalling the group’s history.
- 34 In 2006 the commission carefully considered if the unique community and culture of the Island should be reflected in how revenue capacity or service delivery levels were estimated. It decided that it was more appropriate to base these calculations on what happened in comparable communities without a ‘community and culture’ adjustment. That decision has been carried over into this update.

GOVERNANCE AND GOVERNMENT POLICIES

- 35 The Norfolk Island Government is responsible for all services provided to Islanders and raises revenues that span, at least conceptually, the range of services provided by the Australian Government, State governments and local governments and the range of revenues they raise. This puts the Norfolk Island Government in a unique position among Australian governments.

Administrative arrangements

- 36 The Administration also operates largely without visible boundaries in providing federal, State and local government-type activities. There are some activities that are administered directly by the Australian Government, such as national parks, but even these draw on Norfolk Island Government resources provided under contract. Some units of government deliver seamless services that include elements that would be delivered by 3 levels of government in the States. Because hierarchical administrative boundaries are not relevant to the existing Norfolk Island situation, it is difficult to identify the separate costs of some State or local government-type services. This affects the comparisons between Norfolk Island expenses and revenues and those of the States.
- 37 In undertaking our assessments, we have recognised, as did the commission in 2006, that it would not be sensible for a small community to administer the delivery of services in the same way as larger jurisdictions, such as the States for example, with separate treasury, education and health departments. We have assumed that the diseconomies of scale would be dealt with in much the same way as they are at present.

Policy choices

- 38 The Norfolk Island Government has made different policy choices in relation to revenue raising. Its revenue policy includes a GST and a greater degree of revenue drawn from dividends paid by GBEs. A number of other taxes and charges that are universal or common throughout the rest of Australia are not administered on Norfolk Island. For instance, individuals do not pay income tax or municipal rates and businesses do not pay payroll tax.
- 39 The Norfolk Island Government has also made different policy choices in relation to service provision. Per capita expenses in the areas of health and welfare are lower, reflecting offsetting revenue from user pays policies for most services delivered and a lower than average range of welfare services than are provided in the States. Norfolk Island provides no welfare housing. Other areas where Norfolk Island's expenses are below State averages are education, electricity and transport. Its expenses are higher in the area of services to industry, including tourism, and general government services.
- 40 These governance arrangements and different policy choices have implications for the revenue Norfolk Island is actually raising and what it is spending on services compared with what is raised and spent in the States. Attachment A provides a comprehensive comparison. It shows that, in total from State and local revenue sources, Norfolk Island raises less revenue than the Australian average and spends much less on providing these services. It does,

however, raise a larger amount of revenue from its GST, a federal-type tax, as its rate is higher and it has a wider scope. This is mostly used to fund State and local-type services.

- 41 **The GST.** Revenue from the Island GST is currently used to deliver federal, State and local-type services. The Norfolk Island Road Map (2011, p 8) states that ‘Commonwealth GST will not apply to Norfolk Island and the Norfolk Island Government will have its own tax regime’.
- 42 However, there are 3 options going forward:
- The current GST arrangements remain.
 - The Australian GST might be adopted.
 - The GST might be abolished entirely as for the IOT.
- 43 GST revenue raised in comparable communities is used to fund State service provision. Any GST revenue raised on the Island could be viewed as a source of funds for the delivery of comparable state services and act as an offset to financial assistance required.
- 44 If a decision were taken to reduce taxes on Norfolk Island, it would be a matter for the Australian Government to decide if that should lead to more financial assistance being provided.
- 45 **Interest earning capacity.** We note that Norfolk Island’s financial circumstances mean that, at present, unlike comparable communities, it is unable to raise comparable revenue from interest earnings. We were told it has not provisioned for general government depreciation and observe from its financial accounts that it has used reserves previously held in GBEs to fund recurrent expenses. It is unclear how much of this is the result of policy decisions of the Norfolk Island Government and how much is due to factors outside its control, such as the decline in tourist numbers or the policy of the Australian Government. The estimate of financial assistance we have made assumes that it is within the control of the Norfolk Island Government. However, staff consider this is a special circumstance which has a bearing on the future fiscal sustainability of the Island and on how much financial assistance the Australian Government might provide.

COST OF LIVING

- 46 Evidence on the relative cost of living is mixed. For example, rents are cheaper on the Island while food, electricity and fuel are more expensive.
- 47 The Wellbeing report found that rents on Norfolk Island were significantly lower than those in Australia. Median rent on Norfolk Island was between \$140 and \$179¹ in 2011. At March 2011, median rent in Hobart was \$320², which is the lowest median rent of all capital cities.

¹ Norfolk Island rent data were provided in ranges. Therefore the median cannot be precisely calculated.

² Rental Report, Australian Property Monitor, March 2011.

This is consistent with the view expressed by many on the Island that housing costs tend to be lower, in part because of relatively cheap construction costs (wages and land servicing costs are low although building material costs are higher) and the absence of municipal rates.

- 48 The report, however, found that housing loan repayments were greater on the Island. Nearly half (48%) of Norfolk Island households have monthly housing loan repayments greater than \$1 600 compared to just over one-third (36%) of households elsewhere in Australia.
- 49 All building materials, cars, most food and other goods need to be imported. We were told that, while some bulky or heavy goods were likely to be much more expensive than average because of freight, other smaller or luxury items can be cheaper.
- 50 In regard to food, we collected data on a range of grocery items. Table 2-4 shows that groceries cost about 43% more on Norfolk Island than in the Australian capital cities.
- 51 Fuel is more expensive on Norfolk Island, \$2.41 compared with \$1.45 per litre for unleaded fuel. However, considering the small size of the Island and the distances travelled, fuel costs would not have a significant impact on the cost of living. The cost of electricity is greater on Norfolk Island. The cost of a kilowatt per hour is \$0.69 compared with less than \$0.30 in the Northern Territory³ in 2009-10. Health expenses are much higher than for comparable communities, given the high level of cost recovery imposed. However, Norfolk Island residents do not pay the Australian Medicare levy or Australian income taxes which help fund health costs elsewhere in Australia. The costs of travelling off-Island are higher than in comparable communities because air travel is the only real option.
- 52 In considering the relative cost of living on Norfolk Island, we have examined aspects of the cost of living in comparable communities within Australia. The only identified available data comes from the Western Australian Government's regional price index, 2007. From this report, the most comparable towns to Norfolk Island are thought to be Exmouth, Derby and Kununurra. The similarities are based on these being very remote towns with populations ranging from 2 100 to 4 300. However the differences are significant, including the greater impact of mining on the economies of these remote Western Australia towns than on Norfolk Island, and the perceptions of attractiveness of lifestyle in the communities.
- 53 In these 3 towns food is around 16% more expensive than in Perth. Table 2-4 suggests that on Norfolk Island, food is even more expensive. Fuel is considerably more expensive on Norfolk Island than in the mainland capitals, while there is less than 3% variation between remote Western Australia and Perth. Electricity is up to 35% more expensive in Derby or Kununurra than in Perth but 130% more expensive in Norfolk Island than in the capital cities. This suggests that the price of goods is considerably higher in Norfolk Island than even in ostensibly comparable communities within Australia.

³ Northern Territory Power and Water Corporation, 2009-10 annual report. It compares the price of electricity in the Northern Territory with those of the Australian States and the ACT.

Table 2-4 Comparison of price of selected grocery items

	Norfolk Island	Average of Australian capital cities	Difference
	\$	\$	%
1 litre UHT milk	2.30	1.90	21
1 kg regular beef mince	11.00	7.96	38
1 loaf sliced white bread (650 g)	3.05	3.43	-11
1 kg potatoes	4.98	2.70	85
1 kg of rump steak	19.95	18.06	11
1 kg beef sausages	9.75	7.13	37
1 litre orange juice	3.40	2.11	61
1 packet of 6 rolls toilet paper	9.95	4.61	116
500 g tub margarine	4.99	3.94	27
1 kg chicken breasts	17.95	13.01	38
1 dozen eggs	7.39	5.26	41
1 kg white sugar	2.95	1.56	90
1 kg long grain rice	4.69	2.78	69
1 kg tomatoes	7.25	6.31	15
1 kg carrots	6.15	2.21	178
1.5 kg packet frozen peas	5.95	2.18	173
Total	121.70	85.13	43

Source: For Australia, Australian Bureau of Statistics retail price index catalogue no 6403.0.55.001, June 2011 and Woolworths online, postcode 2602.

- 54 Because of low wages, the cost of delivering government services on Norfolk Island are generally less costly than on mainland Australia. Because of remoteness, all government services (such as education, health, water and electricity) in remote Western Australia are considerably higher than in Perth.
- 55 With significantly cheaper housing, but considerably more expensive goods, it is difficult to estimate the net impact on the overall cost of living compared with a comparable community. Also the impact of Norfolk Island Government policy on the cost of health and welfare, fuel and electricity and other services on Norfolk Island makes comparisons difficult.
- 56 Without robust measurement, firm conclusions on relative costs of living are hard to reach.

CHAPTER 3

NORFOLK ISLAND COMPARABLE REVENUES AND EXPENSES

INTRODUCTION

- 1 This chapter updates the assessments of Norfolk Island's comparable revenue and expenses for State and local government-type functions made in response to clauses (i) and (ii) of the 2006 terms of reference:
 - (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island Government operates at the same level of efficiency as State and local governments
 - (ii) the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.
- 2 The terms 'comparable revenue' and 'comparable expense' in this update refer to revenue that could be raised or expenses incurred in delivering services on Norfolk Island if policies of comparable communities elsewhere in Australia were, on average, followed. Slightly different terms were used in the commission's 2006 report, namely 'revenue raising capacity' and 'required expenses'.
- 3 The chapter outlines the approach the commission took in its 2006 report and any changes made in this update to calculate comparable revenue and expenses. It duplicates the commission's 2006 classification of Norfolk Island's revenues and expenses to the State and local sectors and draws on the detailed calculations set out in Attachments A, B, C, D and E to reach conclusions about comparable revenues and expenses.
- 4 The commission's observation in its 2006 report that the results in no way imply how Norfolk Island should be raising revenue or delivering services remains current.
- 5 In updating the assessments we have used similar data to that used in the 2006 report wherever possible. Data were obtained for both Norfolk Island and those communities considered comparable in the commission's 2006 report. As in the 2006 report, we have made

no adjustments for how economic conditions might change if governance arrangements changed. For example, no assumptions have been made about what might happen to wages if Australian income taxes were introduced. Nor have we attempted to quantify how tax bases or the use of services might respond if the tax and expenses policies of comparable communities were introduced.

DATA ON REVENUE RAISING AND SPENDING

- 6 Financial and other data for 2009-10 have been used in this update because it is the most recent year for which audited accounts are available for Norfolk Island.

Norfolk Island revenues and expenses

- 7 We have compiled a budget for Norfolk Island in the same form as that for the States and Territories and consistent with the budget compiled in the 2006 report. Data to do this were sourced from annual reports of the Norfolk Island Government and detailed financial statements provided by the Administration.
- 8 The budget includes all transactions of the Revenue Fund, the Hospital Enterprise accounts, and the Healthcare, Roads, Water Assurance and GST Funds of the Administrative Services Fund. However, as most GBEs were out of scope for the commission's 2006 analysis, only the net financial impact of these GBEs, such as electricity, were included.
- 9 In 2006, the commission consulted with the Norfolk Island Government to classify revenues and expenses to State or local government levels of responsibility on the basis of the usual pattern in the rest of Australia, and taking into account any special circumstances. We have attempted to duplicate the allocation as closely as possible in this update including applying similar splits of aggregates.
- 10 Table 3-1 shows Norfolk Island revenues and expenses separated into federal, State and local-type activities.
- 11 The approach taken to separating financial information into federal, State and local government components can affect subsequent comparisons between actual expenses and our assessments based on comparable communities. General public services, tourism and depreciation and interest earnings are categories where the allocation between sectors may make disaggregated comparisons less meaningful.

Table 3-1 Norfolk Island Government revenues and expenses, by level of government, 2009-10

	Federal-type	State-type	Local-type	Total
	\$'000	\$'000	\$'000	\$'000
Revenue				
GST/NSL	7 845			7 845
Healthcare/Medivac Levy	917			917
Customs duty and fees	1 328			1 328
Fuel levy	13			13
Land revenue (absentee landlord levy)		170		170
Stamp duty on conveyances (land title fees)		461		461
Financial transaction taxes		11		11
Gambling taxation		1 424		1 424
Motor taxes		503		503
Interest income	1	91	93	185
Water and miscellaneous user charges			773	773
Contributions by trading enterprises	0	476	1 813	2 289
Fees and fines		69		69
Other revenue	2	386	494	883
Total revenue	10 106	3 590	3 174	16 869
Expenses				
Education		2 703		2 703
Health (a)	188	2 654	51	2 893
Welfare (a)	1 224	134		1 358
Police		681		681
Immigration Office (b)	47			47
Administration of justice		315		315
Corrective services		295		295
Culture and recreation		379	135	513
Primary industry		15		15
Water, sanitation and protection of the environment			873	873
Roads			920	920
Manufacturing			65	65
Non-Urban Transit		150		150
Tourism		930	930	1 859
General public services (c)	1 212	1 236	1 187	3 635
Debt charges		45		45
Depreciation	175	443	458	1 077
Total expenses	2 846	9 980	4 620	17 445
Net expenses	-7 260	6 390	1 446	576

(a) Net of user charges
(b) Net of fees charged
(c) Net of management fees charged to GBEs.
Source: Table A-1.

State and local government revenues and expenses

- 12 As a starting point for assessments, we have compiled a set of financial information for State and local government jurisdictions used as comparable communities from the commission's existing databases and Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS). This financial information was assembled on the same basis as for the 2006 report. Because this requires some reallocation of ABS GFS data, numbers may not always align with published ABS data.
- 13 Attachment A contains the details and provides comparisons with Norfolk Island's financial circumstances.

STATE REVENUE COMPARISONS

- 14 The major State revenues are derived from payroll tax, land tax, duty payable on transfer of property, gambling taxes, insurance taxes, motor vehicles registration and transfer duty and mining royalties. Significant revenue is also derived from State-owned trading enterprises and interest earnings.
- 15 Table 3-2 shows the average revenue raised by States in 2009-10.

Methods

- 16 The commission's 2006 assessments of what Norfolk Island could raise from comparable State taxes and charges were based on a tax by tax approach. Staff have duplicated that approach in this update. Norfolk Island's comparable revenue from the common range of taxes applied by State and local governments was estimated by applying the average tax policy to Norfolk Island's tax bases. For example, to derive an estimate of what might be raised from payroll tax on Norfolk Island, the average effective payroll tax rate applied by the Australian States was multiplied by an estimate of the wages bill of the Norfolk Island private and GBE sectors above the average tax threshold used by the States. The commission explained in its 2006 report that average tax policy, or effective tax rate, was used because all communities within a State face the same tax regimes.
- 17 As was done in the 2006 report, where estimates of Norfolk Island bases were not available, it was assumed that the Australian average per capita amount of revenue could be raised, adjusted where appropriate for special circumstances, such as the higher incidence of tourists on Norfolk Island.
- 18 The comparable revenue for Norfolk Island has been estimated for each State revenue source. Information on Norfolk Island revenue bases and States tax policies in 2009-10 from the commission's work on State finances was used as the basis for calculating these estimates. There has been no significant change in State revenue policies since the commission's 2006 report so we have adopted similar approaches in this update (except where changes to data availability caused us to make modifications). The details of each assessment can be found in

Attachment C including any changes to methods that have resulted from changed data availability.

- 19 The individual assessments are summed to estimate the overall revenue capacity.

Results

- 20 Table 3-2 compares Norfolk Island's actual per capita revenue with that of the Australian States. It also shows the comparable revenue we have assessed in this update as well as in 2006. It shows that
- Norfolk Island raised 63% of the Australian average per capita State-type revenues in 2009-10. The main areas where Norfolk Island's revenues are lower than the Australian average are payroll tax, land tax, conveyance duty, insurance, mining revenue and interest. It raises more than average from gambling and other revenue.
 - The composition of revenue on Norfolk Island differs from that in comparable communities reflecting the different tax policies on Norfolk Island compared with Australian States.
 - We have assessed Norfolk Island to have the capacity to raise slightly more revenue than its actual revenue in 2009-10. It has been assessed to be able to raise more revenue from land, stamp duties on conveyances, insurance taxation, motor tax and interest. It has been assessed as being able to raise less than it does from gambling, other revenue and contributions from trading enterprises.
 - Compared to 2006, its capacity to raise revenue has declined, primarily in the area of land tax.
- 21 In particular, the table shows the following.
- Although Norfolk Island did not raise revenues from some taxes, such as payroll taxes and insurance taxes, we have assessed comparable revenue in this update because comparable communities are subject to these taxes. In other cases, the scope of some taxes is narrower than in the States. An example of the latter is land tax where States apply tax to all commercial and industrial land whereas only land owned by absentee landowners on Norfolk Island is subject to land tax.
 - Norfolk Island's assessed capacity to raise revenue from land tax is almost twice the Australian average. This is because it has a comparatively large area of high value commercial/industrial land. The area data were supplied by the Norfolk Island Government. Valuation was based on both the valuation used in the 2006 report and land valuations done by the Queensland Valuer-General for Norfolk Island's absentee landowner levy. A comprehensive valuation of all commercial and industrial land on Norfolk Island would need to be undertaken to gain more accurate estimates.
 - Norfolk Island has been assessed as having no capacity to raise revenue from mining because the only potential source is the Cascade rock. As the proceeds from the sale of this rock have been used to repay the loan from the Australian Government used to

stabilise Cascade Cliff and the loan is still not repaid, we have concluded, as the commission did in 2006, that Norfolk Island currently has no capacity to raise revenue from this source.

Table 3-2 All-State average and Norfolk Island State-type revenue and comparable revenue, 2009-10

	All-State average revenue	Norfolk Island actual revenue	Comparable revenue, current update	<i>Comparable revenue, 2006 report</i>
	\$pc	\$pc	\$pc	\$pc
Revenue source				
Payroll tax	758	0	14	25
Land revenue	269	94	519	1 517
Stamp duty on conveyances	541	254	352	200
Financial transaction taxes and stamp duties on shares and marketable securities	10	6	0	0
Gambling taxation	228	784	258	254
Insurance taxation	138	0	300	107
Motor taxes	318	277	426	332
Other revenue	49	213	49	20
Mining revenue	297	0	0	0
Contributions by trading enterprises	280	262	170	148
Interest	156	50	156	115
Fees and fines	75	38	42	35
Total revenue \$pc	3 121	1 976	2 286	2 754
Total revenue \$'000	69 145 720	3 590	4 153	5 544

Source: Attachment C.

- Norfolk Island's actual revenue from gambling activities is much higher than the comparable revenue we have estimated. Less than 10% comes from a commission on Tattersalls Lottery product sales on the Island. Most comes from the Gaming Enterprise for licensing of online gaming operators. Fees and duties are paid under agreements struck with each operator.
- 22 Compared with the commission's findings in 2006, the largest change is for land tax. In this update, we have estimated considerably lower revenue due largely to lower commercial and industrial land values and, in part, use of more detailed data on the value distribution of land on Norfolk Island to determine tax that could actually be raised. Growth in comparable revenue for conveyances reflects higher volume of sales in this update. The other main area of difference was insurance taxes where we used updated estimates of the premium base which were significantly higher than in the commission's 2006 report.
- 23 More details on how we derived the comparable revenue estimates for Norfolk Island can be found in Attachment C.

LOCAL REVENUE COMPARISONS

- 24 Local government revenues are defined to include those taxes normally raised by local governments in the rest of Australia. Revenues include municipal rates, user charges and other revenues.

Methods

- 25 The same tax-by-tax assessment approach was used to estimate Norfolk Island's capacity to raise revenue from local government taxes and methods used by the commission in 2006 were replicated. King Island (Tasmania) was used as the comparable community for many assessments, adjusted for the differences with Norfolk Island.
- 26 For municipal rates, Norfolk Island's capacity to raise revenue was assessed using the amount per capita that the Tasmanian State Grants Commission considered King Island could raise. This differs from what King Island actually raises. For user charges, the amount per capita raised by King Island Council was applied to Norfolk Island's tourist adjusted population. For other revenue and grants from State governments, the average per capita amount raised by local councils in the States was used as a basis for estimating comparable revenue with applicable adjustments for Norfolk Island's special circumstances. Details of the approach used for each assessment are in Attachment E.

Results

- 27 Table 3-3 compares Norfolk Island's actual per capita revenue with that of the Australian local government average revenue, Norfolk Island's comparable revenue per capita in 2009-10 and for the 2006 report. It shows that Norfolk Island raised more revenue per capita than the average local council, reflecting some policy choices on the Island, particularly the government monopoly on liquor supply which generates considerable revenue. It also shows that Norfolk Island's assessed capacity from a comparable range and level of taxes is greater than the average of local governments, and slightly more than is currently collected.

Table 3-3 All State average and Norfolk Island local government-type revenue and comparable revenue, 2009-10

	Average local government revenue	Norfolk Island actual revenue	Comparable revenue, current update	Comparable revenue, 2006 report
	\$pc	\$pc	\$pc	\$pc
Municipal rates	526	0	768	596
User charges (a)	425	425	572	541
Interest income and other revenue	403	1 321	452	251
Grants from the State	99	0	73	48
Total revenue \$pc	1 453	1 747	1 865	1 436
Total revenue \$'000	31 678 444	3 174	3 388	2 891

- (a) For Norfolk Island, these are mainly comprised of charges for water, sewerage and waste management.

Source: Attachment E.

- 28 The table shows that the Norfolk Island Government presently raises some \$3.2 million compared with an estimated comparable revenue of \$3.4 million. It also shows that Norfolk Island would raise more from municipal rates and user charges and much less from interest income and other revenue, if it operated like comparable Australian local governments.
- 29 Overall, there has been some growth in comparable revenue since the commission's 2006 report but the changes have not been large.

AN ALTERNATIVE BROADER MEASURE OF REVENUE CAPACITY

- 30 A measure of the Island's total capacity to raise revenue might be derived from an estimate of Gross Territory Product (GTP). Attachment F describes how estimates of GTP have been derived, suggesting that Norfolk GTP may be between \$82.0 and \$89.5 million (\$45-49 000 per capita). For simplicity, we have assumed an average of these 2 figures (\$85.8 million) for our analysis. Table 3-4 shows what Norfolk Island could raise in federal, State and local taxes if it applied Australian average rates to its GTP. It also shows how actual revenue and our updates of comparable revenue compare.

Table 3-4 Broad measure of revenue raising capacity, 2009-10

	GDP/GSP	Federal revenue raised	State revenue raised	Local revenue raised
Australia				
\$pc	57 914	13 036	2 824	1 453
\$m	1 285 665	288 797	62 559	31 678
% of GDP/GSP		22.5	4.9	2.5
Norfolk Island if Australian proportions applied				
\$pc	47 198	10 602	2 297	1 163
\$m	85.8	19.3	4.2	2.1
Norfolk Island actual				
\$pc	47 198	5 562	1 976	1 747
\$m	85.8	10.1	3.6	3.2
% of GTP		11.8	4.2	3.7
Norfolk Island comparable revenue from this report				
\$pc	47 198	na	2 286	1 865
\$m	85.8	na	4.2	3.4

Note: Revenue excludes mining royalties and user charges.

'na' — not available. No calculation of federal-type comparable revenue made in this report.

Source: ABS National Accounts.

- 31 In constructing this table, mining is excluded from federal, State and local-type revenue because Norfolk Island has no capacity in this area; revenue for user charges is not shown because in this report they are offset against expenses.

- 32 If the Norfolk Island Government had raised the same proportion of revenue from gross product as in the rest of Australia, it would have raised \$2 297 per capita from State sources and \$1 163 from local sources. This is less in total for these 2 sources than the assessment based on individual taxes.

COMPARABLE STATE EXPENSES

- 33 State-type services are those normally provided by State governments. They include education, health, welfare, law and order services and general public services, such as representation, administration and financial management. They also include depreciation of assets required for the delivery of comparable services and debt charges on the borrowing required to provide them.

Methods

- 34 To estimate what it might cost to deliver services at Australian average levels, we used the same approach as for the 2006 report, using the comparable communities concept in a pragmatic way. There were 2 main methods.
- The first method is used where the current level of service provision or the way services are delivered on Norfolk Island differ from a comparable community. An appropriate expense level is constructed from costs of services delivered in comparable communities drawn from the rest of Australia, at average levels of efficiency. Adjustments to the averages or expense levels derived are required to take account of where Norfolk Island circumstances differ from those of the chosen base. For example, population factors, salary levels, isolation costs and the incidence of tourists on Norfolk Island are regarded as special circumstances. Health care is an area where this model was used.
 - The second method is used where existing services on Norfolk Island are delivered at or close to 'comparable' levels and at average levels of efficiency. In these cases, present expense levels are accepted as the cost of delivering comparable services. Adjustments are applied as necessary to align service costs with a fully comparable level and validity checks made generally against an average level of expense incurred by State governments. School education is an example of a situation in which this model was used. Service provision is by a teaching service contracted from the New South Wales Department of Education and Training using the curriculum and the standards of that education system.
- 35 The details of each assessment can be found in Attachment D including any changes to methods due to changes in data availability or circumstances.
- 36 The individual assessments are summed to estimate the overall comparable expenses for Norfolk Island.

Results

- 37 Table 3-5 compares the all-State average expense per capita for State-type services, what Norfolk Island actually spends and the comparable expenses we have assessed in this update and in the 2006 report. It shows that much less per capita is spent on State service provision on Norfolk Island than in comparable communities and suggests that Norfolk Island would have needed to increase its expenses by about \$2 800 per capita (\$5.1 million), a 52% increase, to provide comparable services.

Table 3-5 All-State average and Norfolk Island State-type expenses and comparable expenses, 2009-10

	All-State average	Norfolk Island expenses	Comparable expense, current update	Comparable expense, 2006 report
	\$pc	\$pc	\$pc	\$pc
Service				
Education	1 612	1 488	1 624	1 313
Health expenses	1 858	2 584	2 732	1 742
Health user charges	-176	-1 123	-343	-239
Welfare and public housing	784	74	461	358
Law and order	634	710	744	404
Culture and recreation	168	208	278	194
Water, sanitation and protection of the environment	134	0	88	48
Electricity	44	0	1 049	774
Services to industry	183	520	285	256
Transport	660	83	50	306
General public services	493	680	883	511
Superannuation	762	0	251	178
Depreciation	271	244	225	168
Debt charges	178	25	0	0
Total \$pc	7 605	5 493	8 326	6 013
Total \$'000	168 465 153	9 980	15 127	12 105

Note: Comparable superannuation expenses exclude salaries for police, education and health, which are included in the expenses of these functions.

Source: Attachment D.

- 38 The table shows that comparable expenses are significantly higher than Norfolk Island expenses for electricity subsidies, welfare and net health.

- The electricity subsidy would give Norfolk Island the capacity to provide electricity to consumers and pensioners at a reduced price. This recognises the impact that Norfolk Island's remoteness and available technology has on the cost of generating electricity¹.
 - For welfare, an increase would allow the provision of a wider range of services, some of which are not presently provided.
 - While Norfolk Island's gross health expenses are almost comparable, user charges are much higher.
- 39 For services to industry, transport and depreciation, our assessment shows that Norfolk Island spent more per capita in 2009-10 to deliver services compared to equivalent communities.
- For services to industry, this reflects the Norfolk Island Government's high spending on tourism, which is the main industry on the Island. Even though the assessment provides for 9 times the average State spending, the government spent more than this.²
 - For transport, the assessment no longer includes provision for the Norfolk Island Government to subsidise the airline. This is because the Norfolk Island Government will no longer have any financial responsibility for the airline service.³
 - For depreciation, we assessed that Norfolk Island would need to spend a little less than it presently does on depreciation of State-type assets, if they were provided and depreciated at the Australian average level, adjusted for salary levels, isolation and tourists.
- 40 For the remaining services, spending by the Norfolk Island Government is close to comparable expenses. For example, education and much of the law and order services are delivered on a contractual basis by other government bodies, so that their costs are close to comparable standards.
- 41 As in the 2006 report, we assumed that Norfolk Island requires no capacity to pay debt charges, because the Norfolk Island Government currently has little capacity to borrow, and could probably only do so from the Australian Government. It is therefore unlikely to incur any interest on any borrowings it may undertake.⁴
- 42 Table 3-5 shows that, compared to the 2006 report, comparable expenses have increased by \$2 300 per capita, an increase of 38% on account of price increases and improvements in service delivery. Although Norfolk Island expenses also increased in the intervening period,

¹ The method used for this inquiry is different from that used in the 2006 report. In 2006, the method calculated the subsidy needed to provide the same retail price for Norfolk Island electricity as the subsidised retail price on the Bass Strait Islands. However, since 2006 the Norfolk Island electricity price increased by much more than the Bass Strait Islands subsidised price (57% and 13% respectively). Therefore, we calculated the subsidy needed to increase the Norfolk Island price by the same proportion as the Bass Strait Islands price. See Attachment D for a more detailed explanation.

² Tourism costs are equally divided between State-type services and local-type services.

³ The Australian Government has taken on the financial obligations relating to the termination of the existing airline contract and to underwriting the provision of a replacement airline service.

⁴ The interest payments incurred on an unpaid debt were unusual.

at a higher rate than comparable expenses, they remain below the amount needed to deliver comparable services. (They increased by \$2 100 per capita, an increase of 63%.)

COMPARABLE LOCAL EXPENSES

- 43 Local government services have been defined to include those services normally provided by local governments in the rest of Australia. Services include governance, roads, waste disposal and recreation and community facilities.

Methods

- 44 Similar assessment approaches as for State expenses were used to estimate Norfolk Island's comparable local government expenses. As in the 2006 report, the King Island Council is used as a guide to what a comparable community might need, as are Australian average expenses of local councils. Adjustments were made to these for the special circumstances of Norfolk Island. Attachment E contains more detail on the specific assessment methods for each service and the results of the assessments and compares the results with the 2006 report.

Results

- 45 Table 3-6 compares the average Australian local government expense per capita, what Norfolk Island actually spends and its assessed comparable expenses for this update and for the 2006 report. It shows that Norfolk Island spends more than twice the average per capita amount spent by local governments in the provision of services. It spends more per capita on general public services, tourism, transport (roads) and housing and community amenities.
- 46 The table suggests that Norfolk Island would need to spend \$2 400 per capita (\$4.3 million) to deliver local government services comparable to those provided in the rest of Australia. This is \$150 per capita less than it actually spent in 2009-10. It would need to spend more than it did in 2009-10 on public order, education, health and welfare; housing and community amenities (mainly on water, sanitation and protection of the environment); culture and recreation; depreciation and other expenses (miscellaneous costs, not able to be classified elsewhere). We consider that, to deliver comparable services, less could be spent on general public services, services to industry and transport (roads). A separate assessment of superannuation expenses was not needed as these were included implicitly in the assessments for individual services.
- 47 Compared with the 2006 report, comparable expenses have increased by 15% or \$300 per capita, slower than the rate of increase in Norfolk Island's expenses (which have increased by 41% or \$740 per capita).

Table 3-6 All-State average and Norfolk Island local government-type expenses and comparable expenses, 2009-10

	Average local government expenses	Norfolk Island actual expenses	Comparable expense, current update	Comparable expense, 2006 report
	\$pc	\$pc	\$pc	\$pc
Service				
General public services	240	654	567	418
Public order, education, health and welfare	120	28	59	42
Housing and community amenities (a)	313	481	774	598
Culture and recreation	187	74	155	123
Services to industry and other economic affairs (b)	63	547	316	245
Transport and communications	281	507	199	209
Depreciation	na	252	272	414
Debt charges	21	0	0	0
Other expenses	56	0	47	30
Total expenses \$pc	1 279	2 543	2 391	2 078
Total expenses \$'000	27 889 000	4 620	4 343	4 183

Note: A separate allowance for superannuation expenses was not needed. This is included in the individual service assessments. Similarly, many of the depreciation expenses are covered in other assessments. The comparable expenses for depreciation include only those not already in other assessments.

(a) Includes water, sanitation and protection of the environment.

(b) Other economic affairs includes tourism.

Source: Attachment E.

TOTAL CAPACITY AND COMPARABLE EXPENSES

48 Table 3-7 compares what Norfolk Island spent and raised in 2009-10 with what it would have needed to spend and could have raised if it operated like comparable communities. In 2009-10, there was a gap of \$7.8 million between the Norfolk Island Government's State and local government expenses and revenues. If it had provided comparable State and local government services at average levels of efficiency, and raised comparable State and local government revenues, it would have needed \$11.9 million to meet the gap.

Table 3-7 Comparison of Norfolk Island revenues and expenses with comparable revenues and expenses, 2009-10

	Norfolk Island actuals		Comparable	
	2004-05	2009-10	2004-05	2009-10
	\$m	\$m	\$m	\$m
Revenue				
State	3.7	3.6	5.5	4.2
Local	3.4	3.2	2.9	3.4
Total (A)	7.2	6.8	8.4	7.5
Expenses				
State	6.8	10.0	12.1	15.1
Local	3.6	4.6	4.2	4.3
Total (B)	10.4	14.6	16.3	19.5
Net (A-B)	-3.3	-7.8	-7.9	-11.9

Source: Commission staff analysis, Attachments C, D, E.

- 49 For each government sector, comparison between Norfolk Island's actual and assessed revenues and expenses is influenced by the way we have allocated some functions between sectors, as it was in the 2006 report. Because there is no distinction made between State and local government services or revenues on Norfolk Island, our split is a best estimate. It is more appropriate in such cases to compare total State and local government expenses.
- 50 For example, Table 3-6 suggests that the Norfolk Island Government spends slightly more on local government services than a comparable Australian community. However, this observation arises partly because of the split we used to allocate expenses such as tourism and general public services between the local government and State government sectors.⁵ If total State and local government-type spending are considered together, our analysis suggests that the Norfolk Island Government needs to spend much more than it did in 2009-10 to deliver services equivalent to a comparable community (\$19.5 million in comparable communities, compared to actual spending of \$14.6 million).
- 51 Furthermore, for some individual services, it is also more meaningful in the Norfolk Island context to make comparisons at the total level, rather than at the government sector level. For example, for general public services, at the local government level we assessed that the Norfolk Island Government could spend \$87 per capita (\$158 000) less than it did in 2009-10 to achieve a comparable service standard (Table 3-6). However, at the State level, we assessed that it would need to spend \$203 per capita (\$369 000) more to deliver general public services equivalent to a comparable community (Table 3-5). Together these assessments suggest that the government would need to spend about \$116 more per capita (\$211 000) to deliver general public services equivalent to a comparable community.

⁵ For tourism expenses, we allocated half of the government's expenses to local government and half to State government. For general public services, we allocated administrative expenses according to the proportion of non-Administration expenses that were allocated to each level of government. Attachment A describes the allocations in more detail.

- 52 While the comparison between actual expenses and our assessments are influenced by the splits we used to allocate expenses and revenues between sectors, these splits do not affect our assessments of total revenue raising capacity or comparable expenses. We have based our assessments on the experience of comparable communities which reflect actual allocations between sectors.

CHANGES IN NORFOLK ISLAND COMPARABLE REVENUES AND EXPENSES

- 53 Table 3-8 shows how estimates of comparable revenue and expenses per capita have changed since the 2006 report and how the all-State revenues and expenses have changed over the same period.
- 54 At the State level, the growth in comparable spending is broadly in line with what has happened in the States, but revenue growth is much less, largely because land tax estimates have come down with falls in the estimated value of commercial land between 2004-05 and 2009-10.
- 55 At the local level, assessed growth in both comparable revenues and spending is lower than what has happened across local government. Revenue has grown slower because King Island's user charges and rates have grown slower than average. Expenses have grown slower mainly because King Island expenses have grown at a slower rate than the average for all local governments, as well as comparable expenses decreasing for roads and depreciation.

Table 3-8 Change in Norfolk Island comparable revenue and expenses per capita compared with change in all-State revenues and expenses, 2004-05 to 2009-10

	Norfolk Island growth	All States growth
State		
Revenue	0.83	1.25
Expenses	1.38	1.33
Local		
Revenue	1.30	1.37
Expenses	1.15	1.33

Source: Tables 3.2, 3.3, 3.5 and 3.6.

- 56 For both levels of government, the downturn in tourist numbers has reduced per resident expenses, slowing expense growth compared to growth recorded in the States. There has been a similar impact on revenues, though it is more indirect.

COST OF SERVICING LOANS

- 57 The 2006 terms of reference asked the commission to advise on the amount of financial assistance needed from the Australian Government, ‘including the actual cost of servicing [Norfolk Island] existing loan agreements’. We have examined these agreements.
- 58 The Norfolk Island Government’s capacity to borrow is limited by legislative arrangements and its capacity to repay loans. In brief, the Norfolk Island Act 1979 authorises:
- the Australian Government Minister for Finance to loan money to the Administration or a Territory Authority
 - Norfolk Island to borrow, other than from the Australian Government, with the specific, prior and written approval of the Treasurer
 - the Treasurer to act as guarantor for loans, other than from the Australian Government.
- 59 Norfolk Island has 2 current loans from the Australian Government.
- In 1998, the Australian Government provided Norfolk Island with an interest-free loan of \$3.5 million to carry out the Cascade Cliff Safety Project (which was designed to stabilise a dangerous cliff face overlooking one of the Island’s 2 piers, to ensure public safety). The outstanding loan amount is \$0.5 million. The agreement provides for the loan to be repaid biannually from royalties received from the sale of crushed rock. Loan arrangements are administered by an independent board, whose principal responsibility is to monitor the royalty rate to ensure viability of the repayment arrangement. The Cascade Cliff Sale of Rock Enterprise made a royalty payment of \$46 000 in 2009-10.
 - In July 2003, the Australian Government agreed to provide an interest-free loan of \$5.8 million to the Norfolk Island Government to fund resurfacing of Norfolk Island’s airport runways. The loan amount was varied to \$12 million in June 2005. In addition to repayment of the loan, the Norfolk Island Government agreed to make contributions into a trust fund to be built up, with interest earnings, to \$17.5 million by June 2020, to provide funds for the next anticipated resurfacing. However, repayments and deposits to the trust fund were suspended for 3 years by agreement with the Australian Government in June 2005. According to the Department, one repayment of \$0.6 million has been made since the loan was provided.
- 60 Repayments of the loan for the Cascade Cliff stabilisation project are from royalties from the sale of crushed rock from the site. Therefore no separate provision needs to be made by the Australian Government to allow the Norfolk Island Government to repay this loan.
- 61 The annual cost of repaying the airport resurfacing loan is \$1.14 million per annum, based on a uniform rate of repayment over 10 years. No adjustment has been made here to allow any accelerated repayment, should that be required as a result of the delayed commencement of repayments.

- 62 Under its current agreement with the Australian Government, the Norfolk Island Government is also required to make regular deposits into a trust fund to provide for the next resurfacing of the airport runway. Because normal practice is to fund such activity through retained user charges (landing fees) we have not made any allowance for this requirement in our estimates. However, it is unlikely that the airport enterprise or the Norfolk Island Government will be able to make sufficient provision to cover the resurfacing in 2020 without special assistance.
- 63 In summary, the total amount that the Australian Government would need to provide to allow Norfolk Island to meet its current loan agreements is \$1.14 million per annum, for a period of 10 years.

Table 3-9 Cost of servicing Norfolk Island loans

Loan	Amount outstanding June 2010	Amount outstanding June 2011	Annual repayment over 10 years
	\$m	\$m	\$m
Runway resurfacing	11.40	11.40	1.14
Cascade Cliff	0.51	0.49	Repaid by royalty on rock sales

Source: Norfolk Island Loan Fund 30 June 2010; the Department's email dated 18 Oct 2011.

INFRASTRUCTURE

- 64 The estimates we have made allow for the replacement of general government infrastructure at the rate and level in comparable communities through a depreciation allowance. However, they make no allowance:
- for investment in new general government assets at a rate comparable to that in comparable communities
 - for any gap between current infrastructure and levels in comparable communities, or
 - for any investment or replacement of GBE assets, including the airstrip, although financial flows between GBEs and government are included in the estimate.
- 65 Our estimates assume that depreciation provides for the replacement of assets, either through the year for smaller assets, or through accumulated financial balances for larger assets. To the extent that appropriate financial balances have not been accumulated, including in GBEs such as the electricity and airport GBEs, then when major assets need replacing, some financial pressure could fall on the Norfolk Island Government.
- 66 To provide some context, on average, Australian communities of this size invest about \$2 million a year on new general government infrastructure and their GBEs about another \$1.5 million. This is on top of any accumulated depreciation spending.

CHAPTER 4

FINANCIAL ASSISTANCE FROM THE AUSTRALIAN GOVERNMENT

INTRODUCTION

- 1 This chapter uses the findings in Chapter 3 to comment on the level of financial assistance for Norfolk Island that may be required from the Australian Government. Our findings relate specifically to updating the commission's response to clauses (iii) and (iv) in the 2006 inquiry terms of reference:
 - (iii) the amount of financial assistance needed from the Australian Government to allow the Island to meet the cost of providing the comparable State and local government services (including the actual cost of servicing its existing loan agreements) having regard to the Island's capacity to raise comparable State and local government revenue; and
 - (iv) how much local government funding the Australian Government might provide to Norfolk Island on a basis consistent with local government funding arrangements applying in the rest of Australia.
- 2 Like the commission's 2006 report findings, the findings in this update carry several qualifications:
 - The estimates of financial assistance are based on analysis of data for Norfolk Island and comparable communities in the 2009-10 financial year. Changes in costs, revenues and service standards in comparable communities will require review of our estimates. Change may also result from changes in population and economic circumstances on the Island, such as the Island's competitiveness in the tourism market and changes in industry mix over time.
 - Any material changes to taxation, service delivery costs or support from the Australian Government will have flow-on effects to affected tax bases and the level and nature of economic activity on the Island. While we have commented on the impact of some possible changes in this chapter, actual changes will likely differ and their effects will need to be monitored so that financial assistance can be adjusted accordingly.

- 3 While our estimates are generally based on 2009-10 data, in some special cases mentioned in Chapter 2 (such as the agreement to underwrite the airline), we have taken more recent circumstances into account.

FINANCIAL ASSISTANCE FOR STATE AND LOCAL SERVICES

State government

- 4 Table 4-1 shows the amount of financial assistance that would be required in 2009-10 to provide State services at a comparable community standard. As in 2006, it includes an amount to cover the annualised cost of providing assets used in service provision (depreciation) and takes into account its capacity to raise revenue from State-type revenue raising sources. It does not include funding for new investment.
- 5 Compared with 2004-05, the amount of financial assistance required for State services has almost doubled — from \$6.6 million in 2004-05 to \$11.0 million in 2009-10, despite the decline in Norfolk Island's population. This is largely because expenses in comparable communities have increased because prices have increased and services improved, due in turn to increases in the revenue raised from State own-source revenues and Commonwealth payments.

Table 4-1 Financial assistance required for comparable State services on Norfolk Island, 2009-10

	2009-10	
	\$pc	\$'000
Required State expenses	8 326	15 127
Minus State revenue raising capacity	2 286	4 153
State-type financial assistance - the State gap	6 040	10 974

Source: Tables 3-5 and 3-2.

Local government

- 6 Table 4-2 shows the amount of financial assistance that would be required to provide local government-type services, on the same basis. Compared with 2004-05, the amount has fallen from \$1.3 million to \$1.0 million. This is mainly because local government revenue raising capacity, especially comparable municipal rates revenue and miscellaneous income ('other' revenue), have increased.

Table 4-2 Financial assistance required for comparable local government services on Norfolk Island, 2009-10

		2009-10
	\$pc	\$'000
Required local expenses	2 391	4 343
Minus local revenue raising capacity	1 865	3 388
Local government financial assistance - the local gap	526	955

Source: Tables 3-6 and 3-3.

- 7 Adding together the assistance required for State and local services as well an amount of \$1.1 million needed for a period of 10 years to meet the actual cost of servicing Norfolk Island's existing loan agreements suggests that \$13.1 million in financial assistance would be required to allow comparable State and local government services to be delivered, if comparable revenues were raised from State and local government taxes and Norfolk Island operated at an average level of efficiency.
- 8 Compared with 2004-05, this is an increase of some \$4 million.

Table 4-3 Financial assistance required for comparable State and local government services on Norfolk Island, 2009-10

		2009-10
	\$pc	\$'000
State-type financial assistance (A)	6 040	10 974
Local government financial assistance (B)	526	955
Loan repayment over 10 years (Chapter 3) (C)	627	1 140
Total financial assistance required (A) + (B) + (C)	7 193	13 069

Source: Tables 4-1, 4-2 and 3-9.

- 9 The overall level of financial assistance we have estimated comprises a number of distinct components.
- Some \$7.8 million is required to close the existing Norfolk Island Government deficit for the State and local government sectors. This is the difference between their actual State and local government expenses and revenues and is shown in Table 3-7.
 - Some \$5 million is required for higher levels of expenses where current service provision is lower than in comparable communities. This includes: \$1.9 million to enable an operating subsidy to be paid to the Electricity GBE so that power could be sold to consumers at a tariff similar to that charged in comparable communities; an extra \$1.7 million to deliver more comparable health services (including \$1.4 million to reduce user charges — at present Norfolk Islanders pay higher direct levies for most of their health services, with only limited government subsidies. This is not the case in other Australian communities, although income tax and the Medicare levy support the lower charging regime); and an additional \$0.7 million to deliver State welfare and public housing services not presently being provided.

- Assistance is reduced by \$2.4 million because our assessments indicate Norfolk Island could increase revenue or, in some cases, reduce costs if comparable community policies were applied. This includes \$0.8 million of above average expenses on tourism; \$0.6 million of above average expenses on local roads and \$0.8 million for below average revenue raising across the State and local sectors. Norfolk Island raised just under \$6.8 million total in 2009-10. We have assessed comparable revenue of about \$7.5 million, meaning it could raise an additional \$0.7 million if average policy applied. Most of the above average capacity is due to Norfolk Island's high land values, a revenue source that it taxes very lightly when compared with the practice of comparable communities.
- \$1.1 million will allow the existing loans to be repaid. There was no repayment included in 2009-10 estimates of Island expenses.

Norfolk Island financial assistance in context

- 10 All States and local governments receive financial assistance from the Australian Government. That financial assistance influences the expenses and revenues we have observed in comparable communities and used as the basis of estimating what Norfolk Island would need to spend to provide similar levels of services and raise by making a similar revenue effort. Consequently, the financial assistance estimated for Norfolk Island should be viewed relative to the assistance provided to comparable communities.
- 11 In 2009-10, total Commonwealth financial transfers to State and local government represented 43% of their spending on service delivery. If transfers represented the same proportion of comparable service delivery expenses on Norfolk Island, they would be some \$8 million.
- 12 However Commonwealth transfers vary widely among the States and territories, reflecting differences in their ability to raise their own revenue and differences in the costs of delivering services.
- 13 Table 4-4 shows the general revenue and specific purpose assistance, including for infrastructure, received by the States and local governments in 2009-10.
- 14 If Norfolk Island were to receive financial assistance at the all-State average level, it would have received about \$6.9 million. However, if it were funded like Tasmania, it would have received \$9.8 million and like the Northern Territory, \$26.3 million. These figures are not strictly comparable to the \$13 million in financial assistance calculated above because they include support for infrastructure investment. That would be about one million dollars a year for a community the size of Norfolk Island.

Table 4-4 Australian Government financial assistance to States and local government 2009-10

	Tas	NT	All-state average
	\$pc	\$pc	\$pc
General revenue assistance to all States	3 196	10 568	2 017
Local government financial assistance and roads grants	126	124	89
Specific purpose funding to States and local governments	2 048	3 818	1 701
Total	5 370	14 510	3 808

Source: Commonwealth of Australia, *Final Budget Outcome, 2009-10*, p 83.

Australian Government financial support

- 15 Some special circumstances should be considered in deciding the financial assistance that might be provided by the Australian Government.
- 16 **Interest earnings.** While we have assessed the Norfolk Island Government to be able to raise about \$340 000 in revenue from interest earnings in 2009-10, its capacity to do so on an ongoing basis is limited.
- 17 The Norfolk Island consolidated budget was in deficit in both 2009-10 and 2010-11 and, without the Australian Government assistance in 2010-11, the 2010-11 deficit would have been larger than the 2009-10 deficit. Its underlying financial position appears to be deteriorating, with its net financial worth in 2009-10 being negative \$14.3 million.¹ Without Commonwealth financial assistance, its holdings of financial assets that generate its interest earnings are likely to continue to fall.
- 18 This is likely to mean that Norfolk Island is unable to raise revenue from interest at the same rate as comparable communities. How much of this is the result of policy decisions of the Norfolk Island Government and how much is due to factors outside its control, such as the decline in tourist numbers or the policy of the Australian Government is unclear. To the extent that it is due to factors beyond the control of the Norfolk Island Government, the assessment of interest earnings should be reduced and levels of financial assistance increased.
- 19 Commission staff cannot make that judgment and for illustrative purposes we have reduced the interest earning capacity by 50% when estimating the support that might be provided by the Australian Government. That discount should be revisited by governments which are in a more informed position on what factors have brought the Island's finances to their current position.
- 20 **GST.** As set out in Chapter 2 we understand that Australian Government GST may not be introduced on the Island and that the existing Norfolk Island GST could remain. The revenue from the Island's GST has not been included in our assessment of Norfolk Island State or local revenue capacity as it is a federal equivalent tax.

¹ Net financial worth has been measured as the financial assets less total liabilities of the government, inclusive of the GBEs and the Hospital Enterprise.

- 21 In comparable communities, the GST revenue collected by the Australian Government is returned to the States to fund their services. If Norfolk Island's GST collections were treated in the same way, the amount of assistance required from the Australian Government could be reduced. Norfolk Island raised some \$7.8 million in its GST in 2009-10, reducing its required assistance to \$5.4 million (see Table 4-5) if total GST collections were taken into account.
- 22 While we have included the entire GST collection in our estimates below, governments needs to consider if part of the GST should not count as a revenue source for State and local services. A proportion of the Norfolk Island GST could also be seen as funding some of the federal-type functions administered by Norfolk Island. Taking into account the other federal-type revenues, about \$1 million would be needed for that, reducing the GST to be treated as financial assistance to \$6.9 million. Also the Island GST is wider in scope and levied at a higher rate than in comparable communities and there is a case for that above average effort to be kept by the Administration. Adjusting for differences in scope and rates could mean that some \$5.5 million² might be treated as equivalent to the federal GST.
- 23 Table 4-5 illustrates possible adjustments. The assistance required from the Australian Government would reduce to \$5.4 million if all of the GST was taken into account and interest earnings capacity were reduced. As set out above this figure would also need to be adjusted to reflect changes in economic and social conditions since 2009-10 in deciding assistance to be provided in years after then.

Table 4-5 Financial assistance 2009-10, adjusted for special circumstances

	2009-10
	\$'000
Total financial assistance required (Table 4-3)	13 069
Plus interest earnings deficit (Tables 3.2 and 3.3)	169
Less GST (Table A-1)	7 845
Adjusted financial assistance required	5 394

Source: Commission staff calculation.

- 24 **Health levy.** The Administration currently collects a health levy of nearly \$1.0 million. This is treated as a federal revenue. Because the comparable revenue is not dedicated to State government services, unlike GST revenue, we have not reduced our estimate of Australian Government assistance to account for it.
- 25 **Additional Specific Purpose Payments funding.** If any specific purpose funding additional to that already provided by the Australian Government (such as for Kingston and Arthur's Vale Historic Area (KAVHA) — see Attachment A) were received by Norfolk Island, the amounts would need to be offset against the adjusted financial assistance to provide an estimate of net adjusted financial assistance required.

² Taking 10/12 of \$7.9 million and subtracting \$1 million for differences in scope.

LOCAL GOVERNMENT FUNDING — 2 MODELS

26 As in the 2006 report in response to clause (iv), staff have reported what local government funding the Australian Government might provide to Norfolk Island on the basis of 2 existing local government funding models. These are:

- the IOT model
- the State model.

Local government funding under the IOT model

27 The IOT funding model is designed to provide comparable local government services with a comparable revenue raising effort.

28 The IOT equivalent funding is the estimate of Norfolk Island's financial assistance shown in Table 4-2. The amount calculated represents how much Norfolk Island would need to fund comparable local government services if it made comparable revenue raising effort. The \$526 per capita compares with the \$1 965 per capita Christmas Island received and the \$2 777 Cocos Islands received for general purpose assistance and local roads grants in 2009-10.³

Local government funding under the State model

29 Under the State model⁴ for local government funding, each State is provided with an equal per capita amount of general purpose financial assistance, plus funds for local roads. These funds are distributed to local governing bodies in each State and the Northern Territory by a local government grants commission on the basis of need. The ACT receives equivalent funding but does not need to distribute it because the ACT has a combined State and local government.

30 **Local government general purpose assistance.** The general purpose assistance the Australian Government might provide under the State model would equal the per capita amount paid to States multiplied by Norfolk Island's population. In 2009-10, the per capita amount paid to the States was about \$62 per capita. Multiplied by the ordinarily resident population of Norfolk Island, the Norfolk Island Government would have been entitled to \$112 000.

31 As is the case for the States, this amount would not recognise any differences between Norfolk Island and other States in the cost of providing local government services or in revenue raising capacity.

32 **Local roads funding.** In 2009-10, the States received \$27 per capita in local road funding. For Norfolk Island, this would mean \$50 000.

³ The Western Australia Local Government Grants Commission assesses the IOT shires 'equalisation grant' as its expenditure needs less revenue capacity.

⁴ Local Government (Financial Assistance) Act 1995.

- 33 **Specific Purpose Payments.** Under the State model, a Norfolk Island Government could also apply for funding from Australian Government specific purpose payments for local purposes. While it is difficult to estimate what a Norfolk Island Government might be entitled to, the per capita amount paid by the Australian Government in 2009-10 in the major programs for local government (Roads to Recovery, and Children's Services and Disability Services) was about \$37 per capita.
- 34 Table 4-6 summarises the State-type local government funding Norfolk Island might have received under the State model in 2009-10.

Table 4-6 State-like local government funding for Norfolk Island, 2009-10

	2009-10	
	\$pc	\$'000
General purpose funding	62	112
Local roads funding	27	50
Australian Government SPPs	37	67
Total	126	229

Source: Commonwealth of Australia, *Final Budget Outcome, 2009-10*, p 60, 83.

SENSITIVITY AND SUSTAINABILITY

Sensitivity

- 35 Neither the 2006 report nor this update make any allowance for how Island conditions might change in response to the adoption of average revenue and service delivery policy. Our estimates apply policy in comparable communities to observed conditions on the Island.
- 36 Policymakers need to recognise that our estimates would need to be modified if average revenue and service delivery policies were introduced on the Island and that the size of that adjustment would be related, in part, to how quickly those changes were made.
- 37 However, as stated earlier in this report, we are not advocating any particular revenue raising structure for the Island, nor a service delivery policy. We have estimated how much revenue could be raised from the Island at comparable revenue efforts and what it would cost to deliver comparable services.
- 38 Our estimates suggest that a comparable revenue effort, across State and local revenue sources would raise an additional \$428 per person, or an increase of 12%. If this were raised from the existing mix of revenue sources (particularly broadly based ones or broadening of currently narrow taxes like land tax), the impact may be smaller than through comprehensive introduction of revenue measures seen in comparable communities.
- 39 The impact on the service delivery side is much greater, with expenses rising by \$2 681 per person.

- 40 Taken together, and depending on exactly how additional revenue is raised, revenue base changes would not be so large as to result in significant downward changes to the overall revenue capacity of the Island from a combined move to more comparable services and revenue.

Sustainability

- 41 One of the issues identified in the letter commissioning this update is the sustainability of Norfolk Island. For the 2006 report, the commission was not asked to take that into account in recommending the financial assistance required and it did not do so.
- 42 In this report, staff have not done so either. We have not sought to make any adjustments to the average revenue or service delivery policy of comparable communities other than to reflect the special circumstances of the Island beyond the control of the Norfolk Island Government. We have not considered whether comparable community policy settings would compromise the sustainability of the Island, given its narrow and volatile economic base.
- 43 **Fiscal sustainability.** If policy settings were adopted to focus on the sustainability of the Island, some changes in these average policy settings, and hence in the estimates of revenue and expenditure, appear probable. For example, the provision of targeted support for services and the phasing in of changes in tax policy might be adopted. As service delivery standards gradually improved and tax bases strengthen, it may be possible to keep the overall financial support within same envelope over time.
- 44 **Economic sustainability.** The estimates prepared in this report suggest that Australian Government support of somewhere between \$5 and \$7 million would enable comparable service provision with comparable revenue effort and allow existing loans to be repaid, taking into account Norfolk Island's special circumstances, including those relating to interest earning capacity and the GST.
- 45 However, that amount might need to change going forward for several reasons.
- 46 The estimates allow for comparable standards of service delivery but make no provision for investment in new assets. On average, Australian communities of this size invested about \$2 million in 2009-10 on new general government assets and \$1.5 million in GBE assets. To maintain comparability over time, some provision for investment needs to be made, either in the form of capital grants or recognition of growing debt levels and associated debt servicing costs. We have not made an estimate of the debt servicing costs that might be required or the investment which could be expected to keep Norfolk on par with a comparable community. Nor have we made any estimate of any investment that might be needed to bring their capital stock up to such a comparable standard the first instance.
- 47 In our estimates we have provided for depreciation of a stock of general government assets of a comparable community. Usually depreciation provisions allow for routine replacement as well as accumulation over time to fund the replacement of larger capital items. This accumulation would form part of the financial assets of the Island on which interest could be

earned. As noted above, the ongoing underlying deficit is depleting those reserves. This has led us to discount the Island's interest earning capacity when estimating what support the Australian Government might need to provide. It also means that the Island may not have the fiscal capacity to manage the scheduled replacement of its current assets, particularly larger capital items. To allow that replacement to occur the support needed would be higher than the estimates suggest.

- 48 There are, however, factors that would work in the opposite direction.
- 49 If Commonwealth support of the size suggested were provided and spent on higher service standards (or investment), the level of economic activity on the Island would increase and tax bases grow. This would increase the ability of the Island to raise revenue and reduce net Commonwealth support (possibly with a lag).
- 50 If additional support improved the economic viability of the Island (for example, if investment made tourism more attractive) then Commonwealth support could also be reduced over time as the Island's own tax base grew.

ATTACHMENT A

REVENUES AND EXPENSES OF NORFOLK ISLAND — SOME COMPARISONS

INTRODUCTION

- 1 The Norfolk Island Government provides federal, State and local government-type services and raises federal, State and local government type revenues.
- 2 This attachment provides an overview of those expenses and revenues classified as federal, State or local government. Table A-1 to Table A-7 provide the details.
- 3 As in the 2006 report, the provision of federal services by the Australian Government (such as the National Park) is not included. Australian Government funding and the expenditure by the Norfolk Island Government of that funding (such as for KAVHA) are also excluded from the estimates of Norfolk Island Government revenue and expenses. Similar expenditure (including on KAVHA) funded through Norfolk Island revenues is included. What the Australian Government currently provides for State and local services is reported separately (Table A-12).
- 4 The attachment also provides comparative information on Norfolk Island Government State and local government-type revenues and expenses and those of the States. Norfolk Island revenues and expenses are compared with those for Western Australia, Tasmania, the Northern Territory and the total of all States. These States were chosen because they are, respectively, remote, an island, and the least populous Australian State which is also remote. These comparisons are made using a 3-year average (2007-08 to 2009-10) to avoid distortions from one-off revenues or expenses in any one of those years. Data in dollar and per capita terms for all States, at whole of State level, are included at the end of the attachment to give a perspective on State level variation (see Table A-15 to Table A-26).
- 5 Because of differences in circumstances, such as differences in wage levels, isolation and the incidence of tourists, the figures are not directly comparable. The figures are also not strictly comparable because Norfolk Island expenditures exclude those funded directly by the Australian Government while State expenditures include them. However, the analysis

provides a context for Norfolk Island activities and a framework for item by item assessments that are made in later attachments.

METHOD USED TO COMPILE NORFOLK ISLAND REVENUES AND EXPENSES

Scope

- 6 In 2009-10, the Norfolk Island Government accounts comprised:
- the Revenue Fund — supports most government services and gathers revenue from general government sources
 - the Administration Services Fund — provides a framework for each GBE or fund¹ to account separately for its operations²
 - the Trust Fund — comprises a number of funds each of which provides monies in trust for disbursement over time for a specified purpose and
 - the Loan Fund — manages government borrowings.
- 7 Norfolk Island Government revenues and expenses used in this report are drawn from the Income and Expenditure Statement for those entities considered to comprise the General Government sector. We have analysed the recurrent transactions of:
- the Revenue Fund
 - the Healthcare³, Roads⁴, Water Assurance⁵, and GST⁶ Funds in the Administration Services Fund and
 - the Norfolk Island Hospital Enterprise which is a body corporate that operates the Norfolk Island Hospital.

This means that no capital expenditures are included, nor gains or losses on transfer of assets.

- 8 We have not analysed the transactions of other funds in the Administrative Services Fund. The analysis therefore includes only the net impact of the other GBEs in that fund on the

¹ The Liquor Supply Service, the Postal Services, the Electricity Service, Norfolk Telecom, the Lighterage Service, the Norfolk Island Airport, the Water Assurance Fund, the Kingston and Arthur's Vale Historic Area (KAVHA) Fund, the Norfolk Island Bicentennial Integrated Museums, the Workers Compensation Scheme Fund, the Norfolk Island Healthcare Fund, the Gaming Enterprise, the Cascade Cliff Sale of Rock Enterprise, the Offshore Finance Centre, the Roads Fund, the GST/NSL and Business Transactions Levy, and Norfolk Energy.

² In 2010-11, the Norfolk Island Government brought all the GBEs into the Revenue Fund.

³ This finances State-type health expenditures through a levy akin to the Medicare Levy.

⁴ Roads-related revenues and expenditures were, up until 2005-06, included in the Revenue Fund.

⁵ While a GBE, the Water Assurance Fund is included as part of General Government as water and water treatment represent a key activity of local government.

⁶ Analogous to the Australian GST, this tax commenced in 2006-07 and is now the Government's largest source of revenue. It replaced the temporary Sustainability Levy (NSL), the Accommodation Levy and the Financial Institutions Levy. Customs duty also became no longer payable on goods imported for resale. The Fuel Levy ceased to apply from October 2007 where the Administration is the supplier.

Revenue Fund.⁷ For example, the full accounts of the Electricity GBE or the Norfolk Island Airport are not analysed, but revenues received from them or the subsidies paid to them from the Revenue Fund are included. The contributions of the 2 federal-type GBEs, Norfolk Island Telecom and Postal Services, are also now included. The internal transactions of GBEs are therefore not taken into account in the commission's analysis of revenues and the costs of providing services.

- 9 With the additional focus in this report on federal-type incomes and expenditures, we have examined the Trust Fund. The Loan fund provides information on Norfolk Island Government borrowing.

Levels of government

- 10 Norfolk Island Government revenues and expenses have been classified as federal, State and local government-type, as they were in 2006, based on the usual pattern in the rest of Australia.
- 11 Some services on the Island are usually provided by more than one level of government in the States. As in the 2006 report, analyses for this report have:
 - split the Revenue Fund administrative expenses between federal, State and local government based on the proportion of Fund non-administrative expenses we have classified to these sectors
 - split health and quarantine expenses between quarantine (federal) and public health inspections and building safety (local) in the proportions 60:40
 - split General Works expenses equally between federal, State and local government because there is no information available to make a more informed split
 - split the expenses on the Norfolk Island Legislative Assembly, tourism, Grant Expenditure at Discretion of Executive Member and interest income equally between State and local government because there is no information available to make a more informed split
 - split the hospital dispensary department's income and expenses between private (out-of-scope) and State in the proportions 94:6 (increasing to 95:5 in 2009-10) to reflect the fact that the bulk of dispensary services are for community sales
 - split the Revenue Fund depreciation expenses between federal, State and local government based on asset register building valuations and the functions for which buildings are used, as reported in the Norfolk Island Government's Asset Management Plan.
- 12 All expenses on roads are classified as local government-type expenses because it is unlikely that any Norfolk Island roads would be considered State arterial roads.

⁷ Transactions between the Revenue Fund, Roads Fund, Water Assurance Fund, KAVHA and the Norfolk Island Hospital Enterprise are consolidated out of the analysis.

- 13 Expenses on KAVHA are classified as State-type expenses. This is the way they were treated in the 2006 report, although we are aware that the Australian and Norfolk Island Governments now regard some expenses as local. Expenses on the other culture and recreation services are classified to the local government sector.
- 14 GBEs are classified as follows:
- federal — Norfolk Island Telecom and Postal Services
 - State — Gaming Enterprise, Electricity Service, Norfolk Energy, Lighterage Service, KAVHA and Norfolk Island Hospital Enterprise
 - local — Liquor Supply Service, Norfolk Island Airport, Cascade Cliff Sale of Rock Enterprise, and Roads.
- 15 Table A-1 shows the breakdown for 2009-10 of all Norfolk Island Government revenue and expenses by level of government. It shows that the Administration's revenues totalled \$16.9 million in 2009-10. Expenses, measured net of user charges, were a little higher, at \$17.4 million. Revenues per capita were around \$9 300 while expenses per capita were around \$9 600.
- 16 Similar to the situation for Australia, there is a fiscal imbalance between the 3 'levels' of government. Federal-type revenues accounted for 60% of total revenues; State-type revenues, 21%; and local government-type revenues, 19%. On the other hand, State-type expenses accounted for 57% of total expenses; local government-type expenses, 26%; and federal-type expenses, 16%.
- 17 The GST contributed 47% of total revenues in 2009-10 and 78% of federal-type revenues. The second largest source of revenue in 2009-10 was contributions by trading enterprises (\$2.3 million), followed by gambling taxation — a State-type revenue (\$1.4 million).
- 18 On the expense side, the 3 largest items in 2009-10, measured net of user charges, were general public services (\$3.6 million, spread across all levels of government), health (\$2.9 million) and education (\$2.7 million). State health outlays in gross terms, at \$4.7 million, significantly exceeded outlays on general public services.

Table A-1 Norfolk Island Government revenues and expenses, by level of government, 2009-10

	Federal-type	State-type	Local-type	Total
	\$'000	\$'000	\$'000	\$'000
<u>Revenue</u>				
GST/NSL	7 845			7 845
Healthcare/Medivac Levy	917			917
Customs duty and fees	1 328			1 328
Fuel levy	13			13
Land revenue (absentee landlord levy)		170		170
Stamp duty on conveyances (land title fees)		461		461
Financial transaction taxes		11		11
Gambling taxation		1 424		1 424
Motor taxes		503		503
Interest income	1	91	93	185
Water and miscellaneous user charges			773	773
Contributions by trading enterprises	0	476	1 813	2 289
Fees and fines		69		69
Other revenue	2	386	494	883
Total revenue	10 106	3 590	3 174	16 869
<u>Expenses</u>				
Education		2 703		2 703
Health (a)	188	2 654	51	2 893
Welfare (a)	1 224	134		1 358
Police		681		681
Immigration Office (b)	47			47
Administration of justice		315		315
Corrective services		295		295
Culture and recreation		379	135	513
Primary industry		15		15
Water, sanitation and protection of the environment			873	873
Roads			920	920
Manufacturing			65	65
Non-Urban Transit		150		150
Tourism		930	930	1 859
General public services (c)	1 212	1 236	1 187	3 635
Debt charges		45		45
Depreciation	175	443	458	1 077
Total expenses	2 846	9 980	4 620	17 445
Net expenses	-7 260	6 390	1 446	576

(a) Net of user charges.

(b) Net of fees charged.

(c) Net of management fees charged to GBEs.

Source: Norfolk Island accounts and financial statements.

OVERVIEW OF REVENUES AND EXPENSES

- 19 Tables A-2 to A-4 summarise the Norfolk Island Administration's State-type, local government-type and federal-type revenues and expenses for 2007-08 to 2009-10. Tables A-5 to A-7 present the data in per capita terms.
- 20 Total revenues across all levels of government increased by 17.2% between 2007-08 and 2009-10, and by 40.6% since 2004-05. By far the fastest growing State-type revenue item was Gambling Taxation (103% increase over the 2 years to 2009-10). Total expenses grew by 19.0% between 2007-08 and 2009-10 (and by 27.8% since 2004-05) with tourism the fastest increasing item (47%).
- 21 Total State and local government-type revenues and expenses in 2009-10 were \$6.8 million and \$14.6 million respectively, resulting in a deficit of \$7.8 million (\$4 313 per capita). Net expenses across the State and local government-type sector have exceeded \$3 million in each of the years 2007-08 to 2009-10.

Table A-2 Norfolk Island Government State government-type revenues and expenses, 2007-08 to 2009-10

	2007-08	2008-09	2009-10	Change 2007-08 to 2009-10
	\$000	\$000	\$000	%
Revenue				
Land revenue (absentee landlord levy)	126	134	170	34.9
Stamp duty on conveyances (land title fees)	634	222	461	-27.3
Financial transaction taxes	13	12	11	-12.0
Gambling taxation	702	932	1 424	102.9
Motor taxes	527	518	503	-4.7
Interest income	151	90	91	-39.8
Contributions by trading enterprises	271	524	476	75.4
Fees and fines	53	51	69	29.1
Other revenue	189	408	386	104.4
Total revenue	2 665	2 892	3 590	34.7
Expenses				
Education	2 479	2 569	2 703	9.0
Health	2 003	1 541	2 654	32.5
comprised of - expenses	3 879	3 504	4 695	21.0
- user charges	- 1 876	- 1 963	- 2 041	8.8
Welfare	219	181	134	-38.6
comprised of - expenses	557	561	683	22.5
- user charges	- 339	- 380	- 549	61.9
Police	539	402	681	26.3
Administration of justice	264	283	315	19.1
Corrective services	251	329	295	17.4
Culture and recreation	309	371	379	22.4
Primary industry	15	4	15	-2.9
Non-Urban Transit	0	0	150	
Tourism	633	787	930	46.9
General public services (a)	1 086	1 198	1 236	13.8
Debt charges	0	0	45	
Depreciation	488	455	443	-9.1
Total expenses	8 286	8 119	9 980	20.4
Net expenses	5 620	5 227	6 390	13.7

(a) Net of management fees charged to GBEs

Source: Norfolk Island accounts and financial statements.

Table A-3 Norfolk Island Government local government-type revenues and expenses, 2007-08 to 2009-10

	2007-08	2008-09	2009-10	Change 2007-08 to 2009-10
	\$000	\$000	\$000	%
Revenue				
Interest income	208	112	93	-55.3
Contributions by trading enterprises	958	1 074	1 813	89.3
User charges	638	659	773	21.0
Water, sanitation and protection of the environment	620	622	759	22.3
Other user charges	18	37	14	-23.8
Other revenue	1 390	1 207	494	-64.4
Departure Fees	1 138	958	248	-78.2
Other	252	249	246	-2.5
Total revenue	3 195	3 053	3 174	-0.7
Expenses				
Health	51	63	51	-0.3
Water, sanitation and protection of the environment	665	866	873	31
Roads	683	884	920	34.8
Manufacturing	0	0	65	
Culture and recreation	126	175	135	6.8
Tourism	633	787	930	46.9
General public services (a)	1 042	1 196	1 187	14.0
Depreciation	517	460	458	-11.4
Total expenses	3 716	4 431	4 620	24.3
Net expenses	522	1 379	1 446	177.1

(a) Net of management fees charged to GBEs.

Source: Norfolk Island accounts and financial statements.

Table A-4 Norfolk Island Government federal-type revenues and expenses, 2007-08 to 2009-10

	2007-08	2008-09	2009-10	Change 2007-08 to 2009-10
	\$000	\$000	\$000	%
<u>Revenue</u>				
GST/NSL	6 109	6 381	7 845	28.4
Healthcare/Medivac Levy	865	888	917	6.1
Customs duty and fees	1 282	1 187	1 328	3.6
Fuel levy	81	16	13	-84.2
Contributions by trading enterprises	150	0	0	-100.0
Interest income	24	8	1	-97.6
Other revenue	25	0	2	-91.1
Total revenue	8 536	8 480	10 106	18.4
<u>Expenses</u>				
Immigration Office (a)	75	90	47	-37.7
Health	174	216	188	7.6
Welfare	1 121	1 175	1 224	9.2
General public services (b)	1 071	1 114	1 212	13.1
Depreciation	218	193	175	-19.4
Total expenses	2 659	2 789	2 846	7.0
Net expenses	- 5 877	- 5 691	- 7 260	23.5

(a) Net of fees charged.

(b) Net of management fees charged to GBEs.

Source: Norfolk Island accounts and financial statements.

Table A-5 Norfolk Island Government State government-type revenues and expenses, 2007-08 to 2009-10, per capita

	2007-08	2008-09	2009-10	Change 2007-08 to 2009-10
	\$pc	\$pc	\$pc	%
Revenue				
Land revenue (absentee landlord levy)	68.30	73.33	93.51	36.9
Stamp duty on conveyances (land title fees)	343.66	121.43	253.75	-26.2
Financial transaction taxes	6.80	6.50	6.07	-10.7
Gambling taxation	380.52	509.29	783.56	105.9
Motor taxes	285.88	282.75	276.60	-3.2
Interest income	81.86	49.14	49.98	-38.9
Contributions by trading enterprises	147.04	286.43	261.78	78.0
Fees and fines	28.91	27.98	37.89	31.1
Other revenue	102.50	223.10	212.64	107.5
Total revenue	1 445.46	1 579.95	1 975.78	36.7
Expenses				
Education	1 344.56	1 403.74	1 487.79	10.7
Health	1 086.03	841.67	1 460.82	34.5
comprised of - expenses	2 103.55	1 914.10	2 584.29	22.9
- user charges	- 1 017.52	- 1 072.44	- 1 123.47	10.4
Welfare	118.50	98.78	73.84	-37.7
comprised of - expenses	302.19	306.27	375.76	24.3
- user charges	- 183.69	- 207.49	- 301.92	64.4
Police	292.32	219.50	374.85	28.2
Administration of justice	143.40	154.69	173.31	20.9
Corrective services	136.08	179.82	162.18	19.2
Culture and recreation	167.73	202.63	208.44	24.3
Primary industry	8.21	1.95	8.09	-1.4
Non-Urban Transit	0.00	0.00	82.56	
Tourism	343.04	430.07	511.64	49.1
General public services (a)	588.90	654.65	680.47	15.5
Debt charges	0.00	0.00	24.82	
Depreciation	264.58	248.34	244.09	-7.7
Total expenses	4 493.36	4 435.85	5 492.91	22.2
Net expenses	3 047.91	2 855.90	3 517.14	15.4

(a) Net of management fees charged to GBEs

Source: Norfolk Island accounts and financial statements.

Table A-6 Norfolk Island Government local government-type revenues and expenses, 2007-08 to 2009-10, per capita

	2007-08	2008-09	2009-10	Change 2007-08 to 2009-10
	\$pc	\$pc	\$pc	%
<u>Revenue</u>				
Interest income	112.94	61.23	51.26	-54.6
Contributions by trading enterprises	519.39	586.83	998.07	92.2
User charges	346.25	360.20	425.32	22.8
Water, sanitation and protection of the environment	336.38	340.05	417.68	24.2
Other user charges	9.87	20.15	7.63	-22.7
Other revenue	753.80	659.54	272.13	-63.9
Departure Fees	617.07	523.57	136.76	-77.8
Other	136.73	135.98	135.37	-1.0
Total revenue	1 732.37	1 667.81	1 746.78	0.8
<u>Expenses</u>				
Health	27.71	34.16	28.05	1.2
Water, sanitation and protection of the environment	360.72	473.22	480.78	33
Roads	370.26	483.15	506.62	36.8
Manufacturing	0.00	0.00	35.78	
Culture and recreation	68.29	95.56	74.05	8.4
Tourism	343.04	430.07	511.64	49.1
General public services (a)	564.93	653.38	653.54	15.7
Depreciation	280.38	251.46	252.21	-10.0
Total expenses	2 015.33	2 421.01	2 542.65	26.2
Net expenses	282.96	753.20	795.88	181.3

(a) Net of management fees charged to GBEs.

Source: Norfolk Island accounts and financial statements.

Table A-7 Norfolk Island Government federal-type revenues and expenses, 2007-08 to 2009-10, per capita

	2007-08	2008-09	2009-10	Change 2007-08 to 2009-10
	\$pc	\$pc	\$pc	%
<u>Revenue</u>				
GST/NSL	3 312.87	3 485.84	4 317.97	30.3
Healthcare/Medivac Levy	468.98	485.23	504.94	7.7
Customs duty and fees	695.14	648.44	730.74	5.1
Fuel levy	44.18	8.59	7.10	-83.9
Contributions by trading enterprises	81.34	0.00	0.00	-100.0
Interest income	12.78	4.47	0.31	-97.5
Other revenue	13.64	0.00	1.23	-91.0
Total revenue	4 628.93	4 632.57	5 562.29	20.2
<u>Expenses</u>				
Immigration Office (a)	40.69	49.30	25.71	-36.8
Health	94.54	117.98	103.26	9.2
Welfare	608.04	642.17	673.81	10.8
General public services (b)	580.73	608.79	666.87	14.8
Depreciation	118.05	105.23	96.59	-18.2
Total expenses	1 442.05	1 523.47	1 566.24	8.6
Net expenses	- 3 186.88	- 3 109.11	- 3 996.05	25.4

(a) Net of fees charged.

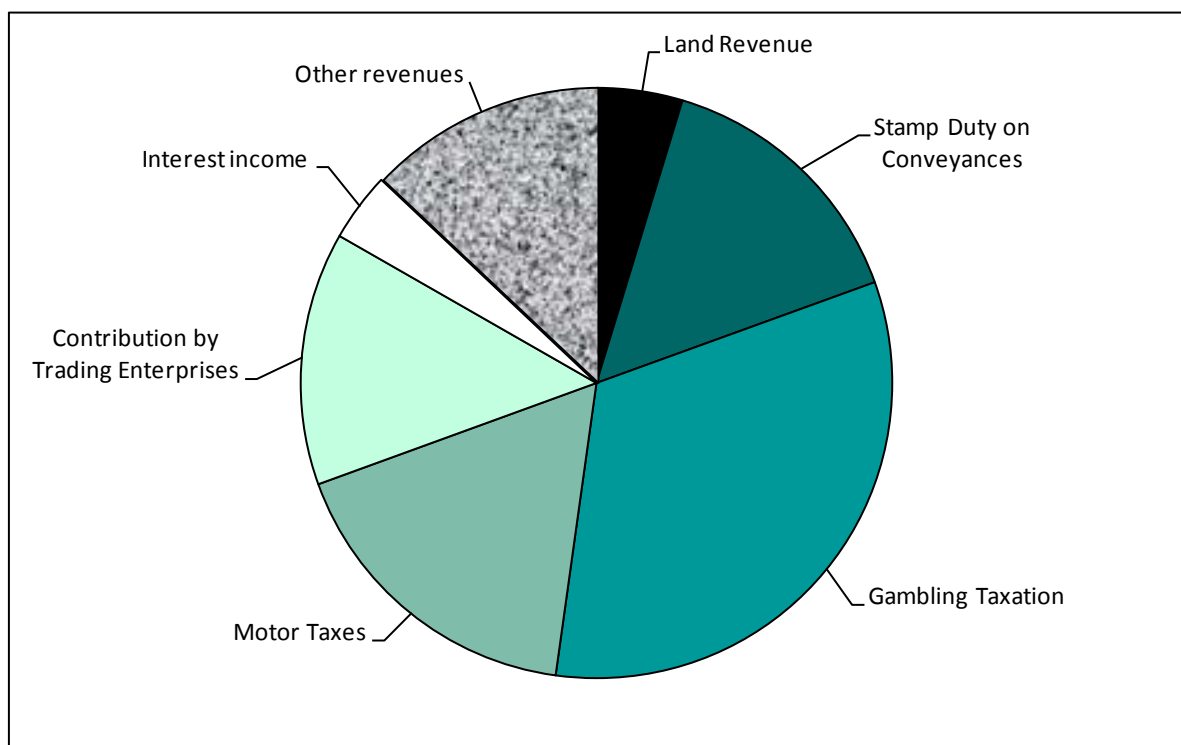
(b) Net of management fees charged to GBEs.

Source: Norfolk Island accounts and financial statements.

STATE-TYPE REVENUES

- 22 Figure A-1 illustrates the importance of different State-type revenues raised by the Norfolk Island Government for the period 2007-08 to 2009-10. It shows that Gambling taxation was the most important revenue, comprising 33% of total Norfolk Island Government State-type revenues. Gambling taxation has doubled over the 2 years.
- 23 The next most important revenue items were Motor taxes, Stamp duty on conveyances and Contributions by trading enterprises (mainly Norfolk Energy), each comprising between 14% and 17% of total State-type revenues.

Figure A-1 Norfolk Island revenue by type of State revenue — proportion of total State-type revenues, 2007-08 to 2009-10



Source: Norfolk Island accounts and financial statements.

- 24 Table A-8 shows the average per capita State-type revenues of the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2007-08 to 2009-10.
- 25 The table shows that no revenue was collected by the Norfolk Island Government from Payroll tax, Stamp duties on shares and Marketable securities, Insurance taxation and Mining revenue.
- 26 For all heads of revenue, except for Gambling taxation and Other revenue, the all-State average per capita amount was greater than the equivalent for Norfolk Island.

Table A-8 Average per capita State-type revenues, 2007-08 to 2009-10

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
Payroll tax	0	976	520	664	764
Land revenue	78	261	160	0	249
Stamp duty on conveyances	240	738	346	518	546
Financial transaction taxes	6	17	1	6	20
Stamp duties on shares and marketable securities	0	0	0	0	4
Gambling taxation	558	78	188	307	229
Insurance taxation	0	181	87	122	132
Motor taxes	282	395	248	202	307
Mining revenue	0	1 345	71	753	301
Interest income	60	128	124	376	111
Contribution by trading enterprises	232	404	304	160	279
Other Revenue	179	0	0	0	44
Fees and fines	32	63	62	47	73
Total revenues	1 667	4 586	2 111	3 156	3 059

Note: For Norfolk Island, financial year population used is the average of ordinarily resident population at end of June for each year.

These revenues do not include grants from the Australian Government.

Source: Norfolk Island accounts and financial statements and CGC 2011 Update adjusted budget.

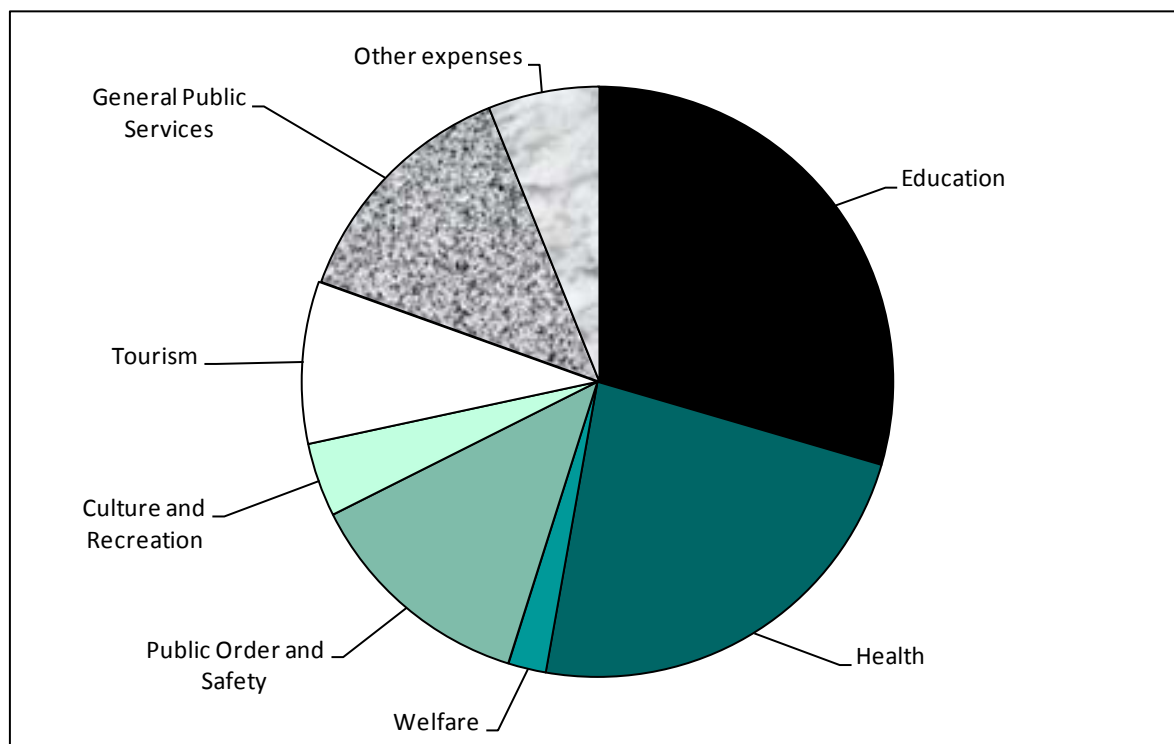
STATE-TYPE EXPENSES

- 27 Figure A-2 illustrates the importance of different State-type services provided by the Norfolk Island Government over the period 2007-08 to 2009-10. It shows that Education was the largest service, comprising 30% of Norfolk Island Government State-type expenses. Health was the next most important service, comprising 23% of expenses. These data include State-type health expenditures funded through the Healthcare Fund but not included in the hospital accounts (Medivacs and overseas treatment costs).⁸
- 28 General public services and Public order and safety each accounted for 13% of expenses. The General public services group mainly comprised expenses of the Administration — net of management fees charged to GBEs — and the Norfolk Island Legislative Assembly.⁹
- 29 If Health and Welfare expenses had been shown on a gross basis, they would have accounted for 36% and 5% respectively of Norfolk Island Government State-type expenses. Both services had very high user charges (see Table A-9).

⁸ These expenses were not included in the data in the 2006 Inquiry report. Also, we now include the cost of goods sold in hospital expenses; Revenue Fund pensioner medical expenses for overseas treatment and patient travel.

⁹ Expenses of Administration are split between federal, State and local government services based on the proportion of non-Administrative expenses allocated to each. Expenses of Norfolk Island Legislative Assembly are split equally between State and local government.

Figure A-2 Norfolk Island expenses by type of State services — annual average proportion of total State-type expenses, 2007-08 to 2009-10



Note: 'Public Order and Safety' includes Police, Administration of Justice, Corrective Services and Public Safety and Emergency Services. 'Other' includes Depreciation and Water, Sanitation and Protection of the Environment. General Public Services is net of management fees charged to GBEs.

Source: Norfolk Island accounts and financial statements.

- 30 Table A-9 shows the average per capita expenses on State-type services of the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2007-08 to 2009-10. It shows that some State-type services were not provided by the Norfolk Island Government. For example, no Housing expenses were incurred. No Roads expenses are shown in the table because all roads on the Island have been classified as local roads.
- 31 There were no expenses on Electricity and gas because the Electricity GBE received no subsidy, unlike equivalent GBEs in the States.
- 32 There were debt charges expenses because, although the Australian Government loans to the Norfolk Island Government were interest free, the Norfolk Island Government incurred some charges in 2009-10 relating to the deferred payment of the New South Wales Education Department account.

Table A-9 Average per capita expenses on State-type services, 2007-08 to 2009-10

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
Education	1 412.03	1 772.17	1 641.40	2 793.79	1 518.62
Health (a)	1 129.50	1 754.11	1 850.01	2 950.96	1 602.87
comprised of - expenses	2 200.65	1 884.14	1 987.31	3 097.26	1 762.95
- user charges	-1 071.14	-130.03	-137.29	-146.29	-160.08
Welfare	97.04	560.75	587.93	1 372.21	575.36
comprised of - expenses	328.07	575.37	601.41	1 408.02	601.50
- user charges	-231.03	-14.62	-13.49	-35.81	-26.14
Housing	0.00	262.50	194.35	682.33	172.34
Police	295.56	373.20	336.42	750.60	303.47
Administration of justice	157.14	153.94	95.02	445.86	134.21
Corrective services	159.36	236.79	104.22	378.26	125.30
Public safety and emergency services (b)	0.00	40.25	11.13	141.82	42.41
Culture and recreation	192.93	219.41	257.58	570.18	161.77
Electricity and gas	0.00	55.79	54.81	405.58	48.26
Water, sanitation and protection of the environment	0.00	276.03	80.20	208.54	138.16
Roads	0.00	240.69	334.53	636.59	363.20
Other transport	27.52	251.16	186.33	137.15	288.02
Tourism	428.25	50.58	93.95	231.46	23.21
Other services to industry	6.09	276.96	218.06	363.49	180.50
General public services	641.34	390.74	643.02	1 115.97	407.51
comprised of - NI Administration	575.28	na	na	na	na
- NI Leg Assembly	193.70	na	na	na	na
- other expenses	-127.64	na	na	na	na
Depreciation	252.34	259.95	238.80	535.45	250.59
Debt charges	8.27	63.99	36.06	632.79	151.21
Superannuation (c)	0.00	711.01	1 200.10	1 689.50	714.22
Total expenses	4 807.38	7 950.02	8 163.93	16 042.52	7 201.26

Note: For Norfolk Island, financial year population used is the average of ordinarily resident population at end of June for each year.

‘na’ — not applicable.

(a) Includes State-type health expenditures funded through the Healthcare Fund. Expenses and user charges of the Dispensary Department of the Norfolk Island Hospital have been split between State (4%, increasing to 5% in 2009-10) and private (96%, falling to 95% in 2009-10) based on information provided by the Norfolk Island Hospital. The amounts allocated to private are excluded from the analysis.

(b) State figures exclude expenses on natural disaster relief and are also net of contributions from property owners and insurance companies to fire brigades.

(c) Superannuation expenses for Norfolk Island are included in each function.

Source: Norfolk Island accounts and financial statements and CGC 2011 Update adjusted budget.

33 Norfolk Island’s Tourism, General public services and Depreciation expenses have been allocated between federal, State and local government-type services. For this reason, a more

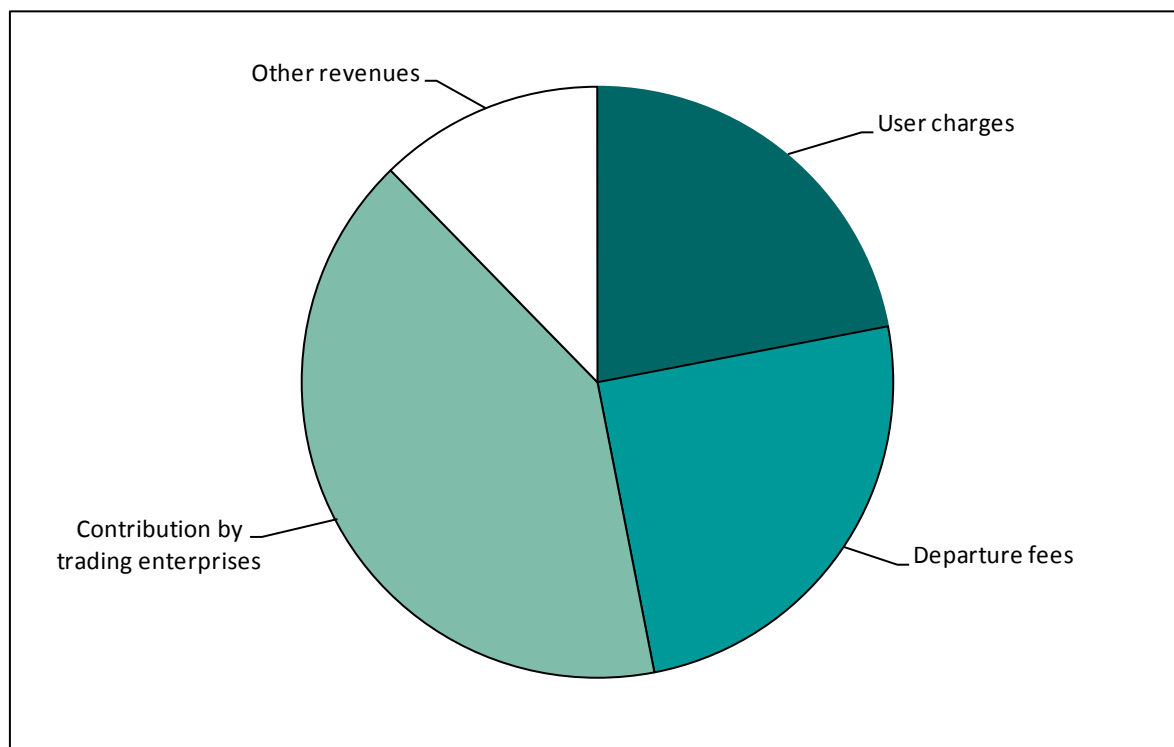
meaningful comparison for these categories can be made at the total State and local government level.

- 34 State-type per capita expenses of the Norfolk Island Government were around 67% of the average of the States. For the majority of the services, the average per capita expense of all States was higher than that of Norfolk Island. The exceptions were Health expenses (gross of user charges), Administration of justice, Corrective services, Culture and recreation, Tourism, and General public services.
- 35 The Norfolk Island Government's per capita user charges for Health and Welfare were much higher than the States and the all-State average. These were operating income raised by the Norfolk Island Hospital from the provision of health and welfare services in the hospital. They reflect the Island's user pays policy for health care.

LOCAL GOVERNMENT-TYPE REVENUES

- 36 Figure A-3 illustrates the importance of each type of local government revenue raised by the Norfolk Island Government for the period 2007-08 to 2009-10.
- 37 Contributions by trading enterprises were the most important revenue source, comprising 41% of total Norfolk Island Government local government-type revenue. The Liquor Supply Service and Norfolk Island Airport accounted for over 90% of contributions. The Liquor Supply Service contributed \$800-850 000 each year while the Norfolk Island Airport contributed \$950 000 in 2009-10 but just \$250 000 in 2008-09, although the Airport made losses of about \$3 million in both years. Departure fees were the second most important revenue source (accounting for an average 25% of the total). Departure fees contributed \$958 000 in 2008-09 but just \$248 000 in 2009-10. The increase in the airport's contribution in 2009-10 and the drop in departure fees in the same year are not unrelated. The departure fee was replaced from 1 October 2010 by an increase in landing fees charged by the Norfolk Island Airport as part of the airline ticket price.
- 38 User charges, almost all relating to effluent disposal charges and the waste management levy, were the next largest source of local government-type revenues (22% of the total).
- 39 Table A-10 shows the average per capita local government-type revenues of the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2007-08 to 2009-10.
- 40 The table shows that Norfolk Island's per capita local government-type revenue was higher than the all-State average because of the high contributions from trading enterprises and departure fees.

Figure A-3 Norfolk Island local government-type revenues — annual average proportion of total local government-type revenues, 2007-08 to 2009-10



Note: 'User Charges' mainly includes user charges from Water, Sanitation and Protection of the Environment. 'Other' includes miscellaneous revenue.

Source: Norfolk Island Administration accounts and financial statements.

Table A-10 Average per capita local government-type revenues, 2007-08 to 2009-10

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
Grants and subsidies (a)	0.00	125.19	172.81	508.31	133.02
Municipal rates	0.00	546.63	518.49	336.48	502.93
User charges (b)	377.26	297.70	504.87	298.55	405.77
Interest income	75.15	48.39	49.97	41.97	35.10
Other revenue	1 263.25	295.53	222.32	775.22	338.22
comprised of - contributions by GBEs	701.43	na	na	na	na
- departure fees	425.80	na	na	na	na
- other revenue	136.02	na	na	na	na
Total revenue	1 715.65	1 313.44	1 468.45	1 960.53	1 415.04

Note: For Norfolk Island, the financial year population used is the average of ordinarily resident population at the end of June in each year.

'na' — not applicable. Details for the States are not available in Government Finance Statistics.

(a) These revenues are not separately identified in the Norfolk Island Government accounts.

(b) For Norfolk Island, this mainly comprises user charges from Water, Sanitation and Protection of the Environment.

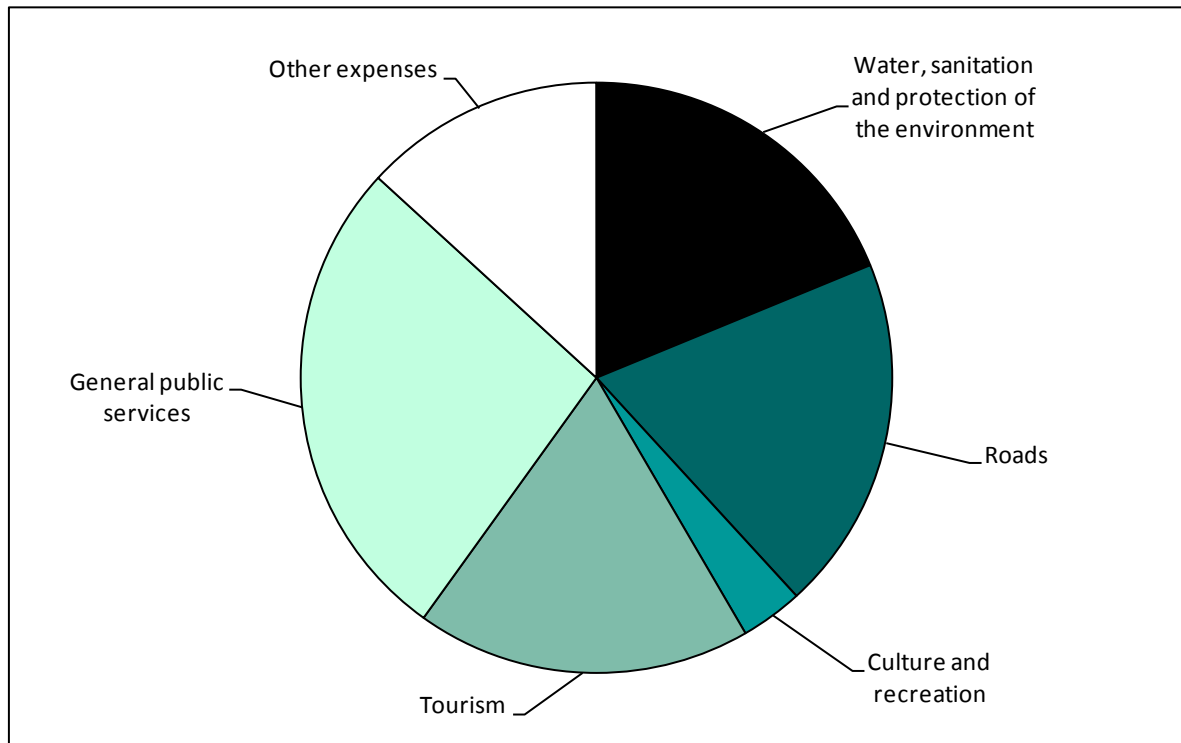
Source: Norfolk Island accounts and financial statements and ABS Government Finance Statistics (Cat. No. 5512.0.)

- 41 The Norfolk Island Government's local government-type interest income was also higher than the all-State average. However, this may be because the Administration's interest income has been split equally between State and local government-type revenues. The Norfolk Island Government's total interest income was lower than the all-State average State and local government interest income.
- 42 Municipal rates, which are the major revenue source for local governments in the States, were not imposed on the Island.

LOCAL GOVERNMENT-TYPE EXPENSES

- 43 Figure A-4 illustrates the importance of different local government-type services provided by the Norfolk Island Government for the period 2007-08 to 2009-10.
- 44 General public services — net of management fees charged to GBEs — was the most important service, comprising 27% of total Norfolk Island Government local government-type expenses. This group mainly comprised a share of the expenses of the Administration, General Works and the Norfolk Island Legislative Assembly.
- 45 Roads, Tourism and Water, sanitation and protection of the environment were the next most important services, each comprising 19% of total Norfolk Island Government local government-type expenses.

Figure A-4 Norfolk Island local government-type expenses — annual average proportion of total local government-type expenses, 2007-08 to 2009-10



Note: 'Housing and Community Amenities' mainly includes Water, Sanitation and Protection of the Environment; 'Transport and Communications' mainly includes Roads; and 'Other' includes Depreciation, Health and Social Security and Welfare. General Public Services is net of management fees charged to GBEs.

Source: Norfolk Island accounts and financial statements.

- 46 Table A-11 shows the average per capita expenses on local government-type services for the Norfolk Island Government, Western Australia, Tasmania, the Northern Territory and all States for 2007-08 to 2009-10.

Table A-11 Average per capita expenses on local government-type services, 2007-08 to 2009-10

	Norfolk	WA	Tas	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc
General public services	623.95	136.11	188.47	559.93	231.71
comprised of - NI Administration	347.32	na	na	na	na
- NI Legislative Assembly	193.70	na	na	na	na
- other expenses	82.92	na	na	na	na
Law, order and public safety	0.00	38.11	13.32	46.08	26.42
Education	0.00	2.59	0.00	20.83	5.96
Health	29.97	20.08	27.97	18.22	14.05
Social security and welfare	0.00	50.97	45.93	64.29	70.09
Housing and community amenities (a)	438.24	176.54	461.97	597.89	295.37
Culture and recreation	79.30	262.25	173.04	165.71	177.92
Services to industry	11.93	17.08	0.66	28.42	16.38
Transport and communications	453.34	316.34	316.17	169.13	264.14
Other economic affairs	0.00	31.72	52.61	327.26	45.26
Tourism	428.25	na	na	na	na
Public debt transactions	0.00	8.47	15.34	4.49	19.52
Depreciation (b)	261.35	0.00	0.00	0.00	0.00
Other expenses	0.00	56.65	35.92	47.82	49.93
Total expenses	2 326.33	1 116.90	1 331.41	2 050.07	1 216.75

Note: For the Norfolk Island, financial year population used is the average of ordinarily resident population at end of June for each year.

'na' — not applicable. Details for the States are not available in GFS.

(a) Includes Water, Sanitation and Protection of the Environment.

(b) Includes depreciation expenses in the Revenue Fund, Water Assurance Fund and Roads Fund. Depreciation expenses for the States are included in each function.

Source: Norfolk Island accounts and financial statements and ABS Government Finance Statistics (Cat. No. 5512.0.)

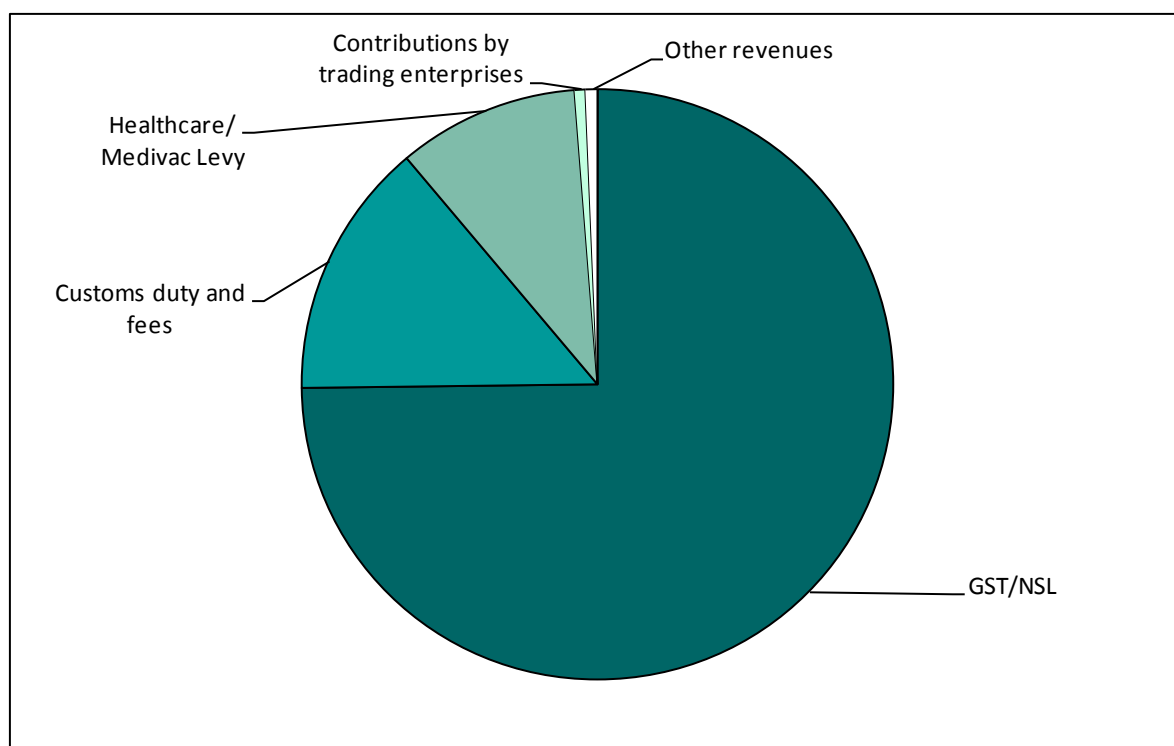
47 The table shows that the Norfolk Island Government's per capita total expense on local government-type services was much higher than the all-State average, even though some local government-type services were not provided. The Norfolk Island Government spent more than the all-State average on each local government-type service it provided, except for Social security and welfare, Culture and recreation, and Services to industry.

48 Tourism is generally both a State and local government function for the States. In the absence of reliable information, Norfolk Island's Tourism expenses have been split equally between State and local government-type services. The Norfolk Island Government's very high total tourism expenses (averaging \$856 per capita) is consistent with tourism being the major industry and source of income on the Island.

FEDERAL-TYPE REVENUES

- 49 Figure A-5 illustrates the importance of each type of federal-type revenue raised by the Norfolk Island Government for the period 2007-08 to 2009-10.
- 50 GST dominates as a revenue source, accounting for 75% of total federal-type revenues over the 3 year period. Customs duty was the next most important revenue source, accounting for 14% of total federal-type revenues. The Healthcare Levy and Medivac Levy together accounted for 10% of total revenues.

Figure A-5 Norfolk Island federal-type revenues — annual average proportion of total federal government-type revenues, 2007-08 to 2009-10



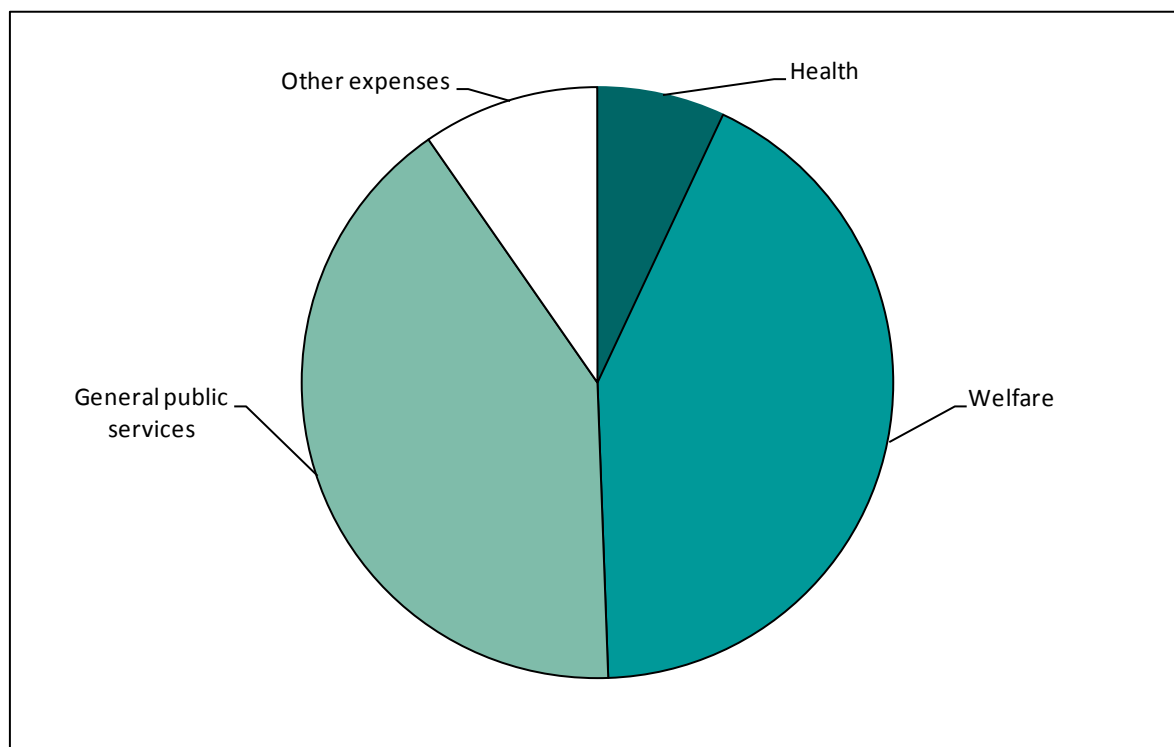
Source: Norfolk Island accounts and financial statements.

FEDERAL-TYPE EXPENSES

- 51 Figure A-6 illustrates the importance of different federal government-type services provided by the Norfolk Island Government for the period 2007-08 to 2009-10.
- 52 Welfare services (social service benefits) and General public services are by far the largest federal-type expenses of the Administration, accounting for 42% and 41% respectively of total Norfolk Island Government federal-type expenses over the 3 years. General public services — net of management fees charged to GBEs — mainly comprised a share of the expenses of the Administration and General Works.

- 53 Health expenses, comprising Healthcare Fund administration costs and quarantine expenses, accounted for 7% of total expenses.

Figure A-6 Norfolk Island federal Government-type expenses — annual average proportion of total federal government-type revenues, 2007-08 to 2009-10



Source: Norfolk Island accounts and financial statements.

SERVICES FUNDED BY THE AUSTRALIAN GOVERNMENT

- 54 The Australian Government already provides a number of federal services on the Island. These include the Bureau of Meteorology Office, the National Park and federal-type Australian Federal Police services. These are not included in our analysis.
- 55 Aside from recent financial assistance grants to assist the Norfolk Island Government to overcome the severe financial constraints it currently faces, the Australian Government has also provided funding over the years towards the provision of a range of State and local-government-type services under a number of programs (Table A-12). These do not appear in the Revenue Fund and comprise:
- the Australian Government's annual funding contribution for KAVHA
 - its funding contribution towards the provision of a range of other State and local government-type services through payments into a number of trust funds (none in the 3 years to 2009-10)
 - grants to the Museum
 - some assistance for infrastructure.

These payments and related expenses have not been included in our analyses.

- 56 Table A-12 shows that the Norfolk Island Government received \$695 000 or \$382 per capita from the Australian Government for recurrent purposes in 2009-10.

Table A-12 Australian Government funding of State and local government-type services

	2007-08	2008-09	2009-10
	\$000	\$000	\$000
Australian Government contribution to KAVHA	556	485	611
Grants to the Museum	13		34
Grants to the Norfolk Island Central School		2	50
Grants associated with the Patton murder trial (a)		239	

Note: A grant of \$118 300 to the National Heritage Trust in 2007-08 is assumed to have been for non-recurrent purposes. Grants for capital purposes and grants to non-government organisations are not included in this table.

- (a) We have taken account of (netted out) \$178 420 which was included in the 2008-09 Norfolk Island Financial Statements as an offset to Police expenses. We have similarly netted out \$10 294 in 2007-08.

Source: Based on information provided by the Department on 20 October 2011.

- 57 Table A-13 shows National SPPs and NPPs made to the States in 2009-10. Table A-14 shows an average SPP/NPP payment per capita to States of \$2 371. Australian Government funding in 2009-10 for recurrent purposes amounted to \$695 000 or \$382 per capita.

Table A-13 Payments for specific purposes to the States, 2009-10

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Health									
National Healthcare SPP	3 711	2 711	2 206	1 136	920	246	149	146	11 224
National Partnerships	260	160	173	86	63	49	16	44	850
Education									
National Schools SPP	3 113	2 425	1 927	991	757	227	172	139	9 750
National Skills and Workforce Development SPP	439	326	255	132	99	31	23	14	1 318
National Partnerships	3 384	2 545	2 169	1 232	968	308	152	227	10 986
Community services									
National Disability SPP	302	208	172	78	93	28	13	10	904
National Partnerships	471	389	338	149	131	42	17	48	1 585
Housing									
National Affordable Housing SPP	380	266	235	125	95	34	26	42	1 203
National Partnerships	1 833	1 316	1 023	779	491	128	92	186	5 847
Infrastructure									
National Partnerships	1 585	776	2 079	445	543	193	22	146	5 789
Environment									
National Partnerships	53	59	31	39	204	27	1	11	426
Contingent									
National Partnerships	195	68	96	0	47	4	0	3	412
Other									
National Partnerships	68	59	46	27	20	9	9	9	246
Local government payments	624	465	389	232	135	64	42	28	1 980
Total payments for Specific purposes	16 418	11 773	11 139	5 451	4 566	1 390	734	1 053	52 520

Source: Commonwealth of Australia, *Final Budget Outcome, 2009-10*, pp 68-83.

Table A-14 Payments for specific purposes to the States (per capita), 2009-10

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Health									
National Healthcare SPP	516.03	493.23	493.19	500.38	563.09	486.77	419.85	641.15	506.66
National Partnerships	36.15	29.11	38.68	37.88	38.56	96.96	45.08	193.22	38.37
Education									
National Schools SPP	432.87	441.20	430.81	436.51	463.32	449.17	484.65	610.41	440.12
National Skills and Workforce Development SPP	61.04	59.31	57.01	58.14	60.59	61.34	64.81	61.48	59.50
National Partnerships	470.56	463.03	484.91	542.67	592.46	609.45	428.30	996.86	495.92
Community services									
National Disability SPP	41.99	37.84	38.45	34.36	56.92	55.40	36.63	43.91	40.81
National Partnerships	65.49	70.77	75.57	65.63	80.18	83.11	47.90	210.79	71.55
Housing									
National Affordable Housing SPP	52.84	48.40	52.54	55.06	58.14	67.28	73.26	184.44	54.30
National Partnerships	254.88	239.43	228.71	343.13	300.52	253.28	259.23	816.81	263.94
Infrastructure									
National Partnerships	220.40	141.18	464.79	196.01	332.34	381.89	61.99	641.15	261.32
Environment									
National Partnerships	7.37	10.73	6.93	17.18	124.86	53.43	2.82	48.31	19.23
Contingent									
National Partnerships	27.12	12.37	21.46	0.00	28.77	7.91	0.00	13.17	18.60
Other									
National Partnerships	9.46	10.73	10.28	11.89	12.24	17.81	25.36	39.52	11.10
Local government payments	86.77	84.60	86.97	102.19	82.63	126.64	118.35	122.96	89.38
Total payments for Specific purposes	2 282.97	2 141.94	2 490.30	2 401.03	2 794.62	2 750.42	2 068.23	4 624.18	2 370.79

Source: Commonwealth of Australia, *Final Budget Outcome, 2009-10*, pp 68-83.

Table A-15 State-type revenues and expenses, 2007-08

Item	Norfolk \$000	NSW \$000	Vic \$000	Qld \$000	WA \$000	SA \$000	Tas \$000	ACT \$000	NT \$000	All States \$000
Revenue										
Payroll Tax	0	6 204 873	3 844 834	2 493 249	1 936 323	903 728	249 812	248 323	140 825	16 021 967
Land Revenue	126	1 937 201	968 093	609 517	490 619	375 250	70 684	73 012	0	4 524 376
Stamp Duty on Conveyances	634	3 938 253	3 594 144	2 912 217	2 243 193	908 502	204 427	272 120	112 199	14 185 055
Financial Transaction Taxes	13	316 396	8 279	343 592	105 096	80 767	1 460	7 314	1 152	864 056
Stamp Duties on Shares and Marketable Securities	0	70 785	0	0	6	0	0	22 511	0	93 302
Gambling Taxation	702	1 575 874	1 594 551	888 724	162 158	415 164	90 194	51 968	71 292	4 849 925
Insurance Taxation	0	726 179	754 331	432 644	372 319	301 810	40 656	33 411	25 143	2 686 493
Motor Taxes	527	2 138 312	1 357 565	1 373 897	867 879	432 492	123 672	102 108	44 324	6 440 249
Other Revenue	189	510 777	119 318	145 857	0	59 471	0	27 305	0	862 728
Mining Revenue	0	573 565	38 565	1 345 478	2 524 034	143 004	37 258	228	98 379	4 760 511
Contributions by Trading Enterprises	271	2 167 067	841 883	1 330 899	892 051	447 326	140 005	315 749	58 377	6 193 357
Interest Income	151	-172 272	451 532	-274 742	332 007	202 693	73 587	120 824	106 069	839 698
User charges - Fees and Fines	53	513 197	451 880	329 980	132 134	27 647	37 418	18 223	8 096	1 518 575
Total revenue	2 665	20 500 207	14 024 975	11 931 312	10 057 819	4 297 854	1 069 173	1 293 096	665 856	63 840 292
Expenses										
Education	2 479	9 546 474	7 321 363	5 750 473	3 480 197	2 383 281	738 700	499 918	582 550	30 302 956
Health - expenses	3 879	10 856 122	8 162 230	7 221 591	3 738 642	3 085 071	859 409	618 212	591 476	35 132 752
Health - user charges	-1 876	-940 295	-978 054	-398 219	-272 453	-352 402	-69 148	-84 880	-29 362	-3 124 813
Welfare - expenses	557	3 895 283	3 186 953	1 951 165	1 099 394	993 245	275 558	179 269	282 054	11 862 921
Welfare - user charges	-339	-92 620	-289 537	-23 984	-30 500	-99 053	-5 647	-1 444	-6 507	-549 292
Housing	0	1 061 091	710 472	535 601	496 317	275 471	111 364	92 831	141 338	3 424 485
Police	539	1 926 081	1 358 148	1 172 736	737 628	480 756	170 869	116 955	144 230	6 107 403
Administration of Justice	264	898 441	677 684	505 630	231 376	217 932	32 540	51 551	94 626	2 709 780
Corrective Services	251	867 455	424 572	397 394	439 888	182 583	51 796	42 355	78 905	2 484 948
Public Safety and Emergency Services	0	113 805	364 147	102 873	126 827	115 701	1 151	28 819	31 197	884 520
Culture & Recreation (includes National Parks)	309	987 163	649 979	603 986	433 602	342 815	108 228	94 277	104 791	3 324 841
Electricity and Gas	0	95 322	60 062	751 661	62 021	6 957	21 444	5 002	120 953	1 123 422
Water, Sanitation and Protection of the Environment	0	838 556	385 123	552 938	566 487	461 311	38 363	50 484	28 903	2 922 165
Non-urban Transport	0	255 940	560 529	325 252	138 568	15 690	21 205	0	3 072	1 320 256
Roads	0	3 029 470	1 636 738	1 247 219	514 328	434 730	167 173	151 958	120 628	7 302 244
Urban Transit	0	2 225 631	373 797	909 842	397 447	219 716	62 039	64 997	30 106	4 283 575
Primary Industry	15	608 864	376 707	635 040	330 068	109 115	37 350	1 215	39 369	2 137 728
Mining, Fuel and Energy	0	55 692	18 741	80 524	194 836	55 409	9 426	0	14 395	429 023
Tourism	633	48 332	65 635	84 008	98 474	42 866	59 778	12 069	45 241	456 403
Manufacturing and Other Industry	0	75 689	6 547	112 319	34 903	28 392	1 521	13 288	1 537	274 196
Subsidies Petroleum & Alcohol, GST Admin Costs	0	252 427	162 901	677 872	74 280	66 790	20 611	10 200	10 147	1 275 228
Superannuation	0	3 588 064	3 109 574	3 441 895	1 517 087	1 220 991	556 055	483 775	361 533	14 278 974
General Public Services	1 086	1 625 486	2 003 281	1 987 053	721 781	409 783	370 030	269 014	268 689	7 655 117
Debt Charges	0	1 304 514	438 502	351 627	120 497	217 626	19 552	66 786	151 876	2 670 980
Depreciation	488	1 609 194	1 024 089	1 137 800	514 660	352 936	112 052	107 135	104 068	4 961 934
Total expenses	8 286	44 732 181	31 810 183	30 114 295	15 766 354	11 267 713	3 771 418	2 873 786	3 315 816	143 651 745

Source: Commission staff calculation using ABS and State data.

Table A-16 State-type revenues and expenses (per capita), 2007-08

Item	Norfolk \$pc	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc	All States \$pc
Revenue										
Payroll Tax	0.00	892.15	729.74	587.06	904.38	567.05	504.15	725.42	647.55	753.59
Land Revenue	68.30	278.54	183.74	143.52	229.15	235.45	142.65	213.29	0.00	212.80
Stamp Duty on Conveyances	343.66	566.25	682.16	685.70	1 047.70	570.04	412.56	794.94	515.92	667.19
Financial Transaction Taxes	6.80	45.49	1.57	80.90	49.09	50.68	2.95	21.37	5.30	40.64
Stamp Duties on Shares and Marketable Securities	0.00	10.18	0.00	0.00	0.00	0.00	0.00	65.76	0.00	4.39
Gambling Taxation	380.52	226.58	302.64	209.26	75.74	260.50	182.02	151.81	327.82	228.12
Insurance Taxation	0.00	104.41	143.17	101.87	173.89	189.37	82.05	97.60	115.61	126.36
Motor Taxes	285.88	307.45	257.66	323.49	405.35	271.37	249.59	298.28	203.81	302.92
Other Revenue	102.50	73.44	22.65	34.34	0.00	37.32	0.00	79.77	0.00	40.58
Mining Revenue	0.00	82.47	7.32	316.80	1 178.87	89.73	75.19	0.67	452.37	223.91
Contributions by Trading Enterprises	147.04	311.59	159.79	313.37	416.64	280.68	282.55	922.39	268.43	291.30
Interest Income	81.86	-24.77	85.70	-64.69	155.07	127.18	148.51	352.96	487.73	39.50
User charges - Fees and Fines	28.91	73.79	85.77	77.70	61.71	17.35	75.51	53.23	37.23	71.43
Total revenue	1 445.46	2 947.57	2 661.91	2 809.32	4 697.60	2 696.70	2 157.73	3 777.48	3 061.79	3 002.71
Expenses										
Education	1 344.56	1 372.61	1 389.58	1 353.99	1 625.46	1 495.40	1 490.79	1 460.39	2 678.72	1 425.29
Health - expenses	2 103.55	1 560.92	1 549.17	1 700.38	1 746.17	1 935.74	1 734.40	1 805.96	2 719.77	1 652.46
Health - user charges	-1 017.52	-135.20	-185.63	-93.76	-127.25	-221.12	-139.55	-247.96	-135.01	-146.97
Welfare - expenses	302.19	560.07	604.88	459.42	513.48	623.22	556.11	523.69	1 296.96	557.97
Welfare - user charges	-183.69	-13.32	-54.95	-5.65	-14.25	-62.15	-11.40	-4.22	-29.92	-25.84
Housing	0.00	152.57	134.85	126.11	231.81	172.85	224.75	271.18	649.91	161.07
Police	292.32	276.94	257.77	276.13	344.52	301.65	344.84	341.66	663.21	287.26
Administration of Justice	143.40	129.18	128.62	119.05	108.07	136.74	65.67	150.59	435.12	127.45
Corrective Services	136.08	124.72	80.58	93.57	205.45	114.56	104.53	123.73	362.83	116.88
Public Safety and Emergency Services	0.00	16.36	69.11	24.22	59.24	72.60	2.32	84.19	143.45	41.60
Culture & Recreation (includes National Parks)	167.73	141.94	123.36	142.21	202.52	215.10	218.42	275.41	481.86	156.38
Electricity and Gas	0.00	13.71	11.40	176.98	28.97	4.37	43.28	14.61	556.17	52.84
Water, Sanitation and Protection of the Environment	0.00	120.57	73.10	130.19	264.58	289.45	77.42	147.48	132.90	137.44
Non-urban Transport	0.00	36.80	106.39	76.58	64.72	9.84	42.79	0.00	14.13	62.10
Roads	0.00	435.58	310.65	293.67	240.22	272.77	337.38	443.91	554.68	343.46
Urban Transit	0.00	320.01	70.95	214.23	185.63	137.86	125.20	189.87	138.44	201.48
Primary Industry	8.21	87.54	71.50	149.53	154.16	68.46	75.38	3.55	181.03	100.55
Mining, Fuel and Energy	0.00	8.01	3.56	18.96	91.00	34.77	19.02	0.00	66.19	20.18
Tourism	343.04	6.95	12.46	19.78	45.99	26.90	120.64	35.26	208.03	21.47
Manufacturing and Other Industry	0.00	10.88	1.24	26.45	16.30	17.81	3.07	38.82	7.07	12.90
Subsidies-Petroleum & Alcohol, GST Admin Costs	0.00	36.29	30.92	159.61	34.69	41.91	41.60	29.80	46.66	59.98
Superannuation	0.00	515.90	590.19	810.42	708.57	766.12	1 122.19	1 413.24	1 662.43	671.61
General Public Services	588.90	233.72	380.22	467.87	337.11	257.12	746.77	785.86	1 235.51	360.06
Debt Charges	0.00	187.57	83.23	82.79	56.28	136.55	39.46	195.10	698.37	125.63
Depreciation	264.58	231.37	194.37	267.90	240.38	221.45	226.14	312.97	478.53	233.38
Total expenses	4 493.36	6 431.69	6 037.51	7 090.65	7 363.82	7 069.97	7 611.20	8 395.10	15 247.02	6 756.63

Source: Commission staff calculation using ABS and State data.

Table A-17 State-type revenues and expenses, 2008-09

Item	Norfolk \$000	NSW \$000	Vic \$000	Qld \$000	WA \$000	SA \$000	Tas \$000	ACT \$000	NT \$000	All States \$000
Revenue										
Payroll Tax	0	6 354 438	3 979 704	2 753 810	2 239 709	913 810	259 350	269 532	151 369	16 921 722
Land Revenue	134	2 252 328	1 344 549	837 601	644 165	509 811	79 562	86 333	0	5 754 349
Stamp Duty on Conveyances	222	2 725 537	2 664 018	1 805 833	1 007 630	682 060	151 194	187 855	108 229	9 332 356
Financial Transaction Taxes	12	124 251	8 327	40 009	4 536	45 223	0	8 233	1 933	232 512
Stamp Duties on Shares and Marketable Securities	0	62 753	0	0	869	0	0	16 413	0	80 035
Gambling Taxation	932	1 652 338	1 648 623	922 000	179 565	407 356	93 712	51 327	72 686	5 027 607
Insurance Taxation	0	774 243	798 536	474 178	397 307	326 947	42 762	37 419	27 143	2 878 535
Motor Taxes	518	2 125 408	1 337 202	1 479 093	849 767	447 808	118 969	106 050	43 725	6 508 022
Other Revenue	408	541 006	144 405	156 526	0	60 892	0	28 274	0	931 103
Mining Revenue	0	1 278 541	46 475	3 341 483	3 218 851	153 191	30 458	-125	228 576	8 297 450
Contributions by Trading Enterprises	524	2 202 909	589 998	1 308 948	839 894	381 938	218 809	196 724	25 094	5 764 314
Interest Income	90	415 874	376 765	1 481 848	285 033	149 822	67 807	122 243	79 064	2 978 456
User charges - Fees and Fines	51	588 756	445 506	309 936	139 039	34 140	29 727	26 640	10 905	1 584 649
Total revenue	2 892	21 098 382	13 384 108	14 911 265	9 806 365	4 112 998	1 092 350	1 136 918	748 724	66 291 110
Expenses										
Education	2 569	10 326 446	8 093 244	6 173 305	3 848 313	2 518 575	805 016	584 947	626 609	32 976 455
Health - expenses	3 504	11 618 872	9 019 401	7 867 577	4 231 642	3 445 172	1 016 476	729 629	706 037	38 634 806
Health - user charges	-1 963	-1 020 699	-1 031 944	-481 279	-288 619	-392 753	-68 614	-93 461	-30 723	-3 408 092
Welfare - expenses	561	4 230 022	3 413 064	2 496 157	1 300 359	969 026	319 890	222 523	332 239	13 283 281
Welfare - user charges	-380	-81 319	-299 021	-24 813	-33 091	-103 577	-9 798	-1 048	-7 767	-560 434
Housing	0	1 226 254	791 277	626 278	576 788	392 258	94 788	90 792	117 413	3 915 847
Police	402	2 092 696	1 390 435	1 260 603	825 204	509 749	164 612	121 921	177 559	6 542 779
Administration of Justice	283	903 728	719 403	537 273	367 679	207 297	53 977	55 828	99 435	2 944 620
Corrective Services	329	964 221	466 652	420 541	537 345	201 520	51 861	42 077	85 157	2 769 374
Public Safety and Emergency Services	0	125 645	470 636	116 931	61 081	122 675	2 587	35 656	32 480	967 691
Culture & Recreation (includes National Parks)	371	1 058 774	677 404	675 833	477 472	246 585	121 888	84 204	147 693	3 489 853
Electricity and Gas	0	92 285	72 508	695 951	51 948	7 323	30 586	5 025	91 080	1 046 706
Water, Sanitation and Protection of the Environment	0	889 394	424 188	466 709	604 495	563 633	40 460	45 848	72 074	3 106 801
Non-urban Transport	0	340 391	519 229	328 658	110 499	18 347	38 430	0	5 742	1 361 296
Roads	0	2 708 451	1 938 130	2 507 209	552 997	389 159	166 807	123 711	153 267	8 539 731
Urban Transit	0	3 125 793	334 326	624 331	459 028	318 260	70 306	57 330	26 829	5 016 203
Primary Industry	4	503 796	323 944	680 699	343 030	134 828	107 806	1 409	50 662	2 146 174
Mining, Fuel and Energy	0	66 652	19 338	97 538	210 728	56 183	10 414	0	28 442	489 295
Tourism	787	45 518	92 827	76 799	97 346	65 659	40 059	3 016	52 249	473 473
Manufacturing and Other Industry	0	42 092	7 000	104 346	35 649	23 246	1 011	13 109	4 446	230 899
Subsidies-Petroleum & Alcohol, GST Admin Costs	0	253 031	162 742	682 352	74 363	67 811	20 876	10 182	10 318	1 281 676
Superannuation	0	3 864 533	3 479 182	3 625 829	1 567 824	1 362 202	628 199	489 317	380 762	15 397 848
General Public Services	1 198	1 787 798	2 010 408	2 003 001	903 208	531 189	294 936	242 746	244 810	8 018 096
Debt Charges	0	1 509 716	642 452	595 425	118 345	180 305	16 172	70 128	135 399	3 267 942
Depreciation	455	1 710 284	1 074 801	1 232 168	576 617	371 374	122 613	161 086	129 423	5 378 366
Total expenses	8 119	48 384 374	34 811 626	33 389 422	17 610 250	12 206 045	4 141 358	3 095 975	3 671 635	157 310 686

Source: Commission staff calculation using ABS and State data.

Table A-18 State-type revenues and expenses (per capita), 2008-09

Item	Norfolk \$pc	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc	All States \$pc
Revenue										
Payroll Tax	0.00	898.06	739.47	630.68	1 012.71	566.66	517.73	773.39	679.44	779.07
Land Revenue	73.33	318.32	249.83	191.83	291.27	316.14	158.83	247.72	0.00	264.93
Stamp Duty on Conveyances	121.43	385.20	495.00	413.58	455.61	422.95	301.82	539.03	485.80	429.66
Financial Transaction Taxes	6.50	17.56	1.55	9.16	2.05	28.04	0.00	23.62	8.68	10.70
Stamp Duties on Shares and Marketable Securities	0.00	8.87	0.00	0.00	0.39	0.00	0.00	47.10	0.00	3.68
Gambling Taxation	509.29	233.52	306.33	211.16	81.19	252.60	187.07	147.28	326.26	231.47
Insurance Taxation	0.00	109.42	148.38	108.60	179.65	202.74	85.36	107.37	121.84	132.53
Motor Taxes	282.75	300.38	248.47	338.74	384.23	277.69	237.49	304.30	196.27	299.63
Other Revenue	223.10	76.46	26.83	35.85	0.00	37.76	0.00	81.13	0.00	42.87
Mining Revenue	0.00	180.69	8.64	765.27	1 455.43	94.99	60.80	-0.36	1 026.00	382.01
Contributions by Trading Enterprises	286.43	311.33	109.63	299.78	379.77	236.84	436.80	564.48	112.64	265.39
Interest Income	49.14	58.77	70.01	339.38	128.88	92.91	135.36	350.76	354.89	137.13
User charges - Fees and Fines	27.98	83.21	82.78	70.98	62.87	21.17	59.34	76.44	48.95	72.96
Total revenue	1 579.95	2 981.81	2 486.91	3 415.00	4 434.04	2 550.50	2 180.62	3 262.26	3 360.76	3 052.02
Expenses										
Education	1 403.74	1 459.42	1 503.81	1 413.82	1 740.05	1 561.79	1 607.03	1 678.44	2 812.63	1 518.23
Health - expenses	1 914.10	1 642.08	1 675.90	1 801.85	1 913.38	2 136.38	2 029.16	2 093.59	3 169.15	1 778.73
Health - user charges	-1 072.44	-144.25	-191.75	-110.22	-130.50	-243.55	-136.97	-268.18	-137.90	-156.91
Welfare - expenses	306.27	597.82	634.18	571.67	587.97	600.90	638.59	638.50	1 491.31	611.56
Welfare - user charges	-207.49	-11.49	-55.56	-5.68	-14.96	-64.23	-19.56	-3.01	-34.86	-25.80
Housing	0.00	173.30	147.03	143.43	260.80	243.24	189.22	260.52	527.03	180.28
Police	219.50	295.76	258.36	288.71	373.12	316.10	328.61	349.84	797.00	301.23
Administration of Justice	154.69	127.72	133.67	123.05	166.25	128.55	107.75	160.19	446.33	135.57
Corrective Services	179.82	136.27	86.71	96.31	242.97	124.96	103.53	120.74	382.24	127.50
Public Safety and Emergency Services	0.00	17.76	87.45	26.78	27.62	76.07	5.16	102.31	145.79	44.55
Culture & Recreation (includes National Parks)	202.63	149.64	125.87	154.78	215.89	152.91	243.32	241.61	662.94	160.67
Electricity and Gas	0.00	13.04	13.47	159.39	23.49	4.54	61.06	14.42	408.83	48.19
Water, Sanitation and Protection of the Environment	0.00	125.70	78.82	106.89	273.33	349.51	80.77	131.56	323.52	143.04
Non-urban Transport	0.00	48.11	96.48	75.27	49.96	11.38	76.72	0.00	25.77	62.67
Roads	0.00	382.78	360.12	574.21	250.04	241.32	332.99	354.98	687.96	393.17
Urban Transit	0.00	441.76	62.12	142.99	207.55	197.36	140.35	164.50	120.43	230.94
Primary Industry	1.95	71.20	60.19	155.89	155.10	83.61	215.21	4.04	227.40	98.81
Mining, Fuel and Energy	0.00	9.42	3.59	22.34	95.28	34.84	20.79	0.00	127.67	22.53
Tourism	430.07	6.43	17.25	17.59	44.02	40.72	79.97	8.65	234.53	21.80
Manufacturing and Other Industry	0.00	5.95	1.30	23.90	16.12	14.42	2.02	37.61	19.96	10.63
Subsidies-Petroleum & Alcohol, GST Admin Costs	0.00	35.76	30.24	156.27	33.62	42.05	41.67	29.22	46.31	59.01
Superannuation	0.00	546.17	646.47	830.39	708.91	844.71	1 254.05	1 404.04	1 709.11	708.91
General Public Services	654.65	252.67	373.55	458.73	408.39	329.39	588.77	696.53	1 098.87	369.15
Debt Charges	0.00	213.37	119.37	136.37	53.51	111.81	32.28	201.22	607.76	150.46
Depreciation	248.34	241.71	199.71	282.19	260.72	230.29	244.77	462.22	580.93	247.62
Total expenses	4 435.85	6 838.10	6 468.36	7 646.90	7 962.65	7 569.05	8 267.26	8 883.56	16 480.69	7 242.54

Source: Commission staff calculation using ABS and State data.

Table A-19 State-type revenues and expenses, 2009-10

Item	Norfolk \$000	NSW \$000	Vic \$000	Qld \$000	WA \$000	SA \$000	Tas \$000	ACT \$000	NT \$000	All States \$000
Revenue										
Payroll Tax	0	6 158 061	4 055 798	2 687 150	2 298 406	900 050	271 403	273 131	151 749	16 795 748
Land Revenue	170	2 295 735	1 300 423	1 032 803	597 129	552 916	90 945	98 320	0	5 968 271
Stamp Duty on Conveyances	461	3 714 776	3 367 970	1 978 008	1 615 102	748 126	163 002	283 244	125 506	11 995 734
Financial Transaction Taxes	11	120 447	6 958	26 052	-16	14 053	0	3 296	1 011	171 801
Stamp Duties on Shares and Marketable Securities	0	51 736	0	0	0	0	0	5 023	0	56 759
Gambling Taxation	1 424	1 705 885	1 631 566	927 457	175 528	401 447	98 920	52 902	60 675	5 054 380
Insurance Taxation	0	813 062	864 744	491 321	427 990	347 121	47 033	42 703	29 320	3 063 294
Motor Taxes	503	2 288 195	1 456 561	1 657 385	898 231	443 513	129 910	114 176	46 710	7 034 681
Other Revenue	386	681 578	146 654	171 820	0	60 336	0	29 861	0	1 090 249
Mining Revenue	0	985 271	46 689	2 035 637	3 176 932	125 546	39 050	0	178 073	6 587 198
Contributions by Trading Enterprises	476	2 760 958	606 881	1 061 834	943 758	461 916	97 709	254 205	22 767	6 210 028
Interest Income	91	315 631	333 341	2 204 508	225 468	138 414	44 931	124 939	65 017	3 452 249
User charges - Fees and Fines	69	591 222	508 159	324 290	145 904	35 120	25 475	22 703	12 455	1 665 328
Total revenue	3 590	22 482 557	14 325 744	14 598 265	10 504 432	4 228 558	1 008 378	1 304 503	693 283	69 145 720
Expenses										
Education	2 703	11 061 390	8 625 630	6 670 281	4 429 325	2 726 089	923 011	624 566	658 104	35 718 396
Health - expenses	4 695	11 988 176	9 573 634	8 751 245	4 524 377	3 701 633	1 111 002	727 313	774 882	41 152 262
Health - user charges	-2 041	-1 084 652	-1 250 503	-630 578	-300 418	-422 518	-68 403	-111 784	-37 792	-3 906 648
Welfare - expenses	683	4 520 487	3 727 689	2 595 472	1 418 135	983 771	308 049	186 209	326 950	14 066 763
Welfare - user charges	-549	-85 474	-323 642	-30 246	-33 285	-105 186	-4 801	-923	-9 710	-593 267
Housing	0	1 376 828	215 212	778 258	669 517	454 306	85 450	114 153	198 122	3 891 846
Police	681	2 265 675	1 505 331	1 403 476	912 591	563 900	169 710	130 892	180 259	7 131 834
Administration of Justice	315	926 256	766 961	538 631	425 683	233 874	56 422	41 225	103 867	3 092 919
Corrective Services	295	1 007 521	488 331	424 329	594 680	212 356	52 870	44 469	88 742	2 913 298
Public Safety and Emergency Services	0	184 525	277 129	159 640	76 941	130 420	13 096	36 965	31 019	909 735
Culture & Recreation (includes National Parks)	379	1 021 111	744 751	775 469	544 464	252 536	157 176	103 056	128 830	3 727 393
Electricity and Gas	0	112 999	69 154	426 938	260 864	6 574	30 377	5 255	57 325	969 486
Water, Sanitation and Protection of the Environment	0	859 040	414 107	423 356	658 769	492 682	41 644	40 714	38 529	2 968 841
Non-urban Transport	150	274 461	590 412	290 988	106 948	19 755	29 216	0	9 207	1 320 987
Roads	0	2 455 501	1 919 549	2 070 470	526 279	368 830	168 410	158 273	151 918	7 819 231
Urban Transit	0	3 604 243	320 814	638 323	450 635	334 514	58 682	53 461	16 453	5 477 125
Primary Industry	15	490 812	388 128	672 945	308 078	129 343	92 999	3 670	48 236	2 134 211
Mining, Fuel and Energy	0	65 814	31 920	93 601	130 557	56 946	9 066	0	17 851	405 755
Tourism	930	54 736	101 522	90 362	140 149	74 522	41 063	24 556	57 341	584 251
Manufacturing and Other Industry	0	65 102	7 000	157 263	26 164	24 885	1 266	13 466	11 369	306 515
Subsidies-Petroleum & Alcohol, GST Admin Costs	0	200 561	149 552	129 570	67 811	50 737	15 642	9 509	6 384	629 765
Superannuation	0	4 262 961	3 858 244	4 134 172	1 624 498	1 453 894	618 604	545 146	386 423	16 883 942
General Public Services	1 236	2 525 267	3 547 262	2 321 590	968 735	683 316	299 950	351 926	230 801	10 928 847
Debt Charges	45	1 661 701	843 255	811 537	186 563	203 738	18 415	72 956	134 861	3 933 026
Depreciation	443	1 782 945	1 412 656	1 393 723	632 835	369 214	124 071	158 665	124 532	5 998 641
Total expenses	9 980	51 597 987	38 004 098	35 090 814	19 350 895	13 000 132	4 352 987	3 333 737	3 734 504	168 465 153

Source: Commission staff calculation using ABS and State data.

Table A-20 State-type revenues and expenses (per capita), 2009-10

Item	Norfolk \$pc	NSW \$pc	Vic \$pc	Qld \$pc	WA \$pc	SA \$pc	Tas \$pc	ACT \$pc	NT \$pc	All States \$pc
Revenue										
Payroll Tax	0.00	856.30	737.90	600.75	1 012.39	550.88	537.03	769.62	666.40	758.17
Land Revenue	93.51	319.23	236.60	230.90	263.02	338.41	179.95	277.04	0.00	269.41
Stamp Duty on Conveyances	253.75	516.55	612.76	442.21	711.41	457.89	322.54	798.11	551.15	541.50
Financial Transaction Taxes	6.07	16.75	1.27	5.82	-0.01	8.60	0.00	9.29	4.44	7.76
Stamp Duties on Shares and Marketable Securities	0.00	7.19	0.00	0.00	0.00	0.00	0.00	14.15	0.00	2.56
Gambling Taxation	783.56	237.21	296.84	207.35	77.32	245.71	195.74	149.07	266.45	228.16
Insurance Taxation	0.00	113.06	157.33	109.84	188.52	212.46	93.07	120.33	128.76	138.28
Motor Taxes	276.60	318.18	265.00	370.53	395.65	271.45	257.06	321.72	205.12	317.55
Other Revenue	212.64	94.78	26.68	38.41	0.00	36.93	0.00	84.14	0.00	49.21
Mining Revenue	0.00	137.00	8.49	455.10	1 399.36	76.84	77.27	0.00	782.00	297.35
Contributions by Trading Enterprises	261.78	383.92	110.41	237.39	415.70	282.72	193.34	716.29	99.98	280.32
Interest Income	49.98	43.89	60.65	492.85	99.31	84.72	88.91	352.05	285.52	155.84
User charges - Fees and Fines	37.89	82.21	92.45	72.50	64.27	21.50	50.41	63.97	54.69	75.17
Total revenue	1 975.78	3 126.27	2 606.38	3 263.67	4 626.94	2 588.09	1 995.30	3 675.77	3 044.51	3 121.28
Expenses										
Education	1 487.79	1 538.12	1 569.32	1 491.25	1 951.01	1 668.50	1 826.38	1 759.88	2 890.02	1 612.35
Health - expenses	2 584.29	1 666.99	1 741.80	1 956.48	1 992.88	2 265.59	2 198.36	2 049.39	3 402.84	1 857.64
Health - user charges	-1 123.47	-150.82	-227.51	-140.98	-132.33	-258.60	-135.35	-314.98	-165.96	-176.35
Welfare - expenses	375.76	628.59	678.20	580.26	624.65	602.12	609.54	524.69	1 435.78	634.98
Welfare - user charges	-301.92	-11.89	-58.88	-6.76	-14.66	-64.38	-9.50	-2.60	-42.64	-26.78
Housing	0.00	191.45	39.16	173.99	294.91	278.06	169.08	321.66	870.04	175.68
Police	374.85	315.05	273.88	313.77	401.97	345.14	335.81	368.82	791.59	321.94
Administration of Justice	173.31	128.80	139.54	120.42	187.50	143.14	111.64	116.16	456.13	139.62
Corrective Services	162.18	140.10	88.85	94.87	261.94	129.97	104.61	125.30	389.70	131.51
Public Safety and Emergency Services	0.00	25.66	50.42	35.69	33.89	79.82	25.91	104.16	136.22	41.07
Culture & Recreation (includes National Parks)	208.44	141.99	135.50	173.37	239.82	154.56	311.01	290.39	565.75	168.26
Electricity and Gas	0.00	15.71	12.58	95.45	114.90	4.02	60.11	14.81	251.74	43.76
Water, Sanitation and Protection of the Environment	0.00	119.45	75.34	94.65	290.17	301.55	82.40	114.72	169.20	134.02
Non-urban Transport	82.56	38.16	107.42	65.05	47.11	12.09	57.81	0.00	40.43	59.63
Roads	0.00	341.44	349.24	462.89	231.81	225.74	333.24	445.98	667.14	352.97
Urban Transit	0.00	501.18	58.37	142.71	198.49	204.74	116.11	150.64	72.25	247.24
Primary Industry	8.09	68.25	70.61	150.45	135.70	79.16	184.02	10.34	211.83	96.34
Mining, Fuel and Energy	0.00	9.15	5.81	20.93	57.51	34.85	17.94	0.00	78.39	18.32
Tourism	511.64	7.61	18.47	20.20	61.73	45.61	81.25	69.19	251.81	26.37
Manufacturing and Other Industry	0.00	9.05	1.27	35.16	11.52	15.23	2.50	37.94	49.93	13.84
Subsidies-Petroleum & Alcohol, GST Admin Costs	0.00	27.89	27.21	28.97	29.87	31.05	30.95	26.79	28.04	28.43
Superannuation	0.00	592.78	701.96	924.26	715.55	889.86	1 224.04	1 536.09	1 696.95	762.15
General Public Services	680.47	351.15	645.38	519.03	426.70	418.22	593.52	991.64	1 013.55	493.34
Debt Charges	24.82	231.06	153.42	181.43	82.18	124.70	36.44	205.57	592.23	177.54
Depreciation	244.09	247.92	257.01	311.59	278.75	225.98	245.50	447.08	546.87	270.78
Total expenses	5 492.91	7 174.85	6 914.35	7 845.10	8 523.59	7 956.73	8 613.35	9 393.67	16 399.83	7 604.63

Source: Commission staff calculation using ABS and State data.

Table A-21 Local government-type revenues and expenses, 2007-08

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue										
Current grants and subsidies	0	686 000	578 000	580 000	208 000	107 000	58 000		91 000	2 308 000
Municipal rates	0	2 935 000	2 724 000	2 096 000	1 088 000	886 000	239 000		68 000	10 036 000
User charges										
Water Sanitation and Protection of the environment	620	na	na	na	na	na	na		na	na
Others	18	na	na	na	na	na	na		na	na
Total user charges	638	2 772 000	1 129 000	2 988 000	602 000	255 000	290 000		77 000	8 113 000
Interest income	208	336 000	111 000	197 000	111 000	29 000	26 000		10 000	820 000
Other Revenue										
Other revenue	1 390	na	na	na	na	na	na		na	na
Contribution by trading enterprises	958	na	na	na	na	na	na		na	na
Total other revenue	2 348	1 676 000	1 427 000	2 112 000	655 000	288 000	102 000		194 000	6 454 000
Total revenue	3 195	8 405 000	5 969 000	7 973 000	2 664 000	1 565 000	715 000		440 000	27 731 000
Expenses										
General public services	1 042	1 540 000	659 000	1 705 000	263 000	226 000	95 000		98 000	4 586 000
Public order and safety	0	221 000	114 000	92 000	72 000	24 000	7 000		5 000	535 000
Education	0	35 000	52 000	4 000	8 000	0	0		2 000	101 000
Health	51	80 000	68 000	48 000	42 000	35 000	14 000		9 000	296 000
Social security and welfare	0	333 000	816 000	49 000	103 000	76 000	22 000		12 000	1 411 000
Housing and community amenities										
Water, sanitation and protection of the environment	665	na	na	na	na	na	na		na	na
Other Housing and community amenities	0	na	na	na	na	na	na		na	na
Total Housing and community amenities	665	1 626 000	1 090 000	2 027 000	324 000	320 000	254 000		140 000	5 781 000
Recreation and culture	126	1 021 000	921 000	629 000	516 000	264 000	80 000		29 000	3 460 000
Fuel and energy	0	1 000	0	1 000	0	11 000	0		2 000	15 000
Agriculture, forestry and fishing	0	2 000	4 000	11 000	3 000	14 000	0		0	34 000
Mining, manufacturing and construction	0	145 000	0	93 000	35 000	24 000	0		4 000	301 000
Transport and communications										
Roads	683	na	na	na	na	na	na		na	na
Other Transport and communications	0	na	na	na	na	na	na		na	na
Total Transport and communications	683	1 447 000	1 014 000	1 555 000	682 000	289 000	149 000		37 000	5 173 000
Other economic affairs	0	266 000	266 000	153 000	53 000	58 000	26 000		90 000	912 000
Tourism	633	na	na	na	na	na	na		na	na
Public debt transactions	0	143 000	42 000	185 000	20 000	29 000	9 000		1 000	429 000
Depreciation (a)	517	na	na	na	na	na	na		na	na
Other	0	574 000	104 000	69 000	111 000	66 000	16 000		9 000	949 000
Total expenses	3 716	7 434 000	5 150 000	6 621 000	2 232 000	1 436 000	672 000		438 000	23 983 000

Note: The ABS classifies all ACT revenues and expenses to the State sector. 'na' — not applicable for the States.

(a) For the States, depreciation expenses are allocated across individual expense categories.

Source: Commission staff calculation using ABS and State data.

Table A-22 Local government-type revenues and expenses (per capita), 2007-08

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Current grants and subsidies	0.00	98.63	109.70	136.57	97.15	67.14	117.05		418.44	110.33
Municipal rates	0.00	422.00	517.01	493.52	508.16	555.92	482.33		312.68	479.77
User charges										
Water Sanitation and Protection of the environment	336.38	na	na	na	na	na	na		na	na
Others	9.87	na	na	na	na	na	na		na	na
Total user charges	346.25	398.56	214.28	703.55	281.17	160.00	585.26		354.07	387.84
Interest income	112.94	48.31	21.07	46.39	51.84	18.20	52.47		45.98	39.20
Other Revenue										
Other revenue	753.80	na	na	na	na	na	na		na	na
Contribution by trading enterprises	519.39	na	na	na	na	na	na		na	na
Total other revenue	1 273.19	240.98	270.84	497.29	305.92	180.71	205.85		892.06	308.53
Total revenue	1 732.37	1 208.49	1 132.90	1 877.31	1 244.25	981.97	1 442.96		2 023.24	1 325.67
Expenses										
General public services	564.93	221.42	125.08	401.46	122.84	141.80	191.72		450.63	219.23
Public order and safety	0.00	31.78	21.64	21.66	33.63	15.06	14.13		22.99	25.58
Education	0.00	5.03	9.87	0.94	3.74	0.00	0.00		9.20	4.83
Health	27.71	11.50	12.91	11.30	19.62	21.96	28.25		41.38	14.15
Social security and welfare	0.00	47.88	154.88	11.54	48.11	47.69	44.40		55.18	67.45
Housing and community amenities										
Water, sanitation and protection of the environment	360.72	na	na	na	na	na	na		na	na
Other Housing and community amenities	0.00	na	na	na	na	na	na		na	na
Total Housing and community amenities	360.72	233.79	206.88	477.27	151.33	200.79	512.60		643.76	276.36
Recreation and culture	68.29	146.80	174.80	148.10	241.00	165.65	161.45		133.35	165.40
Fuel and energy	0.00	0.14	0.00	0.24	0.00	6.90	0.00		9.20	0.72
Agriculture, forestry and fishing	0.00	0.29	0.76	2.59	1.40	8.78	0.00		0.00	1.63
Mining, manufacturing and construction	0.00	20.85	0.00	21.90	16.35	15.06	0.00		18.39	14.39
Transport and communications										
Roads	370.26	na	na	na	na	na	na		na	na
Other Transport and communications	0.00	na	na	na	na	na	na		na	na
Total Transport and communications	370.26	208.05	192.46	366.14	318.53	181.33	300.70		170.14	247.29
Other economic affairs	0.00	38.25	50.49	36.03	24.75	36.39	52.47		413.84	43.60
Tourism	343.04	na	na	na	na	na	na		na	na
Public debt transactions	0.00	20.56	7.97	43.56	9.34	18.20	18.16		4.60	20.51
Depreciation (a)	280.38	na	na	na	na	na	na		na	na
Other	0.00	82.53	19.74	16.25	51.84	41.41	32.29		41.38	45.37
Total expenses	2 015.33	1 068.88	977.46	1 558.97	1 042.48	901.02	1 356.18		2 014.04	1 146.49

Note: The ABS classifies all ACT revenues and expenses to the State sector. 'na' — not applicable for the States.

(a) For the States, depreciation expenses are allocated across individual expense categories.

Source: Commission staff calculation using ABS and State data.

Table A-23 Local government-type revenues and expenses, 2008-09

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue										
Current grants and subsidies	0	1 104 000	740 000	698 000	342 000	218 000	96 000		134 000	3 332 000
Municipal rates	0	3 030 000	2 927 000	2 285 000	1 220 000	958 000	263 000		75 000	10 758 000
User charges										
Water Sanitation and Protection of the environment	622	na	na	na	na	na	na		na	na
Others	37	na	na	na	na	na	na		na	na
Total user charges	659	2 839 000	1 184 000	3 315 000	650 000	284 000	302 000		60 000	8 634 000
Interest income	112	318 000	98 000	173 000	109 000	25 000	27 000		9 000	759 000
Other Revenue										
Other revenue	1 207	na	na	na	na	na	na		na	na
Contribution by trading enterprises	1 074	na	na	na	na	na	na		na	na
Total other revenue	2 281	1 766 000	1 757 000	2 429 000	651 000	251 000	116 000		156 000	7 126 000
Total revenue	3 053	9 057 000	6 706 000	8 900 000	2 972 000	1 736 000	804 000		434 000	30 609 000
Expenses										
General public services	1 196	1 746 000	745 000	1 765 000	306 000	253 000	96 000		131 000	5 042 000
Public order and safety	0	234 000	109 000	105 000	84 000	24 000	7 000		11 000	574 000
Education	0	49 000	57 000	15 000	6 000	0	0		6 000	133 000
Health	63	93 000	71 000	46 000	45 000	35 000	15 000		1 000	306 000
Social security and welfare	0	346 000	875 000	58 000	111 000	80 000	23 000		16 000	1 509 000
Housing and community amenities										
Water, sanitation and protection of the environment	866	na	na	na	na	na	na		na	na
Other Housing and community amenities	0	na	na	na	na	na	na		na	na
Total Housing and community amenities	866	1 710 000	1 180 000	2 329 000	407 000	333 000	265 000		129 000	6 353 000
Recreation and culture	175	1 107 000	989 000	776 000	602 000	283 000	86 000		38 000	3 881 000
Fuel and energy	0	0	0	2 000	0	10 000	0		1 000	13 000
Agriculture, forestry and fishing	0	5 000	5 000	7 000	1 000	16 000	0		0	34 000
Mining, manufacturing and construction	0	172 000	0	71 000	38 000	26 000	0		5 000	312 000
Transport and communications										
Roads	884	na	na	na	na	na	na		na	na
Other Transport and communications	0	na	na	na	na	na	na		na	na
Total Transport and communications	884	1 477 000	1 070 000	1 884 000	693 000	326 000	156 000		36 000	5 642 000
Other economic affairs	0	293 000	284 000	169 000	69 000	65 000	27 000		60 000	967 000
Tourism	787	na	na	na	na	na	na		na	na
Public debt transactions	0	171 000	39 000	107 000	19 000	28 000	9 000		1 000	374 000
Depreciation (a)	460	na	na	na	na	na	na		na	na
Other	0	627 000	82 000	99 000	118 000	73 000	16 000		11 000	1 026 000
Total expenses	4 431	8 030 000	5 506 000	7 433 000	2 499 000	1 552 000	700 000		446 000	26 166 000

Note: The ABS classifies all ACT revenues and expenses to the State sector.
'na' — not applicable for the States.

(a) For the States, depreciation expenses are allocated across individual expense categories.

Source: Commission staff calculation using ABS and State data.

Table A-24 Local government-type revenues and expenses (per capita), 2008-09

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Current grants and subsidies	0.00	156.03	137.50	159.86	154.64	135.18	191.64		601.48	155.91
Municipal rates	0.00	428.23	543.87	523.31	551.63	594.06	525.02		336.65	503.37
User charges										
Water Sanitation and Protection of the environment	340.05	na	na	na	na	na	na		na	na
Others	20.15	na	na	na	na	na	na		na	na
Total user charges	360.20	401.23	220.00	759.21	293.90	176.11	602.87		269.32	403.99
Interest income	61.23	44.94	18.21	39.62	49.29	15.50	53.90		40.40	35.51
Other Revenue										
Other revenue	659.54	na	na	na	na	na	na		na	na
Contribution by trading enterprises	586.83	na	na	na	na	na	na		na	na
Total other revenue	1 246.37	249.59	326.47	556.29	294.36	155.65	231.57		700.23	333.43
Total revenue	1 667.81	1 280.01	1 246.05	2 038.29	1 343.82	1 076.51	1 605.00		1 948.08	1 432.21
Expenses										
General public services	653.38	246.76	138.43	404.22	138.36	156.89	191.64		588.01	235.92
Public order and safety	0.00	33.07	20.25	24.05	37.98	14.88	13.97		49.38	26.86
Education	0.00	6.93	10.59	3.44	2.71	0.00	0.00		26.93	6.22
Health	34.16	13.14	13.19	10.54	20.35	21.70	29.94		4.49	14.32
Social security and welfare	0.00	48.90	162.58	13.28	50.19	49.61	45.91		71.82	70.61
Housing and community amenities										
Water, sanitation and protection of the environment	473.22	na	na	na	na	na	na		na	na
Other Housing and community amenities	0.00	na	na	na	na	na	na		na	na
Total Housing and community amenities	473.22	241.67	219.26	533.39	184.03	206.50	529.01		579.04	297.26
Recreation and culture	95.56	156.45	183.77	177.72	272.20	175.49	171.68		170.57	181.59
Fuel and energy	0.00	0.00	0.00	0.46	0.00	6.20	0.00		4.49	0.61
Agriculture, forestry and fishing	0.00	0.71	0.93	1.60	0.45	9.92	0.00		0.00	1.59
Mining, manufacturing and construction	0.00	24.31	0.00	16.26	17.18	16.12	0.00		22.44	14.60
Transport and communications										
Roads	483.15	na	na	na	na	na	na		na	na
Other Transport and communications	0.00	na	na	na	na	na	na		na	na
Total Transport and communications	483.15	208.74	198.82	431.48	313.35	202.15	311.42		161.59	263.99
Other economic affairs	0.00	41.41	52.77	38.70	31.20	40.31	53.90		269.32	45.25
Tourism	430.07	na	na	na	na	na	na		na	na
Public debt transactions	0.00	24.17	7.25	24.51	8.59	17.36	17.97		4.49	17.50
Depreciation (a)	251.46	na	na	na	na	na	na		na	na
Other	0.00	88.61	15.24	22.67	53.35	45.27	31.94		49.38	48.01
Total expenses	2 421.01	1 134.87	1 023.07	1 702.32	1 129.95	962.41	1 397.39		2 001.94	1 224.32

Note: The ABS classifies all ACT revenues and expenses to the State sector.

'na' — not applicable for the States.

(a) For the States, depreciation expenses are allocated across individual expense categories.

Source: Commission staff calculation using ABS and State data.

Table A-25 Local government-type revenues and expenses, 2009-10

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue										
Current grants and subsidies	0	992 000	624 000	598 000	281 000	179 000	106 000		115 000	2 895 000
Municipal rates	0	3 166 000	3 159 000	2 438 000	1 317 000	1 019 000	277 000		82 000	11 458 000
User charges										
Water Sanitation and Protection of the environment	759	na	na	na	na	na	na		na	na
Others	14	na	na	na	na	na	na		na	na
Total user charges	773	3 077 000	1 237 000	3 721 000	722 000	291 000	165 000		62 000	9 275 000
Interest income	93	280 000	92 000	141 000	100 000	23 000	22 000		9 000	667 000
Other Revenue										
Other revenue	494	na	na	na	na	na	na		na	na
Contribution by trading enterprises	1 813	na	na	na	na	na	na		na	na
Total other revenue	2 308	2 312 000	1 955 000	2 630 000	650 000	294 000	116 000		167 000	8 124 000
Total revenue	3 174	9 827 000	7 067 000	9 528 000	3 070 000	1 806 000	686 000		435 000	32 419 000
Expenses										
General public services	1 187	1 673 000	805 000	1 942 000	334 000	239 000	92 000		146 000	5 231 000
Public order and safety	0	221 000	121 000	98 000	97 000	27 000	6 000		15 000	585 000
Education	0	62 000	66 000	12 000	3 000	0	0		6 000	149 000
Health	51	67 000	76 000	56 000	46 000	38 000	13 000		2 000	298 000
Social security and welfare	0	333 000	925 000	64 000	124 000	89 000	24 000		15 000	1 574 000
Housing and community amenities										
Water, sanitation and protection of the environment	873	na	na	na	na	na	na		na	na
Other Housing and community amenities	0	na	na	na	na	na	na		na	na
Total Housing and community amenities	873	2 100 000	1 262 000	2 367 000	441 000	338 000	174 000		130 000	6 812 000
Recreation and culture	135	1 151 000	1 059 000	801 000	621 000	301 000	94 000		44 000	4 071 000
Fuel and energy	0	0	0	1 000	0	9 000	1 000		2 000	13 000
Agriculture, forestry and fishing	0	0	4 000	10 000	0	12 000	0		0	26 000
Mining, manufacturing and construction	65	144 000	0	87 000	36 000	29 000	0		5 000	301 000
Transport and communications										
Roads	920	na	na	na	na	na	na		na	na
Other Transport and communications	0	na	na	na	na	na	na		na	na
Total Transport and communications	920	1 721 000	1 126 000	2 032 000	720 000	319 000	170 000		40 000	6 128 000
Other economic affairs	0	294 000	315 000	160 000	89 000	71 000	26 000		68 000	1 023 000
Tourism	930	na	na	na	na	na	na		na	na
Public debt transactions	0	187 000	41 000	168 000	17 000	29 000	5 000		1 000	448 000
Depreciation (a)	458	na	na	na	na	na	na		na	na
Other	0	753 000	86 000	105 000	147 000	105 000	22 000		12 000	1 230 000
Total expenses	4 620	8 706 000	5 886 000	7 903 000	2 675 000	1 606 000	627 000		486 000	27 889 000

Note: The ABS classifies all ACT revenues and expenses to the State sector.

'na' — not applicable for the States.

(a) For the States, depreciation expenses are allocated across individual expense categories.

Source: Commission staff calculation using ABS and State data.

Table A-26 Local government-type revenues and expenses (per capita), 2009-10

Item	Norfolk	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Revenue										
Current grants and subsidies	0.00	137.94	113.53	133.69	123.77	109.56	209.74		505.02	132.81
Municipal rates	0.00	440.24	574.74	545.05	580.11	623.68	548.11		360.10	525.64
User charges										
Water Sanitation and Protection of the environment	417.68	na	na	na	na	na	na		na	na
Others	7.63	na	na	na	na	na	na		na	na
Total user charges	425.32	427.87	225.06	831.89	318.02	178.11	326.49		272.27	425.50
Interest income	51.26	38.93	16.74	31.52	44.05	14.08	43.53		39.52	30.60
Other Revenue										
Other revenue	272.13	na	na	na	na	na	na		na	na
Contribution by trading enterprises	998.07	na	na	na	na	na	na		na	na
Total other revenue	1 270.19	321.49	355.69	587.98	286.31	179.94	229.53		733.37	372.69
Total revenue	1 746.78	1 366.47	1 285.75	2 130.13	1 352.26	1 105.36	1 357.40		1 910.27	1 487.24
Expenses										
General public services	653.54	232.64	146.46	434.16	147.12	146.28	182.04		641.15	239.98
Public order and safety	0.00	30.73	22.01	21.91	42.73	16.53	11.87		65.87	26.84
Education	0.00	8.62	12.01	2.68	1.32	0.00	0.00		26.35	6.84
Health	28.05	9.32	13.83	12.52	20.26	23.26	25.72		8.78	13.67
Social security and welfare	0.00	46.30	168.29	14.31	54.62	54.47	47.49		65.87	72.21
Housing and community amenities										
Water, sanitation and protection of the environment	480.78	na	na	na	na	na	na		na	na
Other Housing and community amenities	0.00	na	na	na	na	na	na		na	na
Total Housing and community amenities	480.78	292.01	229.60	529.18	194.25	206.87	344.30		570.89	312.50
Recreation and culture	74.05	160.05	192.67	179.08	273.54	184.23	186.00		193.22	186.76
Fuel and energy	0.00	0.00	0.00	0.22	0.00	5.51	1.98		8.78	0.60
Agriculture, forestry and fishing	0.00	0.00	0.73	2.24	0.00	7.34	0.00		0.00	1.19
Mining, manufacturing and construction	35.78	20.02	0.00	19.45	15.86	17.75	0.00		21.96	13.81
Transport and communications										
Roads	506.62	na	na	na	na	na	na		na	na
Other Transport and communications	0.00	na	na	na	na	na	na		na	na
Total Transport and communications	506.62	239.31	204.86	454.29	317.14	195.24	336.38		175.66	281.13
Other economic affairs	0.00	40.88	57.31	35.77	39.20	43.46	51.45		298.62	46.93
Tourism	511.64	na	na	na	na	na	na		na	na
Public debt transactions	0.00	26.00	7.46	37.56	7.49	17.75	9.89		4.39	20.55
Depreciation (a)	252.21	na	na	na	na	na	na		na	na
Other	0.00	104.71	15.65	23.47	64.75	64.27	43.53		52.70	56.43
Total expenses	2 542.65	1 210.60	1 070.88	1 766.84	1 178.27	982.95	1 240.66		2 134.24	1 279.42

Note: The ABS classifies all ACT revenues and expenses to the State sector. 'na' — not applicable for the States.

(a) For the States, depreciation expenses are allocated across individual expense categories

Source: Commission staff calculation using ABS and State data.

ATTACHMENT B

QUANTIFYING SPECIAL CIRCUMSTANCES

INTRODUCTION

- 1 The 2006 report identified 4 circumstances which have an influence across a range of revenues or expenses. They are differences in wage levels, isolation, tourist numbers and unemployment. We have found that these influences are still relevant.
- 2 This attachment provides estimates of the extent to which these influences impact on revenue raising capacity and costs of delivering services. It also compares the estimates with those of the 2006 report.
- 3 These estimates or adjustment factors are used in Attachments C, D, and E in the calculation of Norfolk Island's revenue raising capacity or required expenses when the all-State average is used as the base for the assessments. They are used in a modified way when the base differs from the all-State average, for example, when the Northern Territory or King Island is used as the base. In these cases, a greater degree of isolation, different tourist numbers and different wage levels are already recognised in the base numbers.

IMPACT OF WAGE COSTS ON NORFOLK ISLAND

- 4 In the 2006 report, the evidence available showed that wage levels on Norfolk Island were considerably lower than in the States (about 60% of State levels). The analysis was based on the ABS Norfolk Island Business Statistics 2004-05 survey which has not been repeated. So, we have sought to find alternate sources of data.
- 5 We sought to compare hourly rates of pay for a range of private sector occupations for Norfolk Island and Australia. Statistics relating to private sector wage levels are considered not to be influenced by government policy and are used by the commission in its State finances work.
- 6 Table B-1 compares the hourly rates of pay for selected private sector occupations for Norfolk Island and Australia. It shows that the Island's wages are in the lower part of the Australian range or below the Australian range. The greatest difference is the rate of pay of kitchen hands,

which is about 88% of the Australia bottom range pay. The difference would be larger if the Australian compulsory employer superannuation contributions of 9% were included.

Table B-1 Comparison of selected rates of pay

	Australia		Norfolk Island
	Lowest	Highest	
	\$ per hour	\$ per hour	\$ per hour
Hotel reception	15.34	17.88	15.00
Restaurant wait staff	14.75	17.88	15.00
Bar tender	14.75	17.88	15.00
Housekeeper	14.75	17.88	14.00
Kitchen hand	14.75	15.89	12.80
Cook	15.34	18.37	14.00
Gardener/ handyperson	15.89	15.89	16.00

Source: Australian data based on the hospitality General Award 2010.
Norfolk Island data obtained from manager of Governor's Lodge.

- 7 Because of the limited amount of information on private sector occupations that are comparable to public sector occupations, we have also compared public sector wages on Norfolk Island and in Australia. Table B-2 compares wage levels for selected public sector occupations on Norfolk Island and in Australia.
- 8 It shows that public sector wages on Norfolk Island are substantially below those in Australia. Again, if the difference in superannuation were taken into account the difference would be greater. Norfolk Island public servants receive on average 5% superannuation (although this becomes higher with length of service) compared with a minimum of 9% for Australian public servants (usually higher because of the history of the schemes offered).
- 9 We conclude that, while we usually use private sector wage levels as an indicator of public sector wage levels, we think that in this case, it is appropriate to use public sector wages information. There are few private sector alternatives to the public sector positions, which would reduce the need for the public sector to compete with the private sector by offering similar or higher wages.
- 10 Wages for public sector employees on Norfolk Island appear to average about 70% of those paid in the States, compared with an estimate of 60% in the 2006 report. Taking into account the difference in superannuation contribution and the uncertainty attached to these estimates, we think that the 2006 report estimate of 60% should be retained.

Table B-2 Comparison wage levels for selected public sector occupations

Norfolk Island Occupation	Australian equivalent (a)	Norfolk Island		Australia	Percentage NI/Aust (a)
		Lowest	Highest		
		\$	\$	\$	%
Companies office					
Administrative officer	Clerical and office support workers	41 205	43 634	49 863	88
Administrative assistant	Clerical and office support workers	32 913	34 544	49 863	69
Finance branch					
Cashier	Accounting clerks and bookkeepers	34 544	36 255	51 719	72
Accounts clerk	Accounting clerks and bookkeepers	32 913	34 544	51 719	67
Electricity reticulation					
Qualified tradesman - Foreman	Electricians	39 136	40 940	58 718	70
Qualified tradesman	Electricians	32 913	36 988	58 718	63
Garage					
Qualified tradesman	Automotive electricians and mechanics	32 913	36 988	56 950	65
KAVHA - repairs and maintenance					
Qualified tradesman - carpenter	Bricklayers, and carpenters and joiners	32 913	36 988	51 828	71

(a) The highest Norfolk Island salary rate was used for the calculation.

Source: Australian data obtained from ABS publication no 6306, Employee Earnings and Hours, Australia, May 2010.

- 11 On this basis, and recognising that salaries and wages represent between 70% and 80% of State expenses, a 40% lower wage bill translates to a 30% reduction in total expenses. We therefore have applied, similar to the 2006 report, a factor of 0.7 to account for lower wage levels on Norfolk Island to assessments that are based on all-State average costs.
- 12 When the Northern Territory has been used as the comparable community, a factor of 0.7 has continued to be applied, although the Northern Territory is assessed to have policy neutral wage levels some 7% above the national average. For this exercise, similar to the 2006 report, this difference was not considered material.
- 13 When King Island was used as the comparable community, no adjustment factor was considered necessary as its average wage levels are only slightly higher (\$630 in 2008) than those of Norfolk Island¹ (\$600 in 2001). This finding is consistent with that in the 2006 report.

¹ ABS, 1379.0.55.001 National Regional Profile, King Island, 2005-2009.

- 14 That wages are significantly lower on Norfolk Island is also supported by the Wellbeing Report², which suggests that median household incomes on the Island are about 76% of those in the rest of Australia.

IMPACT OF ISOLATION ON THE COST OF DELIVERING GOVERNMENT SERVICES

- 15 The cost of providing government services is influenced by how far from the major sources of goods and services that the service is delivered. Freight costs for equipment and supplies and the flow-on effect into prices for fuel and electricity contribute to higher input costs for services. Isolation also has a direct impact on costs for such expense items as telecommunications, business travel, staff training and recruitment and visiting consultants. Costs that involve travel are affected not only by distance but also by the opportunity costs of time lost between the less regular flights, from and to Norfolk Island, compared with comparable communities. Isolation also impacts on the capacity of GBEs to deliver a return on equity, and in some cases creates a need for government subsidies to sustain operations.
- 16 Similar to the 2006 report, commission staff have estimated the direct impact of isolation on the costs of services delivered on the Island. Staff identified total Island expenditure on those expenses the 2006 report identified as being affected by isolation. In total, these account for about 11% of total Revenue Fund expenses, compared with 14% in 2004-05 for the 2006 report.
- 17 In the absence of more recent information, we have used the same assumptions as those used in the 2006 report to derive the proportions of expenses that are due to isolation. The proportions are shown in column 3 and the estimated expenses in column 4 of Table B-3. On average, isolation is estimated to have increased these affected expenses by some 45%, but its impact on overall costs is to increase them by 5%. This is compared to 6% in 2004-05.
- 18 When the Northern Territory and King Island have been used as the comparable communities, a factor of 1.03, the same as in the 2006 report, has been applied. This reflects the isolation-related expenses already built in the Northern Territory and King Island expenses.
- 19 In the health services assessment, the commission has included the costs of offshore treatment, inter-hospital transfers (Medivacs) and other transport costs related to services not available on Norfolk Island.

² Deloitte Access Economics (April 2011) Wellbeing Report — Norfolk Island. Report to the Department of Regional Australia, Regional Development and Local Government.

Table B-3 Norfolk Island Government Revenue Fund 2009-10, isolation-related expenses

	Revenue fund expense (1)	Proportion due to isolation (2)	Isolation expense (1 x 2)
	\$'000		\$'000
Expense			
Telecommunications	84	0.50	42
Office and other requisites	288	0.20	58
Office equipment	57	0.40	23
Business travel	290	0.50	145
Staff travel entitlements	9	1.00	9
Removal and recruitment	47	0.40	19
Training and professional development	30	0.40	12
Projects and consultancies	91	0.25	23
Transportation	75	1.00	75
Plant and equipment/improvements	504	0.50	252
Road construction and works maintenance	245	0.50	123
Total isolation-related expenses	1 721		780
Total Revenue Fund expense	16 180		

Source: Norfolk Island Revenue Fund, 2009-10 and commission staff estimates.

IMPACT OF TOURISM ON NORFOLK ISLAND COSTS AND REVENUES

- 20 Similar to the 2006 report, we have recognised that tourists increase the cost of providing services such as health, when they use services provided at the hospital; culture and recreation when they visit the museums and use the parks and recreational facilities; and water, sewerage and electricity when they are visiting the Island. Sufficient capacity must be provided to deliver government services to this group.
- 21 We have also recognised that they increase the Island's revenue raising capacity in a number of areas, such as gambling and motor taxes and revenue for the water, sewerage and electricity authorities.
- 22 Table B-4 shows that the average daily number of tourists on Norfolk Island in 2009-10 increased the 'on-Island' population above the ordinarily resident population by 27.6%. In the rest of Australia, international tourists represented 2.3% of the population. Because tourists represent such a large proportion of the Norfolk Island population, they will have an impact on the cost of delivering services and revenue raising capacity that will need to be recognised in our assessments.

Table B-4 Ratio of visitors to resident population, Norfolk Island and Australia, 2004-05 and 2009-10

	2004-05		2009-10	
	Norfolk Island	Australia	Norfolk Island	Australia
Average visitor population	717	354 027	501	500 485
Resident population	2 013	20 210 819	1 817	22 152 984
Ratio of tourists to total population	0.356	0.018	0.276	0.023

Note: Average visitor population is calculated as the average of 12-monthly tourist populations. Calculated from the number of tourists on Norfolk Island and average length of stay, provided by the Norfolk Island Administration.

Source: Norfolk Island Administration, ABS, Australian Demographic Statistics, December 2010, Australian Tourism Research.

- 23 The incidence of tourists on Norfolk Island has fallen since 2004-05, when a ratio of visitors to resident population of 35.6% was recorded. This reduction is compounded by an increase in the Australian ratio of 1.8% to 2.3%.
- 24 The tourism adjustment factor was calculated as the ratio of the incidence of tourists³ on Norfolk Island to that of Australia. Assuming that tourists affected revenue capacity or used services at half the rate of the usually resident population, the adjustment factor applied was 1.13.
- 25 When King Island was used as the base, the same adjustment factor was applied. The incidence of tourists on King Island is 1.02 in 2008-09 and 1.05 in 2007-08⁴. As this is only slightly higher than the Australian average, the difference was not considered sufficiently material for the adoption of a different factor.
- 26 A tourist adjustment factor was not required for the assessments in which the Northern Territory was used as the base.

UNEMPLOYMENT

- 27 In the 2006 report, the commission made an adjustment to welfare expenses on Norfolk Island to reflect the impact of low unemployment. Low unemployment is the result of the difficulties for Norfolk Islanders to remain on the Island, or to return to it without work. This is because there is no income support as there is in Australia.

³ Incidence is the ratio of total population (including tourists) to resident population. In the case of Norfolk Island, the total to resident population ratio in 2010-11 was 1.276, derived from monthly on-Island statistics provided by the Norfolk Island Administration. For the total of the States, the equivalent ratio was 1.023. The impact of tourists on the size of the on-island population for Norfolk Island is 26% greater than that for the States of Australia.

⁴ King Island Visitor Survey. King Island had 6 162 tourists in 2008-09 and 8 597 in 2007-08 between 6 000 and 7 000 tourists a year. The average stay was 4.4 days in 2008-09 and 5.1 days in 2007-08. The average daily number of tourists to resident population ratio was 1.043 for 2008-09 and 1.07 for 2007-08.

- 28 The ability to remain in employment is also a condition for granting a Temporary Entry Permit. Those temporary residents who are unable to retain work generally are required to leave the Island.
- 29 In the 2006 report, the evidence from the 2001 Census showed that unemployment was zero on Norfolk Island. The 2011 Wellbeing report estimates the unemployment to be 2% in March 2011, which is lower than the Australian rate of 4.9% in March 2011.
- 30 We have recognised the impact of this in our welfare assessment by retaining the discount of 0.8.

SUMMARY OF IMPACTS ON COSTS OF DELIVERING SERVICES AND REVENUE RAISING CAPACITY

- 31 Table B-5 summarises the adjustment factors the commission has used in its assessments.

Table B-5 Summary of adjustment factors

	All-State average	Northern Territory	King Island
Influence			
Wages differential	0.70	0.70	nr
Isolation	1.05	1.03	1.03
Tourist numbers	1.13	nr	1.00
Unemployment	0.80	nr	nr

Note: 'nr' — adjustment not required.

Source: Commission staff estimates.

ATTACHMENT C

STATE-TYPE REVENUE RAISING CAPACITY OF NORFOLK ISLAND

INTRODUCTION

- 1 Clause (ii) of the terms of reference for the 2006 inquiry asked the commission to provide advice on:
 - (ii) the capacity of Norfolk Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.
- 2 This attachment provides estimates of what Norfolk Island might raise if it applied comparable State tax rates and thresholds to its potential State revenue bases. We refer to these amounts as ‘comparable’ revenue. Attachment E examines Norfolk Island’s comparable revenue from local government-type revenue sources.

METHOD

- 3 For its 2006 report, the commission developed estimates of the overall capacity of Norfolk Island to pay State and local government-type taxes using a tax by tax approach.
 - Estimates were made of Norfolk Island’s capacity to raise revenue from each State-type tax based on the application of the average tax policy of the States, including policies on thresholds, exemptions, concessions and rebates, to Norfolk Island tax bases.
 - Where appropriate the Norfolk Island tax bases were adjusted to take account of the special circumstances of the Island or to better align estimates with what could be raised in comparable communities in the States and Territories.
 - The estimated revenue for each tax was then summed to estimate overall comparable revenue.
- 4 This approach gives an estimate of what a comparable community would raise if average tax policies of the States were applied to the community’s own potential revenue bases. This

recognises that all communities within a State face the same tax regimes but that the same per capita amounts may not be raised from all communities, even when the same tax regime is applied. The amount raised would be determined by the characteristics of each community, as reflected in their tax bases.

- 5 In updating the commission's 2006 work, our estimates of Norfolk Island's capacity to raise tax from each tax-type have, wherever possible, been based on data and information for 2009-10. In some cases, changes to data availability, including availability of more detailed data, has resulted in some changes to the methods we have used to calculate comparable revenue. Where such changes have been made, these have been explained under the individual tax descriptions below.

ASSESSMENTS

- 6 When the commission made its assessments of Norfolk Island's capacity to raise State-type revenues in 2006, it based these on existing circumstances on the Island. At that time, the commission said that any change in the circumstances resulting from the current Australian Government processes in relation to Norfolk Island, for example the introduction of new taxes, will impact on the estimates. This condition holds true for the staff update provided in this report.
- 7 As in the 2006 report, we have not made adjustment for possible elasticity effects caused by the introduction of any of the traditional State-type taxes. The obvious example of this is that the commission has used current land values to estimate Norfolk Island's capacity to raise revenue from land tax. If the Norfolk Island Government were to levy a land tax this may impact on the value of the land and consequently on the amount of revenue it could raise.

PAYROLL TAX

- 8 Norfolk Island does not raise revenue through payroll tax.
- 9 All States levy payroll tax on the wages, salaries, allowances and benefits paid or payable to employees in the market sector. This includes payroll tax paid by public corporations. Under national competition policy, public corporations (at whatever level of government) are taxed the same way as private corporations.
- 10 Table C-1 shows the payroll tax revenue for the States.

Table C-1 Comparison of Norfolk Island and State payroll tax revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	856	738	601	1012	551	537	770	666	758

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 11 All States exempt employers with payrolls below a certain threshold and generally allow larger employers to deduct the threshold amount from their taxable payrolls. Grouping provisions prevent employers from breaking their operations into smaller businesses to avoid or reduce their liability. Table C-2 shows the payroll tax rates and thresholds that applied at 1 January 2010.

Table C-2 State payroll tax rates and thresholds, 1 January 2010

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Tax rate, %	5.65	4.95	4.75	5.50	4.95	6.10	6.85	5.90
Tax-free threshold, \$pa	638 000	550 000	1 000 000	750 000	600 000	1 010 000	1 500 000	1 250 000

Source: *Interstate Comparison of Taxes, 2009-10*, Department of Treasury, New South Wales, found at: http://www.treasury.nsw.gov.au/_data/assets/pdf_file/0005/17780/TRP10-01_dnd.pdf.

- 12 In 2009-10, the threshold used by the commission for assessing States' revenue raising capacity from payroll tax was \$630 000 for public sector wages and salaries and \$650 000 for private sector wages and salaries. The average tax rate was 4.76%¹ on a tax base that is the sum total of payrolls above the threshold for the private sector and public trading enterprises.
- 13 The States exempt some types of employers from payroll tax (for example, charitable institutions). The scope of these exemptions varies between States and they are unlikely to impact on Norfolk Island's capacity to raise revenue from payroll tax. They have not been considered here.
- 14 Employers who operate across more than one State face a reduced threshold. For example, if 10% of payrolls were payable in State A then the threshold will be 10% of State A's threshold.² For very large companies, this means there is effectively no exemption threshold for their payrolls. For very large companies based on the mainland that operate branches or agencies on the Island, virtually their entire payrolls would be subject to the tax. The only 2 companies in this category that were identified in our update were the 2 mainland banks operating on the Island. We have made estimates of their payrolls after visiting the 2 bank branches. The estimate was just over half a million dollars giving comparable revenue of \$26 000.
- 15 For Island-based businesses, the 2006 inquiry relied on an ABS survey of business activity on the Island. That survey is now too dated to use and has not been updated by the ABS. We have not been able to identify any other independent source of information on payrolls on Norfolk Island. Hence, for the update, we had to make our own enquiries to establish what businesses on Norfolk Island may be subject to payroll tax.

¹ Commonwealth Grants Commission 2011 Update calculations.

² This is how the New South Wales threshold operates. All States are harmonising their payroll tax provisions and a majority have already done so.

- 16 In 2006, the commission estimated there were 2 groups of Island-based private businesses that would notionally be subject to payroll tax if average policies of States applied. For the current update, our enquires both with the Administration and private sector have led us to conclude that no private businesses on Norfolk would exceed the average threshold.
- 17 For publicly owned businesses, in 2006, the Norfolk Island Airport was the only public corporation with a payroll above the threshold at that time. In 2009-10, the airport would exceed the payroll tax threshold if we also included the associated air passenger charter business. However, the air charter business will cease once the new airline service arrangements, underwritten by the Australian Government, come in to operation. Hence we have assumed no payroll tax capacity for the airport business enterprise. No other public corporation on Norfolk Island exceeded the payroll tax threshold in 2009-10 so no payroll tax capacity has been assessed for public corporations.
- 18 In summary, we have assessed capacity for payroll tax of \$26 000.
- 19 In 2006, the commission assessed revenue capacity of \$51 000. In this update we have not found any Island-based private businesses that would notionally be liable for payroll tax nor any public corporations. This differs from the finding of the 2006 report where there were 2 private business groups with payrolls just over the threshold applicable then and the publicly-owned airport corporation. State payroll tax thresholds have risen and average tax rates fallen, also contributing to the lower comparable revenue.

LAND TAX

- 20 Norfolk Island collects an absentee landlord levy.
- 21 In the States, there is considerable variation in the arrangements for land tax. The Northern Territory does not levy it at all. In other States, principal residential property and productive rural land are generally exempt, but hobby farms are not. Leasehold land is variously treated. Tax scales and tax free thresholds vary between States.
- 22 Table C-3 shows the land tax revenue for the States compared with the revenue from absentee landlord levy for Norfolk Island.

Table C-3 Comparison of Norfolk Island and State land tax revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
94	319	237	231	263	338	180	277	0	269

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 23 The commission's assessment of the States' revenue capacity reflects average State practice. For example, it excludes the value of productive rural land and the value of residential land used for principal residence from the land revenue base.

- 24 Specifically, the commission estimates the capacity of States to raise revenue from land taxes on:
- the value of total commercial and industrial land, with a value distribution adjustment which reflects the progressivity of the tax structure
 - the value of non-principal residential (NPR) land, estimated as the total value of residential land adjusted by the proportion of residential properties rented privately.
- 25 The commission assumes that, based on average State practice, States have no capacity to raise land tax from rural land or owner-occupied residential properties.
- 26 The commission followed this approach as far as possible to estimate the revenue raising capacity of Norfolk Island from its land bases for its 2006 report. For that report, land values provided by the Australian Valuation Office were applied to land areas as zoned by the Norfolk Island Government. The average tax rates applicable in the States for all taxable land were used to calculate comparable revenue.
- 27 For the current update, staff have obtained more detailed information than was used in 2006 on land and land values to recognise that it is average policy to tax more valuable land at higher tax rates. We have assessed non-principal residential land separately from commercial land.
- 28 For commercial land, we have started with a value per hectare, as was done in 2006, and applied this to the area of land zoned for commercial purposes (business, light industry, industrial and mixed use zonings). However, in this update, we have made the calculation for individual holdings. We also obtained information to enable multiple blocks with the same owner to be identified. In the States, these blocks are combined before assessing land tax and we have done the same when calculating comparable revenue for Norfolk Island.
- 29 To determine a value per hectare for commercial land, we examined unimproved values of land for Norfolk Island's absentee landowner levy. A total of 40 commercial block values and land areas were valued in 2009 and 2010 by the Queensland Government for the Norfolk Island Administration. The average value per hectare varied markedly from block to block but averaged from about \$200 000 to \$300 000 per hectare for the 2 years. However, this was not always consistent with information obtained through interviews on Island which suggested substantially higher values for some commercial land. We also note that the 'absentee' land is a relatively small subset of the commercial land (about 14%) and hence may not be representative. The Australian Valuation Office valuations used in the 2006 report suggested a value of \$2 million per hectare at that time. Given this mixed and incomplete information available to us, we have determined a value of \$1 million per hectare for the current update. This is half the value used in the 2006 report and is consistent with current depressed business circumstances on the Island (which affects commercial land values).
- 30 By applying average tax rates that prevailed in the States in 2009-10 to the values in each value range, we were able to calculate comparable revenue.

- 31 Table C-4 shows a summary of the resultant commercial land values sorted by value range along with the average tax rate applicable in States and the comparable revenue.

Table C-4 Estimated values and comparable revenue for commercial land by value range, Norfolk Island, 2009-10

Value range	Total value	Average tax rate	Comparable revenue
	\$	%	\$
\$0 to \$99 999	1 862 083	0.0360	671
\$100 000 to \$199 999	3 816 860	0.0294	1 122
\$200 000 to \$299 999	2 636 800	0.0553	1 457
\$300 000 to \$399 999	4 811 230	0.0972	4 679
\$400 000 to \$499 999	5 301 400	0.2222	11 780
\$500 000 to \$599 999	2 154 300	0.3279	7 065
\$600 000 to \$699 999	0	0.3802	0
\$700 000 to \$799 999	2 211 700	0.4661	10 308
\$800 000 to \$899 999	4 232 300	0.5291	22 393
\$900 000 to \$999 999	3 888 700	0.5668	22 042
\$1 000 000 to \$1 499 999	15 170 400	0.6956	105 532
\$1 500 000 to \$1 999 999	11 956 000	0.8461	101 164
\$2 000 000 to \$2 499 999	18 162 400	0.9714	176 425
\$2 500 000 to \$2 999 999	13 611 801	1.0869	147 946
Over \$3 000 000	19 396 400	1.5346	297 667
Total	109 212 374		910 248

Source: Land holding information from Norfolk Island Administration. Value per hectare estimated by staff of the commission. Tax rate data calculated from State-provided land value and tax data from the commission's 2011 Update.

- 32 We obtained more detailed information than was used in 2006 to assess land tax for NPR land but note that a truly reliable and representative estimate of this portion of the land tax base is not available. As was the case in 2006, we have been forced to make estimates. Given the relatively small amount of revenue involved, we have not attempted to refine the estimate any further than that described below.
- 33 In this update, we used the absentee landowner land value information for residential, rural residential and rural land as a basis for the assessment. This enabled the actual unimproved values for individual blocks to be used. We note that in the States, the land defined as absentee land on Norfolk Island would likely be subject to land tax. Further evidence suggests it represents a large proportion of the tax base on the Island (see below).

- 34 After separating the non-commercial absentee land into value ranges and applying the relevant average tax rate³ to each value (as was done for commercial land in Table C-4), we calculated comparable revenue of \$24 000 in total.
- 35 Land tax on non-principal places of residence normally applies to rented and unoccupied land and residences. Our dataset of absentee landowner land would consist of a mix of unoccupied, rented and part-year occupied homes (possible also some vacant land). We compared the number of absentee blocks with an estimate of the number of rented and unoccupied residences on Norfolk Island to see how representative the absentee land base may be of the total NPR land tax base.
- 36 From landlord information in the 2011 Wellbeing Study of Norfolk Island's population, we estimated that 23% of homes on the Island would be rental properties potentially subject to land tax⁴. Applying this to an estimate of total occupied dwellings on the Island of 907⁵ gave 212 rented homes. Combined with the number of unoccupied residences of 244 gave a total of 456 blocks notionally subject to land tax. This compares with 342 in our absentee landowner database suggesting the latter represents about three-quarters of the total NPR land tax base.
- 37 To account for the properties missing from the absentee landowner database that could notionally be subject to land tax, we scaled up our estimate of land tax from \$24 000 to \$32 000.
- 38 On the calculations above, land tax revenue raising capacity was estimated at \$942 000, comprising \$910 000 from mixed use/business/industrial land and \$32 000 from NPR land.
- 39 However, it should be noted that, if a land tax were to be applied on Norfolk Island, it would be necessary for a comprehensive land valuation process to be undertaken, specifically for the purpose of assessing and levying land tax. In particular, if changes were made to the tax regime applying on Norfolk Island, it is likely that land values would also change.
- 40 The comparable revenue assessed by the commission in its 2006 report of \$3.05 million was much higher than the amount calculated in this update. There are several reasons for this. Firstly, in this update we have used a value of commercial land that is half that used in the 2006 report (\$1 million per hectare versus \$2 million per hectare in 2006).
- 41 In addition, in this update, because staff were able to value individual blocks and assign them the tax rate applied elsewhere in Australia to blocks of that value, the average tax rate is lower than in 2006. This was done for both commercial and NPR land but it had the biggest dollar effect for commercial land. The tax rate used for the 2006 report was 1.42% for commercial land. In the current update, the effective tax rate overall was 0.8%. Similarly, for NPR land,

³ States do not have different tax rates for commercial and non-principal residential land. They are the same.

⁴ A similar method to that used by the commission in 2006 was used to estimate rented residences potentially subject to land tax.

⁵ Number of occupied and unoccupied residences was from the 2006 Census adjusted for the number of new residences since then (obtained from the planning office in the Administration).

the effective tax rate overall was 0.05% versus 0.36% used in the 2006 report. This is because most Norfolk Island land parcels fall into the low value ranges where tax rates are low.

STAMP DUTY ON CONVEYANCES

- 42 Norfolk Island raises revenue from land title fees which the commission classified as stamp duty on conveyances in its 2006 report. This includes the minimum registration fee of \$825 on transfers where the consideration is ‘natural love and affection’ or the like (including gift). These transfers are often between family members. Where there is payment for the transfer, the fee is 4% of the payment.
- 43 All States levy stamp duty on conveyances on the transfer of a range of real property including land, houses and business property.⁶
- 44 Table C-5 shows revenues raised by the States from stamp duty on conveyances and by Norfolk Island from land title fees.

Table C-5 Comparison of Norfolk Island and State stamp duty on conveyances revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
254	517	613	442	711	458	323	798	551	541

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 45 The duty is levied on the market value of property transferred. States have tiered rate structures, with the marginal rate of duty generally increasing with the value of property. States also grant exemptions or concessions to some types of transfers, notably those involving first home buyers. The purchaser of the property pays the duty.
- 46 Table C-6 summarises the duty structure in each State.

⁶ Many also levy duty on the transfer of non-real property such as copyright, goodwill, patents, partnership interest, options to purchase and units in a trust. While many of these non-real properties are also sold on Norfolk Island, we do not have data to assess fees on such sales.

Table C-6 Conveyances duty rates, residential properties, 2009-10

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
	%	%	%	%	%	%	%	%
Minimum rate	1.25	1.40	1.50	1.90	1.00	1.50	2.00	1.50
Maximum rate	7.00	5.50	5.25	5.15	5.50	4.00	6.75	4.95
Min. threshold \$	0	0	5 000	0	0	0	0	0
Max. threshold \$	3 000 000	960 000	980 000	500 000	500 000	225 000	1 000 000	525 000

Source: *Interstate Comparison of Taxes, 2009-10*, Department of Treasury, New South Wales, found at: http://www.treasury.nsw.gov.au/data/assets/pdf_file/0005/17780/TRP10-01_dnd.pdf.

47 Table C-7 summarises the average effective tax rates by value range for the States.

Table C-7 Stamp duty on conveyances, average effective State tax rates by value ranges, 2009-10

Value range	Average tax rate (%)
\$0 to \$0.1m	1.74
\$0.1m to \$0.2m	1.69
\$0.2m to \$0.3m	2.17
\$0.3m to \$0.4m	2.38
\$0.4m to \$0.5m	2.64
\$0.5m to \$0.6m	3.31
\$0.6m to \$0.7m	3.85
\$0.7m to \$0.8m	4.00
\$0.8m to \$0.9m	4.11
\$0.9m to \$1.0m	4.19
\$1.0m to \$1.1m	4.32
\$1.1m to \$1.2m	4.38
\$1.2m to \$1.3m	4.43
\$1.3m to \$1.4m	4.49
\$1.4m to \$1.5m	4.53
Over \$1.5m	4.93

Source: Commission 2011 Update calculations.

48 About one-quarter of all transactions have no sale value shown. Most of these were transferred to another owner for 'natural love and affection'. Most of such transfers would be liable for transfer duty in the States. As for the 2006 inquiry, we have estimated the value of such transactions so that a comprehensive calculation of comparable revenue can be made. However, we have used a different method to estimate the unknown values which overcomes

some problems with the method used in 2006. In particular, the 2006 method assumed that the transfers with no value shown had the same value distribution as those with values. We have avoided this assumption with our changed method, below.

- 49 The reported value of transactions on Norfolk Island by zoning type was calculated and a value per hectare for each zone type was determined. These unit values were then applied to the land area of the transactions with no transfer price to estimate values. The transfer values estimated in this way were sorted into value ranges and summed with those where a transfer price was shown. Applying the average effective tax rates for each value range as shown in Table C-7 to total value of reported transactions on the Island in each range enables comparable revenue to be calculated.
- 50 On this basis, Norfolk Island's revenue raising capacity was \$640 000.
- 51 Comparable revenue in the 2006 inquiry was \$403 000. The increase in this update in part reflects an increase in transactions from 56 in 2004-05 to 80 in 2009-10. Our revised method of valuing properties where no sale price was shown also resulted in some high value transactions being included, with higher effective tax rates and resultant higher comparable revenue. However, our experience with State finances is that conveyance duty revenue can be highly volatile from year to year. The change observed for Norfolk Island is well within the normal annual variation we see with this revenue source in States.

FINANCIAL TRANSACTION TAXES AND STAMP DUTIES ON MARKETABLE SECURITIES

- 52 When the commission conducted its 2006 inquiry, Norfolk Island raised substantial amounts of revenue from a financial institutions levy which the commission classified as financial transaction taxes. That levy was abolished in 2007. Norfolk Island still collects a small amount of revenue from stamp duty on cheques.
- 53 In the 2006 inquiry, the commission assessed Norfolk Island's capacity to raise revenue from financial transaction taxes as nil. Most States have phased out this type of tax under agreements signed between each State and the Australian Government when the GST was introduced. Since it is no longer average policy to apply these taxes in the States, we have also assessed no comparable revenue in this update.
- 54 Table C-8 shows the revenue raised by States in 2009-10 from financial transaction taxes and by Norfolk Island from its cheque duty. Revenue raised from these taxes in the States is almost nil and likely to fall further.

Table C-8 Comparison of Norfolk Island and State financial transaction taxes revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
6	17	1	6	0	9	0	9	4	8

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 55 States raised small amounts of revenue from stamp duties on marketable securities in 2009-10, although this type of tax has largely been abolished. Table C-9 shows the revenue raised by the States from this tax. There is no equivalent revenue on Norfolk Island.

Table C-9 Comparison of Norfolk Island and State stamp duties on marketable securities revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	7	0	0	0	0	0	14	0	3

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 56 Comparable revenue from stamp duties on marketable securities has been calculated as nil since States have largely phased out this type of tax. The commission also assessed nil comparable revenue in its 2006 inquiry.

GAMBLING TAX

- 57 The Norfolk Island Government raises revenues from commissions received from Tattersall Lotteries and from licence fees for gambling operators such as online operators.
- 58 All States levy taxes from the licensing and taxing of the activities of gambling operators as well as contributions to racecourse development funds. The operators pay the tax.
- 59 Table C-10 shows the revenue raised by the States and Norfolk Island from gambling taxes.

Table C-10 Comparison of Norfolk Island and State gambling taxes revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
784	237	297	207	77	246	196	149	266	228

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 60 The tax rates and policies among States vary considerably. Average revenue per capita for all States was \$228 in 2009-10. However, revenue per capita differed greatly between States, ranging from \$77 in Western Australia⁷ to \$297 in Victoria.
- 61 In the 2006 inquiry, the commission used gross household disposable income (GHDI) as the revenue base, with GHDI adjusted by discounting interstate differences in GHDI per capita by 50% to improve policy neutrality.
- 62 The commission has since changed its assessment of gambling taxes for all States. In the commission's 2010 Review Report⁸, it said it was unable to develop a reliable assessment because of policy differences that affected data reliability and there was a lack of reliable evidence of drivers of gambling revenue.
- 63 For the current update, staff note that repeating the 2006 assessment made by the commission would not be reliable since data on GHDI for Norfolk Island are not available. Given the lack of reliable data and the commission's current approach to assessing gambling revenue, we have assessed comparable revenue for Norfolk Island at the all-State average level per capita.
- 64 During the conference on the Island during the commission's 2006 inquiry, the issue of the community's aversion to poker machines was raised as a limit to the Island's capacity to raise revenue from gambling. In its report then, the commission said a decision by a government not to have poker machines is a policy decision that reduces the amount of revenue that can be raised, but not the capacity. It said, for example, the Western Australian Government had limited the number of poker machines in its casino but did not accept that this limited availability reduces Western Australia's capacity to raise revenue from poker machines. Consequently, the commission did not reduce Norfolk Island's comparable revenue.
- 65 In this update, staff have increased Norfolk Island's comparable revenue by 1.13 due to its high tourist population. The commission made a similar adjustment in its 2006 report. The updated comparable revenue from gambling for this report is \$468 000.
- 66 For the commission's 2006 report, comparable revenue from gambling activities was \$511 000. In both the 2006 inquiry and our current update, a major driver of revenue is the population base from which revenue is derived. After considering the smaller resident Island population, reduced impact of tourists and the small increase in State revenue per capita compared with the commission's 2006 report, the comparable revenue is virtually unchanged from 2006.

⁷ Western Australia's low revenue is largely the result of its restricted distribution of gaming machines which provide a major source of gambling revenue in most other States.

⁸ *Report on GST Revenue Sharing Relativities 2010 Review*, Vol 2, page 141-142, Commonwealth Grants Commission.

INSURANCE TAX

67 Individuals, households and businesses insure their vehicles, homes, businesses and lives. Since the commission's 2006 report, Norfolk Island has also made third party motor insurance (for personal injury) compulsory. No taxes are levied on the value of these policies.

68 Table C-11 shows the revenue raised by the States from insurance taxes.

Table C-11 Comparison of Norfolk Island and State insurances taxes revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	113	157	110	189	212	93	120	129	138

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

69 We have maintained the commission's assumption from 2006 that the premiums paid by the Norfolk Island community pertained only to risks on the Island. Risks in other jurisdictions are not taxable in the States.

70 In calculating comparable revenue in this update, staff have adopted a similar approach used by the commission in 2006 by first estimating 2 components to the revenue base:

- the compulsory third party (CTP) component is assessed using notional CTP premium revenue as the revenue base
- the general and life insurance component is assessed, using as revenue base, estimated premiums from general and life insurance, excluding CTP.

71 We have updated the comparable revenue for CTP on Norfolk Island by estimating a premiums tax base since data on actual premiums paid is not available⁹. We did not have data to make separate estimates of CTP for heavy and light vehicles. We did have total actual CTP for all vehicles in Australia and calculated average CTP per vehicle of \$327. Norfolk Island motor registration data indicated there were 2 396 vehicles (excluding trailers which are not normally subject to CTP). The CTP premium was therefore estimated at \$782 000.

72 For its 2006 report, the commission used the ABS Business Survey to estimate business insurance and, from that, to estimate household insurance. The ABS Business Survey has not been repeated but staff did not find a more current data source. After discussions with businesses on Island including the 2 insurance agents, we reached an estimate of \$4 million for insurance premiums other than CTP.

73 The commission no longer collects data from States to enable a separate assessment of CTP and general insurance. Instead it makes a combined assessment using a weighted average tax

⁹ CTP is not collected by the Administration so there are no public records. We understand that motorists must provide evidence of CTP when they register their vehicles.

rate¹⁰ that includes the lower tax rate typically applied to CTP and the higher rate to other insurance. In 2009-10, the all-State average tax rate was 11.4%. When applied to Norfolk Island's total estimated premium revenue base of \$4.78 million, we obtain comparable revenue for insurance tax of \$545 000. We note that our estimate of the premium revenue base for Norfolk Island appears high relative to our estimate of Gross Territory Product compared to the rest of Australia. However, it is possible that many high value assets produce low incomes in Norfolk in the current circumstances.

- 74 The comparable revenue from the commission's 2006 report was \$215 000. The increase in this update reflects both an increase in our estimate of the revenue base and an increase in effective tax rate since 2006. The effective tax rate in the 2006 report for combined CTP and general insurance was 8.1%. In this update the all-State average tax rate used was 11.4%.

MOTOR VEHICLES

- 75 The Norfolk Island Government collects motor vehicle registration fees according to a scale of charges which reflects the types of vehicles used on the Island. Table C-12 shows the revenue raised by the States and Norfolk Island from motor vehicle taxes.

Table C-12 Comparison of Norfolk Island and State motor vehicle taxes revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
277	318	265	371	396	271	257	322	205	318

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 76 In its State finances assessments, the commission considers 3 revenue bases for motor vehicles fees and taxes, as it did for the 2006 inquiry:
- light vehicle registration fees and taxes
 - heavy vehicle registration fees and taxes
 - stamp duty on motor vehicle registrations and transfers.

Registration fees and taxes

- 77 To estimate comparable revenue from these sources, the average fee structures of the States for heavy vehicles and the light vehicles were applied to the number of registered vehicles by type on Norfolk Island.
- 78 The States each have their own scale of charges. In New South Wales, Victoria, Western Australia and the ACT vehicle registration fees are based on weight of vehicles. In

¹⁰ We note that CTP is about one-fifth of the Australian total taxable premiums, similar to the ratio estimated for Norfolk Island meaning the weighted average tax rate we have used should be valid.

Queensland, South Australia and the Northern Territory fees are based on the number of cylinders or engine capacity. Tasmania uses both weight and engine size.

- 79 The commission collects data on vehicle registration charges and fees split only by heavy and light vehicles. A more detailed disaggregation is not collected. Hence, we have used weightings for different light vehicles types¹¹ on the same basis as was done in the 2006 inquiry and a single average charge for heavy vehicles to calculate comparable revenue. In the case of omnibuses, our observations on Norfolk Island were that most or all of these were small and would be classified as light vehicles.
- 80 Our updated calculation, based on motor registration data provided by the Administration, showed a total of 2 451 vehicles that we considered would be subject to registration charges and fees under average policy of States. Of these, 32 were heavy vehicles. Of the remaining 2 419 light vehicles, after weighting for the different light vehicle types, we obtained 2 247 passenger vehicle equivalents.
- 81 The average charge for light vehicles in States was \$281 per vehicle and \$2 245 per heavy vehicle. Applying this to the vehicle counts, we obtain comparable revenue of \$631 000 for light vehicles and \$72 000 for heavy vehicles.
- 82 Thus the total revenue capacity from registration fees and taxes was \$703 000.
- 83 In the 2006 report, comparable revenue was \$623 000. Vehicle numbers on Norfolk have declined since the commission's 2006 report (from 3 174 to 2 451 in this update). However, registration charges and fees are now higher, on average, in the States. For example, \$211 was raised in the 2006 report per passenger vehicle. The revenue for a similar vehicle in this update was \$281. Revenue per heavy vehicle was much higher in this update (\$281 in 2006 versus \$2 245 in this update).

Stamp Duty on Motor Vehicle Registrations and Transfers

- 84 In 2009-10, 97 vehicles with a total dutiable value of \$897 000 were imported to the Island.
- 85 In addition, there were transfers of existing stock on Island totalling 279 in 2009-10¹². We do not have information on the value or sale price of the vehicles transferred on Island so have estimated this as half the value of each imported vehicle. This estimate is consistent with the standard of vehicles we observed during our visit in September 2011. Total value of vehicles transferred on Norfolk Island is therefore estimated at \$1 289 000.
- 86 For the States as a whole, the effective rate of stamp duty in 2009-10 was 3.2%. Applying it to the dutiable value above, we arrive at a comparable revenue for stamp duty on motor vehicle transfers of \$71 000.
- 87 Comparable revenue in the 2006 report was \$46 000. The increase since then is a result of the higher estimated transfer values in total, comprised of both higher imported vehicle values and

¹¹ For example, a passenger vehicle has a weight of 1.0 while a motor cycle has a weight of 0.17.

¹² This is an average of 2009 and 2010 calendar years.

higher on-Island transfers (\$1.45 million in the 2006 report versus \$2.19 million in this update).

Summary

88 Total comparable revenue for motor vehicles was estimated at \$774 000.

OTHER TAX REVENUE

89 For the States, other tax revenues comprise taxes, duties, fees and levies not elsewhere classified including miscellaneous stamp duties and taxes.

90 For Norfolk Island, this included revenue from the accommodation levy when the commission conducted its 2006 inquiry. The accommodation levy has since been abolished. Norfolk Island raised revenue from some other taxes such as company fees, liquor licence fees and 'miscellaneous' income.

91 Table C-13 shows the revenue raised by Norfolk Island and the States from other taxes.

Table C-13 Comparison of Norfolk Island and State other taxes revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
213	95	27	38	0	37	0	84	0	49

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

92 In its 2006 report, the commission assessed Norfolk Island's comparable revenue at the same per capita level as the average of all-States. For 2009-10, this was \$49 per capita.

93 On that basis, we have calculated comparable revenue for Norfolk Island of \$89 000. In the 2006 report, comparable revenue was \$41 000. The increase is largely due to the higher all-State average revenue (\$49 per capita in this update versus \$20 in the 2006 inquiry).

MINING ROYALTIES

94 All States (apart from the ACT, which does not have any mineral production) levy royalties on minerals producers. Mining revenues are an important component of State own-source revenues. Actual revenue per capita for the States in 2009-10 averaged \$297. Table C-14 shows the mining revenue capacity for the States.

Table C-14 Comparison of Norfolk Island and State Mining Royalties revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	137	8	455	1 399	77	77	0	782	297

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 95 Norfolk Island does not have any mineral and energy resources identified. In its 2006 report, the commission said Norfolk Island's rock quarry at Cascade could be seen as offering some scope for royalty payments. However, the commission observed that a portion of the payments for rock products from the quarry is used to repay a loan from the Australian Government for the cliff stabilisation project. The commission concluded Norfolk Island had no mining revenue capacity and assessed nil comparable revenue.
- 96 The Cascade Cliff Stabilisation Project loan has still not been fully repaid, with about \$0.5 million currently owed to the Australian Government. At recent rates of repayment, the loan should be cleared within 2-3 years. Given there is still an ongoing liability we have continued to assess nil comparable revenue for mining. After this time, the ability to raise revenue is likely to be small since royalties on construction materials in States are on average very low.

CONTRIBUTIONS BY TRADING ENTERPRISES

- 97 Contributions by trading enterprises comprise dividends, tax equivalent payments and other tax-like payments from government-owned trading enterprises. The major contributions come from electricity and gas enterprises in the States. Contributions can also come from water supply and sewerage authorities, freight, non-urban passenger transport enterprises, forestry operations, ports and harbours, and marketing authorities. Any profits arising from the general government sector activities are also included.
- 98 Trading enterprises on Norfolk Island that were classified as State government responsibilities by the commission in 2006 were the Gaming Enterprise, the Electricity Service and the Ligherage Service. This list is unchanged for the current update report.
- 99 Table C-15 shows the States and Norfolk Island's revenue raised from contributions by trading enterprises.

Table C-15 Comparison of Norfolk Island and State Contributions by Trading Enterprises revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
262	384	110	237	416	283	193	716	100	280

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 100 In 2009-10, average revenue for all States was \$280 per capita. The ability to raise such revenue is affected by State policies on:
- the privatisation of trading enterprises
 - the level of investment by the State in trading enterprises and their capital structure
 - the enterprises' policies on charging for their services
 - the level of government subsidy or community service obligations
 - the level of tax equivalent payment and dividends required by States from their trading enterprises.
- 101 In assessing Norfolk Island's capacity to raise revenue from trading enterprises, the commission said in its 2006 report that it is important to consider whether Norfolk Island can raise revenues from the same range of trading enterprises as States, for example, whether all State-type trading enterprises can operate on Norfolk Island. In addition, the commission considered whether the special circumstances of Norfolk Island — its size or remoteness — limited its capacity to raise the same revenue as the State average from a particular trading enterprise. We have reviewed the conclusions reached by the commission in its 2006 report:
- **Electricity and gas.** In this update, the comparable expense for electricity subsidies, estimated in Attachment D, provides the capacity for the Norfolk Island Government to receive a dividend from the Norfolk electricity service. The same conclusion was reached by the commission in 2006. Not all States provide data on contributions from electricity and gas type trading enterprises but for those that did, we estimate the per capita contribution was \$150 per capita. The commission said that Norfolk Island's revenue raising capacity from this source was increased by the tourist population. Hence, Norfolk Island's comparable revenue from electricity and gas type trading enterprises was calculated as equal to the average per capita amount raised by States, adjusted by 1.13 to recognise the impact of tourists, or \$308 000 in total.
 - **Water supply and sewerage.** In 2006, the commission noted that State governments do, in some circumstances, receive dividends from water provision enterprises, but the capacity to do so is limited in very remote regions of the States. Most revenue is raised in metropolitan and regional areas where water quality and supply is not a problem. As the provision of water and sewerage is classified as a local government function on Norfolk Island, we have assessed its comparable revenue from this source as nil.
 - **Freight.** Norfolk Island's opportunity to raise revenue in this area is the Lighterage service. Given the nature of the isolation of Norfolk Island and the already high cost of moving goods to the Island, we have continued to assess nil comparable revenue for this activity.
 - **Non-urban passenger transport.** The Norfolk Island equivalent of non-urban passenger transport is the air services to the mainland. The Norfolk Island Government is operating its own airline, under a contract arrangement with Air Nauru. However, this

arrangement is operating at a loss and is being terminated. The Australian Government is currently tendering for a commercial provider which it will underwrite to cover lack of profitability. The arrangement is similar to that provided for Christmas Island in the Indian Ocean. Some States also subsidise air services for residents in remote regions. Given the Island's isolation and evidence of lack of profitability, we have assessed nil comparable revenue for this activity.

- **Forestry operations.** A forestry zone exists on Norfolk Island to grow timber for production and to protect areas of high conservation value. In 2006, the commission concluded there was no capacity to raise revenue from forestry operations on Norfolk Island. We are not aware of any circumstances that would change this conclusion.

- 102 The above examination of the main sources of contributions by trading enterprises shows that Norfolk Island's capacity to raise revenues from the standard range of trading enterprises remains limited to the electricity GBE. This gave a comparable revenue of \$308 000 in 2009-10.
- 103 Comparable revenue in the 2006 report was \$298 000. The small increase in this update largely reflects the larger per capita average revenue for States in this update, tempered by a smaller resident and tourist population on the Island from which revenue can be derived.

INTEREST EARNINGS

- 104 State governments earn interest on their provisions and from managing their cash balances. Norfolk Island earned interest in 2009-10 which has been equally split between the State and local sectors. Table C-16 shows a comparison of State-type interest earnings on Norfolk Island with those of the States.

Table C-16 Comparison of Norfolk Island and State interest earnings revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
50	44	61	493	99	85	89	352	286	156

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 105 Since 2009-10, the Administration's financial position has deteriorated markedly and interest earned will have declined as well.
- 106 In its 2006 report, the commission recognised that Norfolk Island would not be able to raise all-State average revenue unless it has the same average level of provisions and other cash. The commission concluded, if average policies were followed, then Norfolk Island would have the capacity to raise interest earnings at the all-State level per capita.
- 107 Repeating the commission's 2006 method gives comparable revenue of \$156 per capita or \$283 000 in total. This estimate is reasonable if Norfolk Island has an ongoing financial position similar to that of comparable communities including provision of any support

necessary to recover from its current situation. We comment elsewhere in this report on some uncertainties about this estimate.

- 108 The commission estimated interest income of \$231 000 in its 2006 report. The growth in this report reflects the growth in Australian State interest earnings per capita since then.

FEES AND FINES

- 109 Fees and fines include court fees and fines and road traffic fines.
- 110 Table C-17 shows a comparison of user charges — fees and fines on Norfolk Island with those of the States.

Table C-17 Comparison of Norfolk Island and State fees and fines revenue, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
38	82	92	73	64	21	50	64	55	75

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 111 In its 2006 report, the commission concluded that the lack of big business on Norfolk Island would suggest a very low capacity to raise revenue from court fees. Large businesses have a greater propensity to pursue litigation through courts. The commission also concluded that the capacity to raise revenue from fees and fines is likely to be less than the average of the States because of limited incidence of traffic and other infringements¹³.
- 112 To reflect the reduced capacity to raise fees and fines, comparable revenue per capita was set at 50% of the tourist adjusted average of the States (that is, \$75 x 1.13 x 0.5), or \$77 000 in total for 2009-10.
- 113 Comparable revenue from the commission's 2006 report was \$70 000. The small increase is largely due to the growth in all-State average revenue from this source since 2004-05 (\$60 per capita then versus \$75 in 2009-10) tempered by a fall in Island population.

TOTAL REVENUE RAISING CAPACITY FROM STATE-TYPE TAXES

- 114 The tax by tax approach suggests comparable revenue of about \$4.2 million for the Island, as summarised in Table C-18 . It suggests that Norfolk Island could raise about \$0.6 million more than it did in 2009-10, if it applied State tax regimes. It also shows that actual revenue and comparable revenue are not only different at the aggregate level, but also very different for individual revenue sources.

¹³ For example, there are no traffic lights on Norfolk Island.

- 115 The difference has shrunk compared with the findings made in the commission's 2006 report. The main differences have been land tax (over \$2 million less than 2006), stamp duty on conveyances (over \$200 000 more than in 2006) and insurance tax (over \$300 000 more than in 2006). For land tax, lower commercial land values were assumed and lower effective tax rates have been used to reflect the value distribution of land on Norfolk Island. Stamp duty on conveyances can vary by large amounts from year to year and the finding in this update reflects that normal variability. Large comparable revenue from insurance tax resulted from revised estimates of the revenue base and higher all-State average tax levels.
- 116 The approaches used in each assessment are summarised in Box C-1.

Table C-18 Norfolk Island revenue raising capacity, tax by tax measure, 2009-10

Revenue source	Norfolk Island actual revenues	Adjustment	Comparable revenue, current update	Comparable revenue, 2006 report
	\$'000	\$'000	\$'000	\$'000
Payroll tax	0	26	26	51
Land tax	170	773	942	3 054
Stamp duty on conveyances	461	179	640	403
Financial transaction taxes and stamp duties on marketable securities	11	- 11	0	0
Gambling taxes	1 424	- 955	468	511
Insurance tax	0	545	545	215
Motor taxes and charges	503	271	774	669
Other tax revenue	386	- 297	89	41
Mining royalty revenue	0	0	0	0
Contributions by trading enterprises	476	- 168	308	298
Interest revenue	91	192	283	231
Fees and fines	69	8	77	70
Total revenue	3 590	563	4 153	5 544

Source: Actual revenues are from the Norfolk Island Government's Financial Statements for 2009-10. Comparable revenue is as calculated in this attachment.

Box C-1 Summary of approach to determine comparable revenue — State revenues

Source of revenue	Method
Payroll tax	<p>Tax levied on estimate of Norfolk Island payrolls for group payrolls above average State thresholds:</p> <ul style="list-style-type: none">• national companies with payrolls of \$0.5 million <p>No Island-based private companies or publicly-owned corporations exceeded the threshold. Average tax rate applied: 4.76%.</p>
Land tax	<p>Tax levied on value of commercial and industrial land and non-principal residential land. Estimates made for both for Norfolk Island based on detailed commercial land zoning information and absentee landowner valuation listings for individual blocks. Commercial land valued using average of \$1 million per hectare.</p> <p>Land sorted into value ranges before applying appropriate average tax rate for that value.</p>
Stamp duty on conveyances	<p>Paid by the purchaser on value of transactions. Actual transfer values for Norfolk Island used, sorted by value range. Estimates made where no value shown.</p> <p>Land sorted into value ranges and appropriate tax rate applied.</p>
Financial transaction taxes and stamp duties on marketable securities	<p>No capacity — States have largely abolished these taxes.</p>
Gambling tax	<p>Paid by the operator. State average revenue per capita used to assess comparable revenue.</p>
Insurance tax	<p>Levied on insurance premiums. CTP and general insurance estimates made. Weighted average tax rate of 11.4% used.</p>
Motor vehicle taxes (registration fees and stamp duty on transfers)	<p>Registration fees at national rates for heavy and light vehicles on register.</p> <p>Stamp duty on newly-imported vehicles and on transfers at 3.2%.</p>
Other revenue	<p>Comparable revenue at all-State average per capita amount.</p>
Mining revenue	<p>No capacity.</p>
Contributions by trading enterprises	<p>Equal to the all-State average per capita amount raised from electricity and gas undertakings, adjusted for the impact of tourists.</p>
Interest earnings	<p>Equal to the all-State average per capita amount.</p>
Fees and fines	<p>All-State average per capita amount, halved for circumstances of small community (few large businesses to pay court fees, limited fine revenue) and increased for the impact of tourists.</p>

ATTACHMENT D

STATE SERVICE DELIVERY REQUIREMENTS

INTRODUCTION

- 1 Clause (i) of the terms of reference for the 2006 inquiry asked the commission to advise on:
 - (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island Government operates at the same level of efficiency as State and local governments.
- 2 This attachment considers what it might cost to provide services normally provided by State governments on Norfolk Island under those conditions in 2009-10. Such services include education, health, welfare, law and order services, general public services and the depreciation and financing costs of the assets required for the delivery of those services.

METHODS

- 3 For the 2006 review, the commission used 2 methods to assess expense levels for Norfolk Island, consistent with the way services are provided for a comparable community. Expenses were either based on those in a comparable community from other parts of Australia (including in some cases the all-State average expense) or were assessed from existing Norfolk Island service costs. Where costs for an Australian comparable community were used as the basis for an assessment, factors were applied to recognise Norfolk Island's wage levels relative to the mainland and its isolation costs. Some assessments also recognised the additional costs incurred through tourism.
- 4 The approach gives an estimate of what Norfolk Island would spend if services provided in a comparable community were delivered at the same standard to Norfolk Island residents. The approach recognises a standard approach to service delivery and the specific demographic and other characteristics of the Island population and their particular service requirements.

- 5 In updating the commission's work, we have used the same methods in most cases. Sometimes we used a different method because the current circumstances of Norfolk Island had changed. The precise method used is explained in each section.
- 6 Each section begins with a description of the way services are delivered in the States and on Norfolk Island. This is followed by cost comparisons leading to an assessment of the expense that would be needed to deliver services at the average range and level provided in a comparable community. We have also made comparisons with the assessment from the 2006 report.
- 7 A summary of the assessments for all service areas concludes the attachment.

EDUCATION

- 8 State governments provide and subsidise a range of education services, including pre-school education, school education and vocational education and training. Table D-1 shows State and Norfolk Island expenses for all education services.¹ It shows that Norfolk Island spent less than all the States on education services during 2009-10.

Table D-1 Comparison of Norfolk Island per capita expenses with the States, Education, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
1 488	1 538	1 569	1 491	1 951	1 669	1 826	1 760	2 890	1 612

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 9 In its 2006 report, the commission assessed expenses for the 3 education services separately. We have done so again and our assessments are described in the following sections.

Pre-school Education

- 10 All State governments provide or subsidise pre-school education.
- 11 **Existing services.** A pre-school program, taught by a qualified pre-school teacher, is provided at the Banyan Park Play Centre. The centre receives a small annual subsidy (\$12 000 in 2009-10, unchanged from 2004-05) from the Norfolk Island Government.
- 12 **Comparisons.** Given the variable manner in which the States actually provide pre-school education, a service at the average range and level provided in the States would fall between a fully funded pre-school and some level of subsidy provided for private pre-school arrangements. In 2006, the commission decided that Norfolk Island should be able to provide a service equal to the all-State average contribution to pre-schools.

¹ The ABS provided disaggregated State education services expenses from its Government Finance Statistics. The ABS has asked us not to publish data disaggregated at that level.

- 13 We have used the same assessment method as the 2006 report. Using the average per capita expense for all States combined² and applying the salary and isolation adjustment factors gives a comparable expense for pre-school services on Norfolk Island of \$39 075. This compares with \$34 000 in the 2006 report, an increase of 15%.

School Education

- 14 State governments are responsible for schools education and either deliver this through government schools or regulate the delivery of the services through non-government schools. The Australian Government makes specific purpose grants to the States for general education purposes and to assist disadvantaged groups in government schools. It also makes payments directly to non-government schools.
- 15 **Existing services.** The Norfolk Island Government has executive responsibility for education, but legislative proposals are technically subject to Australian Government veto. It has a memorandum of understanding with the Australian Government and a contract with the New South Wales Department of Education and Training under which that State provides a kindergarten to Year 12 education package at the Norfolk Island Central School. The cost of the education package is based on teachers' salaries³ and a 4.5% administrative fee. The package provides:
- teachers
 - curriculum — including distance education
 - access to assessment processes such as the Higher School Certificate and Basic Skills Testing
 - training and development for all school staff
 - Vocational Education and Training (VET) and Technical and Further Education certificate courses.
- 16 Other expenses such as school requisites, cleaning and maintenance, electricity, telecommunications and improvements to grounds and buildings are met by the Norfolk Island Administration.
- 17 The education package purchased from the New South Wales Department of Education and Training does not include elements of assistance available to other schools in New South Wales such as special arrangements for technology.
- 18 The Norfolk Island school has a total student population of 312, with 175 primary students and 137 secondary students. Since the 2006 report, the school has seen a shift to a higher number of secondary students. The teaching staff now consists of a principal, deputy principal, 8 primary teachers, 12 secondary teachers, 1 support teacher, 1 librarian/information technology/vocational education and 1 part time relief teacher. Clerical support staff consists

² The ABS provided disaggregated State pre-school expenses from its Government Finance Statistics. The ABS has asked us not to publish data disaggregated at that level.

³ As determined by New South Wales Department of Education and Training.

of a senior school assistant, finance clerk, teacher's aide, 2 part time library assistants and a groundsman. The school has student to teacher ratios similar to schools in New South Wales.

- 19 An active Parents and Citizens Association raises considerable funds which are directed into major school improvements and projects, such as computing equipment, the oval, the tennis/basketball court, the netball court and playground equipment. It also operates a school bus service.
- 20 Students seeking a University Admissions Index are well served through face-to-face teaching and input through the New South Wales Distance Education program. The school principal estimated that 4 students will be offered places in universities in 2011. While the school has an informal relationship with Griffith University in Queensland, students attend a range of universities.
- 21 A number of VET-type courses are offered to senior secondary students. Other students undertake limited distance education VET courses. This relies on adequate bandwidth to the Island.
- 22 **Comparisons.** We compared the Norfolk Island expense on school education with our estimates of the 2009-10 expenses of the States and Territories. The comparison shows that Norfolk Island spends more in per capita terms than all States except Western Australia and the Northern Territory.⁴
- 23 **Assessment.** The education package purchased from the New South Wales Department of Education and Training provides teaching staff and curriculum at a standard consistent with the provision of those components of school education in New South Wales. However, some areas of peripheral government funding available to comparable schools in New South Wales are not available to the Norfolk Island Central School.
- 24 Accepting the New South Wales average standard as a reasonable basis for making a comparable community comparison, we sought information on non-comparable funding from the principal of Norfolk Island Central School. He based his advice on similar sized New South Wales schools of the type 'Central school, class 2', the category applicable to communities comparable with Norfolk Island. He selected schools with a similar demographic profile (Coolamon and Uralla central schools).
- 25 Services not provided on Norfolk Island, based on these 2 schools, include:
 - Country Area Program for isolated students
 - Assistance for financially needy students (uniforms, books, excursions)
 - Reading Assistance Program funding
 - Best Start & Best Start 10 Program funding

⁴ The ABS provided disaggregated State school education expenses from its Government Finance Statistics. The ABS has asked us not to publish data disaggregated at that level.

- Various federal and State funded Numeracy & Literacy enhancement programs such as L3
 - Computer co-ordinator funding.
- 26 After seeking advice from several sources, including these schools, we estimated the value of these programs to be approximately \$70 000. While it is not possible to calculate the extra funding New South Wales would provide Norfolk Island Central School, should it be a more traditional part of the New South Wales Department of Education and Training, this provides an estimate of the additional expenses that might be needed to provide a fully comparable recurrent service.
- 27 The school receives funding from the Norfolk Island Government of \$81 000 for special needs students. These students have diagnosed physical and mental disabilities. The principal considered this funding to be below mainland levels but could not estimate by how much.
- 28 We have increase Norfolk Island's actual expenses by the \$70 000 (as described above) to give a comparable expense for school education of \$2 760 000. This compares with \$2 399 000 in the 2006 report, an increase of 15%.
- 29 No adjustment is needed for differences in salary levels or isolation. New South Wales salaries are paid to most staff and the impact of isolation on costs is already reflected in Norfolk Island's actual costs.
- 30 Although not relevant to our assessment of recurrent expenses, since the 2006 commission report, the Australian and New South Wales Governments have also provided funds for a range of capital programs. The principal of Norfolk Island Central School advised that the school did not receive any of this funding. Programs under which the school would likely have received funding, compared to equivalent New South Wales schools, include⁵:
- laptops and/or the replacement of computer equipment — estimate of \$16 000 per annum or \$40 000 in total
 - Primary schools for the 21st Century (Building the Education Revolution) —estimated to be between \$600 000 and \$1 million
 - National school pride — estimated to be between \$68 000 and \$85 000
 - Science and language centres — estimated to be between \$56 000 and \$1.8 million
 - State project funding — average of similar schools estimated to be \$3.2 million.
- 31 We have made no adjustment for the value of the capital funding that the school did not receive from the various mainland capital programs discussed above as capital spending is outside the scope of this exercise.
- 32 We have assessed a comparable expense for school education services on Norfolk Island of \$2 760 000.

⁵ Estimates are based on advice from the principals of the comparable schools, Department of Education publications relating to the programs and/or estimates from the Norfolk Island school principal.

Vocational Education and Training (VET) and Higher Education

- 33 VET is a State government responsibility. The States are primarily responsible for the provision of services, although they are required to meet national objectives.
- 34 **Existing services.** There are no publicly funded VET-type services on the Island, although the vocational courses offered at the school are, at times, attended by a small number of non-school aged students. Distance education through State providers offers a range of opportunities.
- 35 Higher education is principally the responsibility of the Australian Government, although some States provide some minor funding.
- 36 **Comparisons.** The main target group for VET services is people aged 15 to 24 years. 6.3% of the Norfolk Island population is in this age group, compared with 14.2% of the Australian population.⁶ This indicates a lower level of potential demand for VET services.
- 37 In the rest of Australia, most residents of remote areas wishing to undertake vocational education or training have access to some courses, although they may not always have access to the course of their choice, and most would have to use distance education.
- 38 With the increasing availability of distance education through the internet, Norfolk Island residents receive a service comparable with residents living in remote areas in the rest of Australia.
- 39 For apprentice training, States generally provide accommodation or subsidies for travel and accommodation for apprentices living in remote areas, although the amounts differ between States. Because only very limited services are provided through the Norfolk Island Central School and subsidies are not available to assist students with residential costs, additional funding would be needed for VET services on Norfolk Island if services equivalent to those offered in a comparable community were to be made available.
- 40 In the 2006 report, the commission decided that an estimate of what it would cost to provide services at a similar standard to comparable communities could be calculated by taking average State expenses on VET services⁷, adjusted for the smaller proportion of its population in the main target age group for VET services, lower system overhead costs (head office type costs that would not be needed to deliver VET services on Norfolk Island) and an isolation adjustment. We have used this method to derive an annual comparable expense of \$151 000 for a comparable service to the Norfolk Island population, compared to \$210 000 in 2006, a decrease of 28%. This is lower than in 2006 because the proportion of the population in the target age group is lower than in 2006, compared to the proportion on the mainland (the

⁶ Norfolk Island population between 15 and 24 estimated from 2006 Census and Deloitte Access Economics, 2011, *Wellbeing Report – Norfolk Island*, Department of Regional Australia, Regional Development and Local Government, unpublished. Australian population from ABS, 2010, *Population by Age and Sex, Australian States and Territories, Jun 2010*, Catalogue 3201.0 <http://www.abs.gov.au>.

⁷ The ABS provided disaggregated State VET expenses from its Government Finance Statistics. The ABS has asked us not to publish data disaggregated at that level.

Norfolk Island proportion has declined from 8.3%, while the Australian proportion has increased by 13.9%.)

Education – overall assessment

- 41 Bringing the assessments for pre-school education, school education and VET together, we have assessed a comparable expense for education services on Norfolk Island of \$2 950 000, compared to \$2 644 000 in the 2006 report, an increase of 12%.

HEALTH

- 42 Hospital services in Australia are a State responsibility. States organise and provide hospital services, but the Australian Government makes specific purpose payments, under Australian Health Care Agreements, to assist States to provide public hospital services free of charge.

Existing services on Norfolk Island

- 43 Norfolk Island is not a party to the Australian Health Care Agreements and has implemented a charging regime to cover a large proportion of health costs.
- 44 Hospital services for Norfolk Island residents and visitors are provided either on the Island, through the Norfolk Island Hospital, or they are provided in hospitals off the Island, most often elsewhere in Australia.
- 45 **Norfolk Island Hospital.** Norfolk Island has a 24-bed hospital (12 beds for general patients and 12 for aged care). The Hospital employs about 36 full-time equivalent (FTE) staff (compared to 30 in 2006). Staff include 2.5 FTE doctors, a dentist, 3 FTE nurse's aides, 14 FTE registered nurses, a radiographer, a pharmacist, a physiotherapist and a lab technician. Since 2006, an exercise physiologist has been employed.
- 46 At the time of the 2006 report, the Hospital employed doctors who were general practitioners with skills covering surgery, anaesthetics and obstetrics. This allowed the Hospital to undertake low level surgery, such as appendectomy, and obstetric deliveries including caesarean sections. However, 2 doctors have since left and replacements are being recruited; locums are being used in the meantime. Consequently these procedural skills are no longer available, so that most surgical and all obstetric services must now be delivered on the mainland. The hospital doctors provide general practitioner services to the Island, while visiting specialists, including a gynaecologist, urologist, podiatrist and orthopaedic surgeon perform minor operations.
- 47 Telemedicine facilities are used to a limited extent, but the broadband bandwidth is not sufficient to allow such facilities to be used extensively.
- 48 As in other small centres, the community uses the Hospital for provision of outpatient services that would be more generally obtained from community general practitioners in a larger centre.

A 'significant majority' of the activity of the Hospital's doctors is in the provision of general practitioner services to the Norfolk Island community.

- 49 Since 2006, 2 private pharmacies have opened, so that the Hospital's pharmacy is no longer the only supplier of pharmaceuticals to the community. Nevertheless, the hospital pharmacist reports that 94% of its clients are private consumers, to whom drugs are dispensed at full cost (96% in 2006).
- 50 The hospital also provides the ambulance service.
- 51 In recognition of the age of the existing building, the hospital has bought an adjacent block of land on which to build a new hospital. The purchase used funds raised by the community, staff and a Development fund. The hospital will be seeking funding under the Australian Government Health and Hospital Fund to progress the project. It needs about \$30 million. If it is unsuccessful, refurbishment of the existing building will be needed.
- 52 **Hospital service costs.** All patients on Norfolk Island are charged set fees for health services except veterans who pay less than full cost. Veterans who possess a Gold Card have their full cost paid by the Australian Department of Veterans' Affairs. Residents who receive welfare benefits are also entitled to receive assistance with hospital and medical expenses. The Hospital Board sets medical and hospital fees, which it reviews every 2 years. Inpatient fees are set at the Medicare Medical Benefit Schedule rates, plus 25%. Fees for services from Visiting Medical Officers are set at the Officer's fee plus 25% for administration. Other fees, such as accommodation, are based on historical charges, adjusted for CPI movements.
- 53 Health services on Norfolk Island are not covered by the Australian Government's Medicare scheme. The Norfolk Island Government operates a Healthcare Fund which will meet medical costs over \$2 500 per annum for a family. Membership of the fund is required for residents who are 18 years or over, and who intend to stay on the Island for over 120 days. Those who receive health insurance cover through their work can apply for suspension from the levy. A private insurer, Southern Cross, offers insurance cover for expenses below the Healthcare Fund's \$2 500 threshold but does not cover all costs. Since 2009, no Australian health insurance company has provided health cover on the Island.
- 54 **Treatment in other public hospitals.** If Island doctors decide that emergency treatment is not possible locally, medical evacuations to the States are provided. Depending on the degree of emergency, these may be by commercial flights, but are more usually under a Norfolk Island Government contracted Medivac arrangement. The cost of a medivac through Careflight NSW is \$30 000. In 2009-10 the cost of Medivacs was \$353 000 (\$167 000 in 2004-05) met from a levy on wage and salary earners, paid in addition to the Healthcare levy.
- 55 If a particular hospital service is not available on the Island, under a special agreement with New South Wales, Norfolk residents can receive hospital care equivalent to that provided to a public patient in a New South Wales public hospital, with no waiting period. All costs are borne by the patient, but expenses that exceed \$2 500 can be recovered from the Healthcare Fund if the Norfolk Island Government Medical Officer has issued a referral for that treatment.

- 56 Some Norfolk Island residents have Australian Medicare cards which they acquired while they were residents of the States (they remain valid for a number of years after they are issued). Therefore, if these Norfolk residents visit the States, they can receive medical care under the same conditions as other Australian residents.
- 57 **Other health services.** Other health services are provided in the States, such as community health, population and preventive health. They are funded by State governments and partly through payments to the States from the Australian Government.
- 58 Other health services on Norfolk Island include:
- Health promotion — including drug and alcohol services, child health and radio health sessions. These services are provided by 2 part-time health promotion workers.
 - Dental services — an orthodontist also provides regular visits.
 - Pre-natal and post-natal care as well as mothercraft nursing services.
 - Immunisation programs — these are conducted at the Hospital for both children and adults.
 - Mental health/counselling.
 - Child welfare services (one part-time officer).
 - Home nursing services are available on the Island 3 days per week through the Emilie Channer District Nursing Service. The costs for this service are met from a private source.

Comparisons and assessments

- 59 **Hospital services.** Hospital services are delivered on Norfolk Island in a manner that differs considerably from that in the States. Norfolk Island's fee for service model makes direct comparison with the States' hospital service costs difficult. The scale of operation of health services on the Island also means that the mixture of services offered through the Island's Hospital includes a number of 'non-hospital' elements that are included in the Hospital's budget.
- 60 Table D-2 shows per capita health expenses for Norfolk Island and the States. Note that the State expenses are for all regions, not just remote areas. It shows that gross expenses are above all the States except the Northern Territory, but with its much higher than average user charges, its net expenses are below all States.

Table D-2 Comparison of Norfolk Island per capita expenses with the States, Health, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Expenses	2 584	1 667	1 742	1 956	1 993	2 266	2 198	2 049	3 403	1 858
User charges	-1 123	- 151	- 228	- 141	- 132	- 259	- 135	- 315	- 166	- 176
Net Expenses	1 461	1 516	1 514	1 816	1 861	2 007	2 063	1 734	3 237	1 681

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 61 In the 2006 report, the commission compared Norfolk Island Hospital services and expenses with the services and expenses of small regional acute hospitals⁸ in the States. The average spending on these would be higher because their costs are affected by their location and the populations they serve. They could serve older populations as on Norfolk Island or communities with a large proportion of Indigenous people.
- 62 There are 116 ‘small regional acute’ hospitals⁹, of which about half are located in inner regional areas and half in outer regional areas. They have an average size of 23 beds, about the same as the Norfolk Island Hospital. They include hospitals at Cherbourg (Queensland), Peterborough (South Australia), Manjimup (Western Australia) and Wee Waa (New South Wales).
- 63 For these hospitals, typical services include minor surgery, obstetrics/maternity, nursing home care and renal dialysis. They do not typically provide services such as psychiatry, complex surgery, specialised care units (that is, burns, neonatal, acute spinal cord injury, transplant, neurosurgical and high level intensive care). This service pattern generally matches the range of services offered by the Norfolk Island Hospital, although there appears to be more aged care provided at the Norfolk Island Hospital than there is in most small regional acute hospitals. A detailed comparison of case-mix for admitted patients is not possible as the Norfolk Island Hospital does not code patient morbidity related to admitted patient services.
- 64 Unlike the small regional acute hospitals in the rest of Australia, Norfolk Island Hospital is not accredited to Australian standards.
- 65 Allied health-type services provided at these hospitals include physiotherapy, occupational therapy, speech therapy, podiatry, dietetics/nutritionist, psychologists, social workers and mental health workers. We are aware of only physiotherapy, podiatry, exercise physiology and counselling services being available on Norfolk Island.
- 66 In the 2006 report the commission concluded that the cost of a small regional acute hospital of the same bed size as the Norfolk Island Hospital provided an estimate of the cost of providing local hospital services in a comparable community. It adjusted the cost for Norfolk Island’s lower wage levels and allowed half the isolation differential applied to other expense items

⁸ A definition of this group of hospitals, together with summary information, is reported by the Australian Institute of Health and Welfare (AIHW) in its annual Australian Hospital Statistics reports.

⁹ Data provided by AIHW in 2011.

(because some element of isolation cost is implicit in the operating costs of small regional hospitals). It also adjusted the cost in recognition of the services provided to tourists.

- 67 Between 2004-05 and 2009-10 State spending on these regional acute hospitals increased by 62%, or 52% per person (based on an estimate of population growth in areas serviced by these hospitals).
- 68 We have used the per capita growth of 52% and the change in the Norfolk Island population to derive our 2009-10 estimate of health expenses. We adjusted the estimate for the same special circumstances as in 2006 (lower wages, half the isolation differential and the effect of tourists). This resulted in an assessed expense level for hospital services for the current inquiry of \$3 382 000, an increase of 36% over the previous inquiry.
- 69 Unlike public hospitals elsewhere in Australia, Norfolk Island charges for all hospital services. As a result, the Norfolk Island Hospital Enterprise raises revenue through user charges (\$1 123 per capita in 2009-10 compared with \$810 in 2004-05 and \$176 for the average of all States).
- 70 The user charging regime of the Norfolk Island Hospital is also very different from that of the 'small regional acute' hospitals. Some of the Island revenue is obtained from services provided outside of the hospital, such as for the general practice consulting service provided by salaried hospital doctors.
- 71 In 2006 the commission decided that under policies operating in the States it would be reasonable to assess the revenue capacity of the Norfolk Island Hospital from the level of user charges in small regional acute hospitals. It therefore adopted the revenue earned by a small regional acute hospital as the assessed offsetting revenue amount, adjusted by the impact of tourists on the services of the Norfolk Island Hospital. Using the same approach as for hospital services, we used the per capita growth in the revenue of comparable hospitals combined with Norfolk Island's population to assess Norfolk Island's revenue capacity. We have assessed the revenue capacity to be \$623 000, compared to \$481 000 in 2006, an increase of 30%.
- 72 **Offshore hospital treatment.** In a comparable community, the cost of public hospital care provided away from the local small regional acute hospital would accrue to the State. Therefore, in estimating expenses for hospital care at the range and level available to a comparable community, the commission estimated the cost of care provided on referral in other public hospitals.
- 73 In 2009-10 the Healthcare Fund paid out \$985 435 (\$374 000 in 2004-05) for offshore costs from total claims of \$1 385 026 (\$598 000 in 2004-05) from 171 families (118 in 2004-05). To this can be added a part of the \$2 500 costs borne by Islanders before they can make a claim. If it is assumed that onshore and offshore costs follow the same pattern as in processed claims, total offshore spending would increase to \$1 162 935. Part of that would represent claims for travel, but as that is limited to an annual \$200 per family and is difficult to estimate, the commission excluded it from its estimates of the cost of offshore hospital care in 2006 and we have done so again. Part of total offshore spending on hospital care would have occurred in private hospitals. In 2006, the commission assumed the same patterns of usage of private

hospital care that are typical in State hospitals; doing so again reduced our offshore treatment cost estimate by 18%¹⁰ to \$952 000 (\$469 000 in 2004-05, an increase of 102%).

- 74 We therefore assessed a comparable expense for offshore hospital services as the actual estimated expenses of Norfolk Islanders on offshore public hospital care of \$952 000.
- 75 All States have a travel assistance scheme for patients requiring specialist care not available within a specified distance of where they live. The schemes typically cover transport, support for accommodation and in some cases for the cost of an escort. Schemes generally require a small contribution from patients, averaging around \$50.¹¹
- 76 Norfolk Island Hospital statistics indicate that there were 238 offshore referrals during 2009-10, of which only 4 required medical escort (329 and 110 respectively in 2004-05). These would have been for a mixture of hospital treatment and consultations with specialists. The Healthcare Fund provides an accommodation allowance of \$60 per day. Assuming airfares of \$773, 1 week's accommodation allowance of \$420 and a \$50 patient contribution, the travel allowance would be \$1 193. This amount paid in respect of 242 persons totals \$277 000 (\$391 000 in 2004-05).
- 77 Using the same method as 2006 we assessed \$277 000 as the expense for patient travel assistance, compared to \$391 000 in 2004-05, a decrease of 29%.
- 78 In addition to patient transport assistance, costs to States for health care to comparable communities include inter-hospital transfers of patients needing a different level of care. On Norfolk Island this need is met through its Medivacs scheme, funded from a \$130 per annum levy on wage and salary earners, collected along with the Health Care levy. In 2009-10 the cost of Medivacs was \$353 000 (\$167 000 in 2004-05). Consistent with the 2006 method, we used this amount for our assessment of the comparable expense for inter-hospital transfers.

Health — overall assessment

- 79 We have assessed a comparable expense for health services on Norfolk Island of \$4 963 000, compared to \$3 506 000 in the 2006 report, an increase of 42%. The increase is driven by significant increases in expenses in small acute regional hospitals on the mainland and in the cost of offshore hospital treatment. We assessed revenue from user charges for health services on Norfolk Island of \$623 000, compared to \$481 000 in 2006, an increase of 30%, driven by the increase in revenue in small acute regional hospitals.

WELFARE AND PUBLIC HOUSING

- 80 Welfare services in Australia are State or local government responsibilities that are partly funded through payments to the States from the Australian Government. Many of the

¹⁰ Patient election status data from AIHW *Australian Hospital Statistics 2009-10* Table s7.3.

¹¹ Department of Health and Ageing. *The State of our Public Hospitals, June 2006 Report* Canberra DoHA. More recent data not available; increasing the amount had no material effect on the assessment.

accommodation services provided to the elderly in the rest of Australia are private or are run by 'not-for-profit' community organisations such as churches.

- 81 The range of welfare services on Norfolk Island includes:
- counselling — services are provided by 1 full time counsellor, based at the hospital and now include mental health work services
 - residential aged care — 12 dedicated beds in the hospital to accommodate aged people who require institutional care
 - welfare housing — 6 small accommodation units (Mawson units)
 - meals on wheels — provided to social service recipients
 - home care services — will commence in November 2011 for social service recipients assessed to need the service (domestic cleaning and minor ground maintenance)
 - child welfare — a Child Welfare Act has been enacted since the 2006 report, so that there is now a part-time child welfare officer providing child protection services.
- 82 Aged care residential services are provided through dedicated beds in the hospital. The aged care recipients currently have 80% of their total income from all sources deducted as a fee for the service. The agreement of the aged care coordinator and medical superintendent is needed to acquire one of these beds.
- 83 There is no welfare housing on Norfolk Island and no equivalent of supported accommodation and assistance programs, although there are 6 small accommodation units (Mawson units) in the hospital grounds built from a philanthropic grant designated for pre-nursing home care. They are not normally fully occupied, but are also used by social welfare recipients who have low level health care needs. Fees are charged for using this accommodation.
- 84 Other than the work of one counsellor and part-time child protection officer, Norfolk Island provides no specific services in a number of fields covered by welfare expenses in the rest of Australia. These include children's services, family support, services for youth, domestic violence, disability services or community development. Where needs of these kinds arise, the commission was advised that general support comes from within the community.

Welfare and public housing comparisons

- 85 The range of welfare services provided on Norfolk Island is much narrower than that available in the rest of Australia and, for those services that are provided, fees for services offset a high proportion of the costs. The Norfolk Island Government charges set fees for residential aged care and welfare housing. As a result it raises revenue through user charges that can be used to offset expenses (\$302 per capita in 2009-10, compared to \$184 in 2004-05). Overall, net per capita costs of \$74 in 2009-10 (\$40 in 2004-05) were very low compared with average net per capita expenses of \$784 in the States (after allowing for revenue raised in both cases).
- 86 Table D-3 shows per capita welfare expenses for Norfolk Island and the States.

Table D-3 Comparison of Norfolk Island per capita expenses with the States, Welfare, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Welfare expenses net of user charges	74	617	619	573	610	538	600	522	1 393	608
Housing	0	191	39	174	295	278	169	322	870	176
Welfare and Housing	74	808	658	747	905	816	769	844	2 263	784

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 87 It should be noted that residential aged care and welfare housing components of the Norfolk Island expenses have been extracted from accounts of the Hospital Enterprise. The per capita expenses of the States reflect welfare service and public housing expenses of all regions, not just remote expenses.
- 88 In the 2006 report, the commission believed that welfare and housing services on Norfolk Island were well below services provided in comparable communities. It decided that the average of the States should be the basis for determining what it would cost for Norfolk Island to deliver services at the average range and levels provided in the States. It observed that the unemployment rate on Norfolk Island was zero in the 2001 Census and so adjusted the State average by applying a factor of 0.80, to recognise that low or negligible level of unemployment on the Island would reduce the demand for welfare services. It further adjusted the State average for lower salary levels and additional isolation costs. The 2011 Wellbeing report¹² estimated the unemployment rate on Norfolk Island to be 2% in March 2011, which was lower than the Australian rate of 4.9% in March 2011.¹³ Therefore, we adopted the same unemployment adjustment used in 2006, 0.8.
- 89 Using the same method as 2006, we assessed a comparable expense for welfare and housing services on Norfolk Island of \$837 000, compared to \$720 000 in 2006.

LAW AND ORDER

Police

- 90 Police services are mainly a State government responsibility with the Australian Federal Police (AFP) protecting against crimes against the Commonwealth and protecting Commonwealth interests in Australia and overseas.
- 91 **Existing services.** AFP officers provide police services on Norfolk Island, on secondment to the Norfolk Island Police Force. The costs are funded 70% by the Norfolk Island Government and 30% by the Australian Government under a 1993 Memorandum of Understanding. The

¹² Deloitte Access Economics, 2011, *Wellbeing Report – Norfolk Island*, Department of Regional Australia, Regional Development and Local Government, unpublished, p. 28

¹³ ABS, 2011, March 2011 *Labour Force Survey*, Catalogue 6202.0 <http://www.abs.gov.au>.

Australian Government contribution reflects the costs of Australian Government responsibilities carried out by the local police that would normally be conducted by the AFP in States with their own police forces. AFP officers also provide community policing in the ACT.

- 92 There are 3 police officers on the Island, with 3 locally-engaged special constables to support them (at the time of the 2006 report there were 4 locally-engaged officers). One of the special constables is full time; the other 2 assist as needed. Norfolk Island police advised that because of a significant increase in workload over the past 2 years (and the loss of a part-time member), the part-time members are now employed throughout the week, rather than just on weekends, although the budget has not been increased to meet the increased expenses. The special constables have the same powers as AFP seconded members and support the AFP seconded officers across all areas of policing. However, Norfolk Island police advised that, because the special constables have received little formal training, they are not an equivalent resource when compared to AFP officers.
- 93 As in many small communities, much of the time of the Norfolk Island police is spent dealing with problems without laying charges. Much time is also spent in pro-active policing. Officers meet planes and regularly patrol the school zone to minimise speeding. Norfolk Island police advised that reporting of criminal offences has significantly increased since 2006.
- 94 Norfolk Island police report a lower scale of social tensions than that evident in small towns in the rest of Australia. They advised that there were no particular community groups identified as requiring greater than average police attention. They also advised that increased financial stress in the community has led to an increase in property offences and offences against the person.
- 95 The police station on the Island was built in 1993. The vehicles (2 four-wheel drives) are part-funded by the AFP and maintained by the Norfolk Island works depot. One vehicle is almost 15 years old and will be replaced later in 2011.
- 96 **Comparison.** Removing the 30% Australian Government component of sworn police officers and including the special constables shows that Norfolk Island has between 2.2 and 2.5 police for every 1 000 residents of Norfolk Island.¹⁴ Comparable communities on the mainland have, on average, between 2.3 and 2.8 sworn police officers per 1 000 population.¹⁵
- 97 The number of police on Norfolk is influenced in part by its isolation. There are long periods (for example, during holidays, training, and change of officers) when the number of officers on the Island is reduced to 2 — Norfolk Island police advised that this is below the minimum number considered necessary to provide a service in an isolated locality. When a situation arises on Norfolk Island which requires specialist police support, the isolation of Norfolk

¹⁴ Two of the 3 special constables 'assist as required'. Norfolk Island police advised that the part-time constables' hours vary depending on operational requirements and training that is available but generally average between 50% and 75% of a full time equivalent.

¹⁵ Based on State data provided to the commission for the 2010 Review, for remote and very remote communities with population less than 5 000 and less than 10% of the population Indigenous. Data available for Queensland, Western Australia, South Australia and Tasmania only.

Island means that it could take a long time for that assistance to arrive. On the other hand, the reported crime rate is relatively low, which would suggest a lower need for police than in the States.

- 98 Norfolk Island police advised that policing on Norfolk Island is below AFP standards, due to a lack of response capability, enabling services and capacity. In deciding on an assessment method in 2006, the commission decided that police services were equivalent to those in comparable communities. It therefore accepted the actual cost of policing as the cost of providing services equivalent to the average range and level of service provided in the States.

Table D-4 Comparison of Norfolk Island per capita expenses with the States, Police, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
375	315	274	314	402	345	336	369	792	322

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 99 Table D-4 shows that the per capita cost of policing on Norfolk Island in 2009-10 was \$375, compared to \$216 in 2004-05. This compares with the average of the States of \$322 (\$246 in 2004-05). Consistent with the method used in the 2006 report, we accepted Norfolk Island actual expenses of \$681 000 as the cost of providing services equivalent to those of the States, an increase of 57% on the 2004-05 expenses of \$435 000. As these are locally based costs, no adjustment has been made for Norfolk Island salary levels or the costs of isolation. Likewise the impact of tourist numbers on Norfolk Island is implicitly included.
- 100 We assessed a comparable expense for police services on Norfolk Island of \$681 000.

Administration of Justice

- 101 Court services are a State government responsibility except where the offence falls under Australian Government legislation.
- 102 **Existing services.** Norfolk Island is serviced by a Court of Petty Sessions, a Coroner's Court, a Family Court and the Supreme Court; this service is the same as in 2006. There is also an Administrative review tribunal, Employment tribunal, Public sector remuneration tribunal and Mental health tribunal. In the 2006 inquiry, the commission believed that Norfolk Island did not pay for the time spent by the ACT Chief magistrate to deal with Norfolk Island matters. We have been advised the Chief and acting Chief magistrate and local magistrates receive sitting fees.
- 103 Since the installation of an audio visual conferencing system within the Courtroom in August 2006, both the Supreme Court and Court of Petty Sessions use the system for hearing applications, directions hearing and in some instances, delivering judgment.
- 104 Legal aid is available on Norfolk Island, with conditions the same as the ACT Legal Aid scheme. Funding is 80% Australian Government and 20% Norfolk Island Government. The

Norfolk Island Government collects interest on trust accounts operated by real estate agents, accountants and solicitors on the Island to fund Legal Aid, amounting to \$7 075 in 2009-10. No legal aid assistance was granted in 2009-10, compared to \$46 414 in 2004-05.

- 105 **Comparisons.** Country towns in the rest of Australia also have limited access to courts. Generally, country Magistrate courts are on a circuit from a major centre, and sit once a month. Higher courts are in major towns, and offenders are transported to these courts. Teleconferencing facilities are providing better access in regional locations and at lower costs.
- 106 Access to courts and the availability of legal aid on Norfolk Island are equivalent to Australian standards.

Table D-5 Comparison of Norfolk Island per capita expenses with the States, Administration of justice, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
173	129	140	120	188	143	112	116	456	140

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 107 As shown in Table D-5, Norfolk Island expenses for administration of justice in 2009-10 were \$173 per capita, similar to the average of the States (\$140). In 2006 the commission augmented this amount by \$50 000 to meet the extra costs associated with the Chief magistrate and support for local magistrates. Because we were advised that these services are paid for, they are included in the Norfolk Island expenses and therefore we believe the allowance is no longer required. Since these expenses are based on Norfolk Island costs, no adjustment has been made for Norfolk Island's lower salary levels or increased isolation costs. It is assumed that Norfolk Island's tourist population does not impact measurably on the cost of the administration of justice.
- 108 We have assessed a comparable expense for administration of justice services on Norfolk Island of \$315 000, an increase of 12% on the 2006 assessment of \$281 000.

Corrective Services

- 109 In other parts of Australia, corrective services are a State government responsibility.
- 110 **Existing services.** The police station has 2 lockups. Prisoners are supervised by locally engaged jailers who are paid by the Norfolk Island Government. Meals for the prisoners are provided by the Hospital kitchen. If an offender is sentenced to a prison term, the New South Wales prison system is used. Prisoner transfer to elsewhere in Australia is a problem for all external territories.
- 111 **Comparisons.** The lockups on Norfolk Island are considered to be equivalent to those in other Australian communities.

Table D-6 Comparison of Norfolk Island per capita expenses with the States, Corrective services, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
162	140	89	95	262	130	105	125	390	132

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 112 As shown in Table D-6, the cost of corrective services in 2009-10 was \$162 per capita, compared with \$132 for the average of the States. This figure is variable, depending on the number of Norfolk Island prisoners held in New South Wales prisons. The cost has increased since 2006, due to the incarceration of 3 prisoners. Consistent with the 2006 assessment method, Norfolk Island actual expenses in 2009-10 of \$295 000 are accepted as the cost of providing services equivalent to that of the States. As these are actual Norfolk Island costs paid at New South Wales rates, no adjustment has been made for Norfolk Island's lower salary levels or increased isolation costs. It is assumed that Norfolk Island's tourist population does not impact measurably on the cost of corrective services.
- 113 We assessed a comparable expense for corrective services on Norfolk Island of \$295 000, compared to \$68 000 in 2004-05.

Public safety and emergency services

- 114 States provide fire and other emergency services and subsidies to volunteer services. Norfolk Island's emergency service is delivered by volunteers. Table D-7 shows average levels of expense in each State. No expense is shown for Norfolk Island. The Island's fire services are provided by fire crew and equipment from the Norfolk Island Airport.

Table D-7 Comparison of Norfolk Island per capita expenses with the States, Public safety, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	26	50	36	34	80	26	104	136	41

Note: Norfolk Island expenses were not separately identified, as was the case in the 2006 report.

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 115 In the 2006 report, the commission decided that the average expense of the States should be accepted as the cost of providing a comparable service. The average State expense adjusted for local salary levels, isolation and the impact of tourists amounts to assessed expenses of \$62 000 (\$35 000 in 2004-05).
- 116 We assessed a comparable expense for public safety and emergency services on Norfolk Island of \$62 000, more than double the \$30 000 assessment in 2006. This significant increase is due to the average State expense rising from \$17 per capita to \$41 per capita over the period.

Law and order — overall assessment

- 117 We have assessed a comparable expense for law and order services on Norfolk Island of \$1 353 000, compared to \$813 000 in the 2006 report, an increase of 66%.

CULTURE AND RECREATION

- 118 In the rest of Australia, cultural and recreational facilities and support grants are the responsibility of both State and local governments. States usually accept responsibility for the larger and more costly facilities, such as State museums and art galleries, State cultural centres and theatres, major heritage areas and major sporting facilities.
- 119 State governments also have expenses within this category for national parks and wildlife services. In the external territories they are an Australian Government responsibility.

Existing services

- 120 Major State equivalent facilities are not provided on Norfolk Island. Nor would they be in comparable communities.
- 121 Norfolk Island shares with the Australian Government the responsibility for maintenance of the KAVHA. The site is managed by a joint board established under a memorandum of understanding. Under the memorandum of understanding, the Australian Government's contribution in 2009-10 was \$611 000 (\$590 000 in 2004-05) and that by the Norfolk Island Government was \$373 700 (\$308 000 in 2004-05). We have been told by the Department and the Norfolk Island Government that these arrangements will continue and have ignored the Australian Government funding in our assessment of comparable expenses.
- 122 We have classified all Norfolk Island Government KAVHA expenses as a State responsibility although we are aware that the Australian and Norfolk Island Governments regard them as both State and local. We have continued this approach from the 2006 report.
- 123 The Norfolk Island Government has no responsibility for the Norfolk Island National Park, which is managed by Parks Australia.

Comparisons

- 124 Table D-8 shows the average per capita expenses incurred by State and local governments for culture and recreation services, including national parks and wildlife services.

Table D-8 Comparison of Norfolk Island per capita expenses with the States, Culture and recreation, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
208	142	135	173	240	155	311	290	566	168

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 125 Norfolk Island spent \$208 per capita on KAVHA in 2009-10. This compares with an average expense by States of \$168, which includes expenses for national parks.
- 126 The current management of KAVHA is comparable with other important historic sites in Australia, such as Port Arthur, Hyde Park Barracks and Fremantle Prison.
- 127 Other responsibilities for maintenance of historic sites are assessed as local government expenses in Attachment E. In 2006, the commission decided that Norfolk Island's actual expense on KAVHA was the appropriate assessment of its comparable expense. We have continued that approach.
- 128 As the Australian Government takes responsibility for national parks on Norfolk Island the commission assessed no requirement for such expenses. However, in respect of other culture and recreation expenses, the Norfolk Island Government has a requirement to provide assistance to sporting and cultural groups and to local government, but does not need to subsidise major facilities such as exist in larger centres. In 2006 the commission assessed Norfolk Island's expense as half of the average expense of the States and adjusted this amount for Norfolk Island's lower wage and salary levels, for the additional costs of isolation and for the impact of tourists. Using the same method with 2009-10 State average expense gives an assessment of \$157 000, compared to \$83 000 in 2004-05. The 89% increase is because average State expenses have increased from \$96 per capita to \$168 per capita.
- 129 Overall, we assessed Norfolk Island's expenses for State-type culture and recreation services, comparable with those of the States, to be \$506 000, compared to \$391 000 in 2006.

WATER, SANITATION AND PROTECTION OF THE ENVIRONMENT

- 130 Water, sanitation and protection of the environment covers a wide variety of services.
- 131 State governments, through public trading enterprises, generally deliver water and sewerage services, although, in New South Wales and Queensland, local governments provide water services in most regional areas. Subsidies are provided to service providers to keep the cost of providing water and sewerage at a reasonable level. Concessions to pensioners are provided in all States.
- 132 Protection of the environment services covers activities such as the development and monitoring of standards covering pollution and air quality, control and prevention of erosion of beaches and foreshores and research and development into pollution abatement programs and other environmental programs. Some of the programs, especially in relation to beach protection can be the responsibility of either State or local government.

Existing services

- 133 Through the Land Use and Environment Branch of the Administration, the Norfolk Island Government operates the Water Assurance Scheme (water, sewerage and waste management) and is responsible for planning and land management. We understand that some monitoring of

water quality, waste disposal, noise, dust and hazardous substances takes place and the planning and land management functions are performed.

- 134 It does not appear that the oversight and support function usually provided by State governments are provided to the same extent on Norfolk Island, although a State planning act does exist.

Comparisons

- 135 Table D-9 shows State and Norfolk Island expenses on these services.

Table D-9 Comparison of Norfolk Island per capita expenses with the States, Water, sanitation and protection of the environment, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	119	75	95	290	302	82	115	169	134

Note: All Norfolk Island Government expenses relating to water, sanitation and protection of the environment were classified to the local government level, as was the case in the 2006 report.

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 136 In the 2006 report, the commission observed that, on average, about 30% of State expenses are incurred on this regulation function. Recent data suggest that regulation and protection of the environment represent about 50% of State expenses.¹⁶ We decided that Norfolk Island would need a similar amount to deliver comparable services, adjusted to account for its lower wage levels and higher costs due to isolation.
- 137 The States usually pay subsidies to pensioners up to a fixed maximum. The amount varies across States but the standard amount seems to be about \$111 per pensioner.¹⁷ Under the common policy of the States, concession payments are capped so that they are not affected by excessive water consumption or differences in the cost of supplying water.
- 138 The Administration advised that there are 86 pensioners who may be entitled to concessions on their water usage. At an average subsidy of \$111, comparable with the amount paid in the States, Norfolk Island would need to spend \$9 550 to provide pensioner concessions equivalent to the States.
- 139 Because there are no lakes or natural reservoirs on the Island, all water available for use must be stored in tanks or drawn from a restricted number of bores. Long periods without rain and the fragility of the Island's watertable have caused concern in the recent past. The Island environment makes sewerage, waste disposal and planning important issues. Norfolk Island would pay general subsidies if it operated in a similar manner to a community in comparable circumstances.
- 140 In the 2006 report, the commission observed that, on average, 40% of State expenses were spent on general subsidies. Recent data suggest that general subsidies represent about 30% of

¹⁶ Commission estimates in its Report on GST Revenue Sharing Relativities — 2010 Review.

¹⁷ Commission estimates in its Report on GST Revenue Sharing Relativities — 2011 Update.

State expenses.¹⁸ We used the more recent State average expenses and adjusted for lower wage levels, the effect of isolation and the impact of tourists.

- 141 In total, using the 2006 assessment method updated with more recent information, we assessed Norfolk Island's comparable expense in 2009-10 for water, sanitation and protection of the environment regulatory services and subsidies to be \$160 000, or \$87 per capita. This compares with \$97 000 (\$48 per capita) in 2004-05, an increase of 65%. The increase is driven by the increase in average State expenses in the period.

ELECTRICITY

- 142 State governments subsidise the provision of electricity to users not connected to the national grid. This represents mainly the population living in remote and very remote areas. In addition, States have regulatory responsibilities. They also provide subsidies to pensioners and Australian Government Health Care Card holders.
- 143 States regulatory regimes include:
- monitoring critical factors, such as generation and network capacity and maintenance practices within the generation and network sectors
 - setting prices
 - auditing and investigating complaints by customers.

Existing services

- 144 Norfolk Island electricity generation and supply is managed by Norfolk Island Electricity, which was a GBE up until July 2010, but is now fully within the scope of the Administration's accounts. Its charges are set to cover the cost of electricity generation by diesel-powered generators. Up until July 2010, it paid an accounting and management fee to the Norfolk Island Government for services delivered. In 2006 it paid a dividend to the Government (\$200 000), but has not done so in the last 4 years. Welfare recipients are allowed a price concession but the value is not separately identifiable in the Norfolk Island accounts.

Comparisons

- 145 Table D-10 shows State spending on electricity and gas services. Norfolk Island does not have a reticulated gas supply.

¹⁸ Commission estimates in its Report on GST Revenue Sharing Relativities — 2010 Review.

Table D-10 Comparison of Norfolk Island per capita expenses with the States, Electricity and gas, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	16	13	95	115	4	60	15	252	44

Note: Norfolk Island expenses are zero because the electricity GBE received no subsidy.

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 146 As for water, sanitation and protection of the environment services, comparable services for electricity will include regulatory oversight of electricity operations, subsidies to welfare recipients and general subsidies to reduce the price of services in remote areas.
- 147 In 2006, State expenses for regulatory oversight of electricity services were 12% of the Australian average per capita expense. Applying factors to account for Norfolk Island's lower wage levels and higher costs due to isolation brings the assessed regulation expense for Norfolk Island to \$7 000 (\$4 000 in 2004-05), an increase of 75%. The increase is due to the increase in average State regulation expenses from \$20 per capita to \$44 per capita.
- 148 For pensioner concessions, using the 2006 assessment method we assessed Norfolk Island's expense to be \$5 400 (86 pensioners multiplied by the \$63 average concession paid in the States). This is significantly lower than the \$20 000 pensioner expense assessed in 2006, because the average concession paid in the States has dropped from \$100 and the number of Norfolk Island pensioners receiving utilities subsidies has dropped from 100 to 86.
- 149 In relation to general subsidies, the focus of remote area subsidies is on the provision of services at reasonable cost to consumers in high cost areas. Information provided by the States suggests remote communities often need to employ more expensive technologies such as stand-alone diesel generators. These must have complete redundancy built in to ensure continuity of supply during times of maintenance and breakdown. The cost of transporting the fuel adds to the expense. Norfolk Island is in a similar position to such remote communities in the States.
- 150 In its 2006 report, the commission decided that standard State policy is to provide uniform tariffs and that the treatment of the Bass Strait Islands by the Tasmanian Government provided a reasonable community with which to compare Norfolk Island. It is similarly remote, is not connected to the grid and provides power using diesel generators.
- 151 For its Bass Strait Islands, the Tasmanian Government provides a significant subsidy to the electricity authority to reduce the consumer price charged for power on the Islands. Each Island has independent power generation, mainly by diesel powered generators but supplemented on each Island by wind turbines. The Tasmanian Government administers the Bass Strait Islands Community Service Obligation, which provides for the subsidised supply of electricity to Bass Strait Islands customers and the provision of concessions to pensioner customers on the Bass Strait Islands. This CSO has been funded since 1998-99. Hydro

Tasmania is contracted to supply the electricity and receives a subsidy to reduce the price to 24.2 cents per kilowatt hour (up from 21.5 cents in 2004-05, an increase of 13%)¹⁹.

- 152 On Norfolk Island the price per kWh in 2011 is 69 cents (up from 44 cents in 2005, an increase of 57%). This generated revenue of \$3 818 712 from electricity sales and meter rentals²⁰ (\$3 022 688 in 2004-05, an increase of 26%). To reduce the price to a subsidised level of 24.2 cents would require a subsidy of \$2 477 086 (an increase of 61% on the 2004-05 subsidy of \$1 534 000).
- 153 Therefore, using the 2006 assessment method, the assessed expenses to provide general subsidies comparable with those provided to Bass Strait Islands would be \$2 477 086, or \$1 327 per capita. As the assessment is based on Norfolk Island costs, no adjustment is made for Norfolk Island's lower wages or for the higher costs of isolation. Electricity usage by tourists is implicitly included.
- 154 However, the assessed subsidy increase is significant, greater than the increase paid to Bass Strait Islands, and greater than increases in measures of the wholesale cost of diesel in Australia.²¹ Whereas the subsidy to support the Bass Strait Islands price rose 13% between 2004-05 and 2009-10, the Norfolk Island consumer price rose 57%. A more policy neutral assessment would be to increase the 2006 estimate by the growth experienced in the subsidised price for Bass Strait Islands (13%). This would result in an assessed subsidised consumer price of 49.5 cents, rather than the 69 cents actually charged and a total price subsidy of \$1 893 088 (compared to \$1 557 259 in 2004-05; some of the increase is from increased sales). Unless there is evidence to show that 69 cents per kilowatt hour must be charged to cover Norfolk Electricity's costs, we will use this alternative approach and set Norfolk Island's comparable expenses for an electricity price subsidy at \$1 893 088.
- 155 In total, for regulation and subsidies, we assessed a comparable expense for electricity services on Norfolk Island to be \$1 906 000, an increase of 22% on the 2004-05 assessment of \$1 557 000. The increase is mainly driven by the increase in the subsidy to support the consumer electricity price.

SERVICES TO INDUSTRY

- 156 State governments regulate and support industry, including tourism. Similar activities are undertaken at local government level.
- 157 The Norfolk Island Government makes no distinction between State-type and local government-type expenditure on services to industry and tourism. All of the Norfolk Island

¹⁹ Hydro Tasmania, 2011, *Electricity Tariffs on King Island and Flinders Island*, <http://www.hydro.com.au/energy/bass-strait-islands>

²⁰ Administration of Norfolk Island Financial Statements 2009-10.

²¹ Australian Institute of Petroleum, <http://www.aip.com.au/>, accessed 27 October 2011

expenses relate to its principal industry, tourism. As in 2006, half of the Norfolk Island expense has been allocated to each of the State and local government.

- 158 Table D-11 compares Norfolk Island's estimated 'State' expenses on tourism with spending by State governments. It shows that the assumed Norfolk Island State-type expense is much higher than the States.

Table D-11 Comparison of Norfolk Island per capita expenses with the States, Services to industry, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Tourism	512	8	18	20	62	46	81	69	252	26
Services to Industry	8	86	78	207	205	129	204	48	340	128
Subsidies petroleum, alcohol	0	28	27	29	30	31	31	27	28	28
Total	520	122	123	256	296	206	317	144	620	183

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 159 In 2006, the commission believed that it would be reasonable for Norfolk Island to spend an amount that is well above the average of the States on the tourism industry, because of its dominance in the Norfolk Island economy. It found that tourists represented 35.6% of Norfolk Island's population and 1.8% of the Australian population. It also noted the proportion of Norfolk Island's labour force employed in the tourist industry was 9 times the national average. It therefore assessed Norfolk Island's comparable expenses as 9 times State average expenses. Using the same method in 2009-10, this gives an assessment for tourism promotion of \$431 000, compared to \$420 000 in 2004-05, an increase of 3%. As this expense is largely incurred in promoting Norfolk Island within the States, no adjustment is made for the lower wages and salaries on Norfolk Island or for the additional costs of isolation.
- 160 Though tourism is the dominant industry on Norfolk Island, the commission believed that Norfolk Island should have capacity to support other industries and to seek to diversify its economy. It decided that a reasonable expense level for Norfolk Island's support to industry other than tourism would be half the per capita expense of the States, adjusted for lower wages and isolation. In 2009-10, this amounts to \$86 000, a decrease of 10% on the 2004-05 assessment of \$96 000.
- 161 In 2009-10 we assessed a comparable expense for services to industry on Norfolk Island of \$517 000, compared to \$516 000 in 2004-05, an increase of less than 1%.

TRANSPORT

- 162 State governments provide funding for arterial roads and either operate or subsidise a range of transport services such as urban and non-urban transport systems, coastal shipping, ferries and port services and some air services. Urban subsidies are not generally provided in small towns.

163 Table D-12 shows expenses for Norfolk Island and the States.

Table D-12 Comparison of Norfolk Island per capita expenses with the States, Transport, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
83	881	515	671	477	443	507	597	780	660

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 164 In 2006 the commission decided that there were no arterial roads on Norfolk Island, and classified all Norfolk Island's expenses for non-arterial roads as local government-type expenditure; these are dealt with in Attachment E.
- 165 The Island's expenses arising from landing shipping cargo are met within the Lighterage Service GBE. In the 2006 report, the commission assessed the Norfolk Island Government's expenses in subsidising the lighterage service and any other non-urban transport (such as a bus service) as being covered by the State average expense on non-urban transport, adjusted for lower wages, isolation and tourism.
- 166 With regard to air services, the Norfolk Island Government has taken over the operation of the airline since the 2006 report, after the failure of commercial air services. Following the poor financial performance of the airline enterprise, the Norfolk Island Government entered into an arrangement with the Australian Government in September 2011 in which the latter took on the financial obligations relating to the termination of the existing airline contract and to underwriting the provision of a replacement airline service. Consequently, the Norfolk Island Government no longer has any financial responsibility for the airline service. Therefore, we have removed the part of the transport assessment relating to the airline.
- 167 Expenses relating to the airport are classified as local government-type expenditure and are covered in Attachment E. The Norfolk Island Government notes that the costs of operating its airport are higher than those in a comparable community because it must be operated as an international airport rather than simply a regional airport. This is not a policy decision of the Norfolk Island Government. While most of these costs would be expected to be recovered from ticket prices, it probably means that ticket prices for the Norfolk community are higher than for residents of comparable communities. Some States do provide subsidies for remote air travel to keep prices down. This is classified as non-urban expenses. Therefore the non-urban transport assessment includes some allowance for such subsidies.
- 168 After removal of the airline expenses, our assessment for State-type transport services now comprises only a comparable expense to subsidise non-urban transport, including the lighterage service, any bus or remote air travel. We calculated this using the 2006 method of taking the State average expense on non-urban transport (\$60 per capita) and adjusting it for lower wages, isolation and tourism.

- 169 We have assessed a comparable expense for transport services on Norfolk Island of \$90 000, compared to \$616 000 in 2004-05. The significant reduction arises from the removal of the expense to subsidise the airline.

GENERAL PUBLIC SERVICES

- 170 In the States, general public services comprise residual expenses for State-wide general administration and governance services. They include expenses on:
- legislative bodies, electoral offices, financial affairs
 - community relations, supervision and regulation of local government authorities
 - overall economic and social planning and statistical services, administration and management of Crown land
 - labour and employment affairs, community development, town and community planning
 - communication affairs and other administration and regulation of services not connected with a special function.
- 171 State-type administrative expenses are incurred on Norfolk Island through the following types of services/functions:
- General administration
 - Office of the Chief Executive
 - Finance Branch
 - Works Store
 - Legal Branch
 - Records Office
 - Information Technology
 - Human Resources (State-type component)
 - Policy and Projects
 - Norfolk Island Legislative Assembly
 - General works
 - Grants.

The way in which we have split these expenses by level of government is described in Attachment A.

- 172 Table D-13 shows the per capita expenses for general public services on Norfolk Island compared to the States.

Table D-13 Comparison of Norfolk Island per capita expenses with the States, General public services, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
680	351	645	519	427	418	594	992	1 014	493

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 173 There is no community on the mainland of the size of Norfolk Island that is responsible for delivery of State-type services. In the absence of a directly comparable community, the commission decided in 2006 that its assessed per capita expenses for the Northern Territory should be applied, adjusted for the impact of Norfolk Island's lower wages and with half the adjustment for differential costs of isolation.
- 174 Using the 2006 method, the assessed expense for general public services on Norfolk Island in 2009-10 is \$1 604 000, compared to \$1 029 000 in 2004-05, an increase of 56%.

SUPERANNUATION

- 175 By law, all employers in Australia are required to contribute at least 9% of salaries to a superannuation fund. This includes State governments. In the past, State governments have contributed more because of the nature of the schemes they operated.
- 176 On Norfolk Island, eligible government employees may pay 5% of their salaries into a Provident Account. The Norfolk Island Government also contributes 5% for the first twelve years. For the next 6 years, the Norfolk Island Government contributes 6.5%. After 18 years this becomes 8%. Recent public service appointments who are on limited term contracts do not receive superannuation, but are paid an annual gratuity in lieu of superannuation (and long service leave).
- 177 On resignation or retirement (at any age), own contributions plus interest are returned as a lump sum. If an employee has achieved at least 6 years service at this time, he or she is entitled to employer contributions as well. This is paid as a lump sum.
- 178 In 2006 the commission did not separately identify Norfolk Island Government superannuation contributions. It assumed they were included in the different functional categories of expenses. Table D-14 shows State expenses on superannuation.

Table D-14 State per capita expenses, Superannuation, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
na	593	702	924	716	890	1 224	1 536	1 697	762

Note: Expenses for Norfolk Island were not separately identified, but are included in the expenses of other government functions.

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 179 The commission estimated the comparable expenditure on superannuation as if it were provided in a manner comparable to that required by Australian legislation. Using this method, we calculated 9% of the estimated pre-superannuation 'State sector' salaries bill adjusted to a pre-superannuation level and increased it by 20% to recognise the need to staff services not presently performed on Norfolk Island.
- 180 The State sector salaries bill base included salaries paid on identifiable State sector services (but excluding all police, education and health, where the assessed levels of comparable expenses includes the payment of comparable superannuation), 50% of salaries related to the Legislative Assembly and tourism and 48% of the Norfolk Island Government Administration salaries that cannot easily be attributed to State or local government services. In 2009-10 this amounted to \$4 438 000, compared to \$3 490 000 in 2004-05, an increase of 27%.
- 181 We therefore assessed a comparable expense for superannuation on Norfolk Island of \$456 000, compared to \$359 000 in 2004-05.

DEPRECIATION

- 182 All State governments record depreciation in their operating statements. This relates to annualised use made of their assets over their estimated life. All asset replacement can then be funded from accumulated depreciation provisions. Relevant assets include buildings, plant and equipment, vehicles and furniture and fittings used in State-type service provision. Assets held by GBEs are not included as their replacement is funded internally.
- 183 The major assets Norfolk Island uses in State government service provision are the school, hospital, police station, administration offices and general works.
- 184 Table D-15 compares per capita State government expenses on depreciation with the amount shown in the Norfolk Island Government accounts. Depreciation for roads and housing are not included in any of the State figures, in accordance with the commission's usual practice of recognising depreciation in those separate expense areas. Nor have they been included in the Norfolk Island figures, because all roads have been classified as local and Norfolk Island provides no welfare housing.

Table D-15 Comparison of Norfolk Island per capita expenses with the States, Depreciation, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
244	248	257	312	279	226	246	447	547	271

Source: Norfolk Island accounts and financial statements and commission staff analysis of ABS GFS data.

- 185 In 2006, the commission assessed Norfolk Island's depreciation needs using the Australian average per capita depreciation expense, adjusted for Norfolk Island's lower salary levels, the additional costs of isolation and the impact of Norfolk Island's greater proportion of tourists than the States.

- 186 As in 2006, this assessment does not attempt to deal with any expenditure that might be needed to bring existing assets up to a comparable standard in the short term. Rather it will provide sufficient funds to enable assets used in 2009-10 of a type that exist in comparable communities to be replaced, after recognising the special circumstances of the Island. Going forward, the assessment will provide the Norfolk Island Government with the capacity to replace assets but not to fund any backlog. As the Norfolk Island Government has no depreciation provisions from past years to fund replacement assets, this is a serious problem for the Island.
- 187 We have assessed Norfolk Island's comparable expense for State-type depreciation at \$409 000, an increase of 21% on the 2004-05 assessment of \$339 000.

DEBT CHARGES

- 188 State governments are required to meet debt charges associated with their borrowings. They do so at rates reflecting their own capacity to borrow.
- 189 In the 2006 report, the commission observed that Norfolk Island did not have any debt charges expense in 2004-05 because its 2 loans from the Australian Government were interest free and did not relate to services that are assigned as State-type. The commission decided that the special circumstances that attached to the Norfolk Island's borrowings, including the interest-free status of current loans, did not warrant assessment of a capacity to pay debt charges. We believe that this situation is unchanged — the Norfolk Island Government currently has little capacity to borrow, could probably only do so from the Australian Government. It is therefore unlikely to incur any interest on any borrowings it may undertake. We note that the Australian Government paid on behalf of the Norfolk Island Government \$45 000 in interest charges during 2009-10 to the New South Wales Department of Education.
- 190 Therefore, we have assessed Norfolk Island's debt charges as zero.

TOTAL COMPARABLE EXPENSES

- 191 A summary of how Norfolk Island's comparable expenses have been assessed is provided in Box D-1.
- 192 Table D-16 summarises existing State-type expenses and adjustments calculated within this chapter to show what it might have cost in 2009-10 to provide State government services on Norfolk Island comparable to the services available in comparable communities in the States and Territories, having regard to the circumstances of the Island and assuming that the Island operates at the average level of efficiency.

Box D-1 Summary of assessment approach — State expenses

Service	Method
Education	<p>Pre-schools: equal to the all-State average expense, adjusted for lower salaries and isolation.</p> <p>Schools: equal to Norfolk Island actual expenses, plus the cost of additional services to a similar sized New South Wales central school.</p> <p>VET: equal to the all-State average expenses, adjusted for population profile, overheads and isolation.</p>
Health	Cost of small regional acute hospital adjusted for salary levels, isolation costs and use by tourists, less revenue received by such hospitals, adjusted for use by tourists, plus cost of offshore services, estimated from payments for offshore services by Norfolk Island Health Care Fund, adjusted for average private hospital use, plus an estimate of private travel costs.
Welfare and public housing	Equal to the all-State average expense discounted for low unemployment and salary levels and increased by isolation costs.
Police	Actual Norfolk Island expenses.
Administration of justice	Actual Norfolk Island expenses.
Corrective services	Actual Norfolk Island expenses.
Public safety and emergency services	Equal to the all-State average expense, adjusted for salary levels, isolation costs and the impact of tourists.
Culture and recreation	Equal to actual expenses on KAVHA plus half of the average State spend on culture and recreation adjusted for salary levels, isolation, and the impact of tourism.
Water, sanitation and protection of the environment	Equal to the all-State average expense for regulation, adjusted for salary levels and isolation, and general subsidies, adjusted for salary levels, isolation and the impact of tourism, plus pensioner subsidies.
Electricity	Equal to the all-State average expense for regulation, adjusted for salary levels and isolation, plus pensioner subsidies and a general subsidy equivalent to that received by the Bass Strait Islands.
Transport	Equal to the non-urban component of other transport, adjusted for salary levels, isolation and the impact of tourism. This could be used to subsidise access for freight.
Tourism and services to industry	Equal to 9 times the all-State average expense on tourism, plus half the all-State average expense, adjusted for salary levels and isolation.
General public services	Equal to the Northern Territory's assessed expense on general public services, adjusted for salary levels and isolation.
Superannuation	Calculated as 9% of the estimated pre-superannuation salary bill, increased by 20% to recognise need for staff for services not presently provided.
Depreciation	Equal to all-State average, adjusted for salary levels, isolation and tourism.
Debt charges	No capacity required.

Table D-16 Norfolk Island comparable expenses for State-type services, 2009-10

Service	Norfolk Island expenses	Adjustment	Comparable expense, current update	Comparable expense, 2006 report
	\$'000	\$'000	\$'000	\$'000
Education	2 703	247	2 950	2 644
Health	4 695	268	4 963	3 506
Health user charges	-2 041	1 418	-623	-481
Welfare and public housing (net of user charges)	134	703	837	720
Law and order	1 291	62	1 353	813
Culture and recreation	379	127	506	391
Water, sanitation and protection of the environment	0	160	160	97
Electricity	0	1 906	1 906	1 557
Tourism and Services to Industry	944	-427	517	516
Transport	150	-60	90	616
General public services	1 236	368	1 604	1 029
Superannuation (a)	0	456	456	359
Depreciation	443	-35	409	339
Debt Charges (b)	45	-45	0	0
Total	9 980	5 147	15 127	12 106

(a) Excludes superannuation on salaries for police, education and health, which is included in the expenses of these functions.

(b) The Australian Government paid on behalf of the Norfolk Island Government \$45 000 in interest charges. The special circumstances attached to the Norfolk Island's borrowings do not warrant assessment of a capacity to pay debt charges.

Source: Norfolk Island actual expenses are from the Norfolk Island Government's Financial Statements for 2009-10. Comparable expenses are commission staff estimates.

ATTACHMENT E

LOCAL GOVERNMENT REVENUES AND SERVICES

INTRODUCTION

- 1 In the 2006 review, the commission was asked to advise on:
 - (i) what it might cost to provide State and local government services, including depreciation, on the Island at the average range and levels provided in the States, recognising the size and circumstances of the Island, assuming that the Island Government operates at the same level of efficiency as State and local governments; and
 - (ii) the capacity of the Island to raise revenue from a comparable range of taxes and charges levied by State and local governments and at the average levels of these taxes and charges.
- 2 This attachment updates the commission's 2006 estimates of what revenue Norfolk Island could raise from local government taxes and charges and what it might cost to provide local government services on Norfolk Island if policies of comparable Australian communities applied ('comparable' revenues and costs). Local government revenues and services have been defined to include those taxes normally raised and those services normally provided by local governments in the rest of Australia. Revenues include municipal rates, user charges and other revenues. Services include governance, roads, waste disposal and recreation and community facilities.

METHODS

- 3 In 2006, the commission estimated:
 - what Norfolk Island might raise in local government revenue by assuming Norfolk Island has the capacity to raise revenue in a similar way to comparable communities — this was called Norfolk Island's local government revenue raising capacity by the commission in its 2006 report and we now refer to it as the comparable revenue

- what it would cost to provide local government services on Norfolk Island if they were provided as they are in comparable communities, assuming an average level of efficiency — this was called the Island’s required local government expenses in the commission’s 2006 report and we refer to it as comparable expenses in this report.
- 4 The general methods used to assess revenue and expense levels are described in Chapter 3 and have been matched as closely as possible when staff updated the results from 2006. They include the use of:
- The all-State average revenue or expense, adjusted for special circumstances, such as wage levels (0.7) isolation (1.05), population characteristics, or tourist incidence (1.13), as explained in Attachment B.
 - The experience of a comparable community from other parts of Australia, such as King Island or the Northern Territory. Where King Island is used as the base for the assessment, no adjustment is made for salary levels because they are similar, the adjustment for isolation is halved (from 1.06 to 1.03) and the same tourist incidence adjustment is used (1.13). Where the average Northern Territory council is used as the base, the adjustment for isolation costs is halved as was done for King Island, no adjustment is made for the impact of tourism but the wage level adjustment is unchanged.
 - The assessments made of the revenue capacity or required expenses for comparable communities, such as by the Tasmanian State Grants Commission.
 - The existing Norfolk Island experience where it is judged these activities are performed at average levels of efficiency.
- 5 In some cases, staff have not been able to exactly match the assessments done in 2006 due to changes in data availability. The methods used to assess Norfolk Island’s revenue raising capacity and required expenses for each revenue source and service are explained in this attachment, including any changes we have made to the 2006 methods.
- 6 In its 2006 report, the commission noted that methods it used to estimate revenue raising capacity or required expenses in no way suggested how revenue should be raised or services provided on Norfolk Island. It said there are many different models that could be adopted and the decisions to be made on these are a matter for the responsible governing body. The updated assessments made in this report are made on the same basis.

REVENUES

Municipal rates

- 7 Municipal rates are charged by the majority of local councils in Australia on all rateable property. No municipal rates are collected on Norfolk Island, although most of the land used by residents, businesses and GBEs would be rateable in comparable communities. Table E-1 summarises the per capita rate collections by councils in each of the States.

- 8 Per capita municipal rates ranged from \$360 in the Northern Territory to \$624 in South Australia. The Australian average was \$526. Applying \$526 per capita to the 2009-10 Norfolk Island population estimate of 1 817 gives approximately \$956 000.

Table E-1 Municipal rate collections, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	440	575	545	580	624	548	0	360	526

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 9 The King Island Council raised some \$789 per capita in municipal rates in 2009-10¹. It was assessed by the Tasmania State Grants Commission as being able to raise less than it actually raised (some \$768 per capita)², if Tasmanian average rates were applied to its land values. If Norfolk Island raised the same per capita amount that the Tasmania State Grants Commission considered King Island could raise, Norfolk Island would raise \$1.4 million. Note that this estimate is based on 2008-09 revenue assessments by the Tasmania State Grants Commission since more recent results are not available.
- 10 For comparison, the land valuation data for Norfolk Island were used in rates calculators for 2 New South Wales coastal communities with economies similar to Norfolk Island. They depend on tourism, fishing, pastoral and horticultural activities. Both communities include substantial numbers of Aboriginal residents, which is not the case on Norfolk Island. They also include multiple urban areas where kerbing and street lighting are expected.
- 11 If the rates charged by Shoalhaven City Council were applied to the Norfolk Island land values, the yield for 2009-10 would be \$1.49 million. This is the estimate for land where there is no water reticulation, no sewerage and no garbage collection service.
- 12 The Byron Shire Council rates calculator was also used to estimate rates using Norfolk Island land values. Two rate options for business land were available — land outside the Byron Business Centre or within it. The ‘outside the Business Centre’ option — the lower option — was used here. On this basis the Norfolk Island valuations would give estimated rates receipts of \$2.18 million. This does not include annual fixed charges for council services such as water supply, sewerage or waste services.
- 13 The comparisons suggest, as they did in the 2006 inquiry, that Norfolk Island could raise more than the Australian average per capita collection. However, unlike the 2006 report, there is now a significant difference between the rates estimated using Byron Shire rates calculator and those estimates for King Island or Shoalhaven City Council. The latter 2 estimates are similar

¹ King Island Council, Annual Report 2009-10, p 64.

² Tasmanian State Grants Commission, Annual Report for 2010-11, p 42, which shows assessed revenue for 2008-09 not 2009-10.

but the Byron Shire estimate is substantially higher. In its 2006 report, the commission estimated Norfolk Island's revenue raising capacity from municipal rates at \$1.2 million, using as a basis the Tasmanian Grants Commission assessment (per capita) for King Island. For 2009-10, staff have used the same approach to derive a municipal rates assessment for Norfolk Island of \$1.4 million.

User charges

- 14 Local governments in the rest of Australia raise revenues from charges and fees for a range of goods and services. These include building application fees, development fees, subdivision fees, water, sewerage, septic and waste levies, licence fees and fines, hall hire charges, landing charges and dog registration fees. On average, councils in Australia raised some \$425 per capita. Table E-2 summarises the average revenue raised from local councils in each State and Norfolk Island.

Table E-2 User charges, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Water, etc	418	na	na	na	na	na	na	na	na	na
Other	8	na	na	na	na	na	na	na	na	na
Total	425	428	225	832	318	178	326	0	272	425

Note: A breakdown between 'water etc' (water, sanitation and protection of the environment charges) and 'Other' is not possible for States due to data confidentiality.

The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 15 Norfolk Island charges include a water assurance levy, a waste management levy and other charges relating to planning and development and minor services. The water assurance levy is applied to residences (\$325 per annum) and to a range of businesses in accordance with a schedule of minimum charges and charges per unit of capacity that vary by business type (for example, 2 fee units per place in a restaurant in which liquor is sold, 9.3 units per bed in accommodation houses other than hotels. One unit is worth \$25). The waste management levy of \$32 per cubic metre or per tonne (whichever is the greater) imported by sea and 26 cents per kilogram imported by air is charged on goods other than mail and personal effects accompanying an air passenger. Fees are also charged for development and building approvals. In 2009-10, in total, these charges raised about \$14 000 or \$7 per capita.
- 16 If Norfolk Island imposed the full range of levies and charges raised by the average council in the rest of Australia, it could be expected to raise similar per capita amounts (\$425 on average). However, if it were to raise revenue from user charges in the same way as a community in similar circumstances, such as King Island, it would raise considerably more.

King Island residents paid some \$507 per capita in water and sewerage rates, a fire levy commission and waste management fees³.

- 17 In its 2006 report, the commission considered Norfolk Island to be more similar to King Island than other parts of Australia. It has an Island's concerns about water, sewerage and waste disposal and its charging regime should reflect this. Therefore, an estimate of Norfolk Island's comparable revenue was based on King Island revenue raising efforts. The commission adjusted King Island's \$507 per capita by the Norfolk Island tourist adjustment factor of 1.13 because tourists provide a source of some of this income. For 2009-10, the updated comparable revenue for Norfolk Island from user charges was \$1.04 million.
- 18 Comparable revenue in the commission's 2006 report was \$1.09 million. The small reduction seen in this update is a result of roughly offsetting changes: growth in the revenue per capita for King Island (\$466 in the 2006 report versus \$507) but lower population and tourist numbers for Norfolk Island compared with 2004-05.

Interest income and other revenue

- 19 In the rest of Australia, local governments raise other revenue from interest earnings, rents, fines, contributions from business undertakings, profits on sale of fixed assets and revenues from other sundry activities. Table E-3 summarises the average revenue raised from local councils in each State and Norfolk Island.

Table E-3 Interest income and other revenue, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Interest	51	39	17	32	44	14	44	0	40	31
Contribution by trading enterprises	998	na	na	na	na	na	na	na	na	na
Other	272	na	na	na	na	na	na	na	na	na
Total	1 321	360	372	620	330	194	273	0	773	403

- Note: The ABS classifies all ACT revenues and expenses to the State sector.
For Norfolk Island, other revenue is half of the interest earned by the Norfolk Island Government. The remainder has been classified as State-type revenue.
Data to split 'Contribution by trading enterprises' and 'Other' for local councils in Australia are not available but are included in the total line. Norfolk Island 'other' revenue included departure tax.
- Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 20 Norfolk Island raises more revenue per capita from these sources than the average local government body. It raises large amounts from its trading enterprises, particularly from its

³ King Island Council, *op cit.*, pp 64. Excludes airport landing charges. Water and sewerage charges were 2008-09 since 2009-10 figures not available due to outsourcing of those functions to Cradle Mountain Water. Adjusted for King Island's tourist population.

Liquor Supply Service, which operates as a monopoly and makes a major contribution to the Norfolk Island Revenue Fund.

- 21 However, if Norfolk Island raised this revenue like comparable local governments in the rest of Australia, it would raise at least the Australian average level of about \$403 per capita — about \$31 in interest and \$373 in other revenue. King Island raised \$125 per capita in 2009-10⁴. However, in the commission's 2006 report, the Australian average and King Island per capita amounts were similar. The commission concluded it would not seem unreasonable to assume that Norfolk Island could raise the average level of income raised by local governments in the States (even though it actually raises considerably more). In updating the 2006 report, we have continued to use the Australian average revenue to calculate comparable revenue for Norfolk Island. Other than for interest income, this was adjusted by 1.13 for the impact of tourists, as was done in the 2006 report, to give \$452 per capita or \$821 000 in total.
- 22 In the case of interest income, we have some doubts about whether Norfolk Island could raise the same amount as comparable communities but have not made an adjustment here. We comment further elsewhere in this report (Chapter 4).
- 23 Comparable revenue in the 2006 report was \$506 000. It is higher in the current update largely due to higher all-State average revenue for other revenue (\$373 per capita in the update versus \$191). Lower population and tourist numbers muted the growth.

Grants from the State government

- 24 Local governments receive funding from the State governments. Specific purpose payments (SPPs) are provided for road construction and maintenance and for other purposes, including childcare, aged care, disability services, recreation and cultural facilities and local government development programs. Councils generally make application to the State agency administering the program.
- 25 Table E-4 shows the grants and subsidies received by councils from State governments. The Australian average per capita amount was \$99 per capita in 2009-10.

Table E-4 Grants and subsidies from State governments, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	76	53	213	89	22	74	0	412	99

- Note: Local governments also receive general and specific purpose payments from the Australian Government, directly and through States, including identified local road funding. There are no transfers from the State to the local sector in the ACT because the ACT Government is responsible for both State and local services.
- Source: Norfolk Island Administration financial statements. State figures estimated by the commission using ABS publication Catalogue 5512.0 *Government Finance Statistics and Commonwealth of Australia, Final Budget Outcome, 2009-10*.

⁴ *Ibid.*, p 13.

- 26 In its 2006 report, the commission said because of Norfolk Island's special circumstances, it is likely that local government on Norfolk Island would be entitled to more than the Australian average payment from State governments. Data on grants for 2004-05 showed the average Tasmanian council receipts of \$48 per capita were about 3 times the Australian average. The commission decided that amount was more appropriate for the Norfolk Island situation.
- 27 In this update, the Tasmanian grants per capita are less than the Australian average. We have also reviewed how comparable expenses are determined, because grants from State governments are simply transfers from State to local government. They are a State expense and a local government revenue but within our calculation of comparable expenses and revenues, they should balance and have no net effect on financial position when considering combined State and local sectors. The related expenses (for which the grants are used) are spread between many different expense categories. Given we have assessed many of these based on the all-State average, adjusted for wage levels and isolation, we have done the same for State grants to local government in an attempt to balance the State grants to local government with the related expenses. That is, we have used the all-State per capita grant amount and adjusted this for wage levels on Norfolk Island (0.7) and isolation costs (1.05).
- 28 The resultant comparable revenue is \$132 000.
- 29 In the commission's 2006 report, comparable revenue was \$97 000. It is higher now due to higher State spending but less than it otherwise would have been due to our inclusion of an adjustment for lower wages on Norfolk Island to better align the assessment with our expense assessments.

Norfolk Island comparable revenue for local government

- 30 The methods used in the assessments are summarised in Box E-2. Table E-5 summarises the updated estimates of Norfolk Island's local government comparable revenue. It shows that the Norfolk Island Government presently raises less from local government-type revenues than we estimate it would be raised if a comparable range and level of taxes were applied as in the rest of Australia — some \$3.17 million for Norfolk Island compared with \$3.39 million comparable revenue.
- 31 However, the Norfolk Island Government raises its revenue from different sources. It raises none from municipal rates, but, as already noted, considerable amounts of revenue are raised from its liquor GBE. Comparable revenue for 3 categories has grown moderately since the commission's 2006 report largely due to higher revenues raised in comparable communities on which our assessments are based. Lower Island population partly offsets these increases and explains the slightly lower comparable revenue for user charges in this update.

Box E-2 Summary of assessment approach — local government revenue sources

Revenue source	Method
Municipal rates	Equal to the Tasmanian State Grants Commission assessed per capita capacity of King Island.
User charges	Equal to King Island resident per capita revenue, adjusted for the impact of tourists on Norfolk Island.
Interest and other revenue	Equal to the Australian average per capita amount of other revenue adjusted for the impact of tourists (other than interest where no tourist adjustment applied).
Grants from the State government	Equal to the all-State average per capita council receipts adjusted for lower wage and higher isolation costs on Norfolk Island.

Table E-5 Norfolk Island's comparable revenue for local government, 2009-10

	Norfolk Island actual revenues	Adjustment	Comparable revenue, current update	<i>Comparable revenue, 2006 report</i>
	\$'000	\$'000	\$'000	\$'000
Municipal rates	0	1 395	1 395	1 200
User charges	773	267	1 040	1 088
Interest and other income	2 401	-1 580	821	506
'State' Grants and subsidies	0	132	132	97
Total revenue	3 174	214	3 388	2 891

Note: For Norfolk Island, user charges mainly comprise charges for Water, Sanitation and the Protection of the Environment. Interest income and other revenue includes revenue from departure tax and contributions by trading enterprises, including the Liquor Supply Service.

Source: Norfolk Island Administration financial statements and commission staff estimates.

SERVICES

- 32 In the rest of Australia, the delivery of local government services is the responsibility of an elected council, supported by an administrative arm. For example, the King Island Council comprises a mayor and 8 councillors. In 2009-10, it was supported by about a dozen office staff. The services provided typically include corporate and financial services, roads, community services, health, building and planning services, maintenance of recreation and reserves, waste management, water, sewerage and storm water services and the operation of the aerodrome.
- 33 The Norfolk Island Legislative Assembly and Administration have similar responsibilities. Their costs have been allocated between the State and local government sectors.

General Public Services

- 34 These services include the provision of an elected government and its support staff, corporate and financial services, other administrative functions and public works.
- 35 Table E-6 compares our estimate of Norfolk Island's general public service costs for local government with local governments in the States.

Table E-6 Average per capita expenses on local government general public services, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
654	233	146	434	147	146	182	0	641	240

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 36 The average local government expenses per capita on these functions is \$240, but is as high as \$641 in the Northern Territory where many councils are Indigenous community councils.
- 37 The Tasmania State Grants Commission assessed the King Island Council as needing to spend \$527 per capita in 2008-09 (2010-11 assessment).⁵ It assessed Flinders Island Council, with a much smaller population of about 900 as needing to spend about \$634 per capita. On this basis, the commission concluded in its 2006 report that a reasonable expense for Norfolk Island would be that applicable to King Island. For this update, the amount is \$527 per capita. In 2006, the commission adjusted this amount by factors to account for the larger incidence of tourists and the higher costs associated with isolation. For isolation, King Island is also isolated and its costs reflect this isolation so, as in 2006, the isolation adjustment made is smaller than if we had used an all-State average cost. We believe that tourists do not affect the full range of general public services — for example, they would not affect expenses related to the Assembly or Administration. We have therefore discounted the tourism adjustment by 40% to reflect the effect of tourists only on relevant general public services. The resultant comparable expense is \$567 per capita or \$1 031 000 in total.
- 38 Our updated comparable expense is higher than for 2004-05 (\$842 000) largely due to the higher per capita expenses that are now assessed for King Island by the Tasmanian State Grants Commission.

Public order, education, health and welfare

- 39 Local governments in the rest of Australia spend varying amounts on these services. For example, Table E-7 compares what Norfolk Island spends with local governments in the States and Australia as a whole.

⁵ Tasmanian State Grants Commission, *op cit.*, p 46.

Table E-7 Average per capita expenses on local government public order, education, health and welfare services, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Public order and safety	0	31	22	22	43	17	12	0	66	27
Education	0	9	12	3	1	0	0	0	26	7
Health	28	9	14	13	20	23	26	0	9	14
Welfare	0	46	168	14	55	54	47	0	66	72
Total	28	95	216	51	119	94	85	0	167	120

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 40 The Tasmanian State Grants Commission considered that King Island would need to spend about \$58 per capita on public order, education, health and welfare to deliver the Tasmanian average level of service.⁶ This is much lower than the all-State average.
- 41 In its 2006 report, the commission decided that Norfolk Island was more similar to King Island than the average Australian council. In this update, we have therefore estimated that Norfolk Island needs to spend the same amount as King Island on these services, \$58 per capita. As the commission did in its 2006 report, we have adjusted this amount for Norfolk Island's higher costs associated with isolation to become \$59 per capita.
- 42 Our updated estimate of comparable expenses for Norfolk Island on public order, education, health and welfare is therefore \$108 000. It was \$85 000 in the commission's 2006 report. The higher amount in this update largely results from the higher per capita expenses in the comparable community (King Island).

Housing and community amenities

- 43 Housing, water supply and sewerage, waste management and planning and protection of the environment services are included in this group. Most of the expenses relate to services other than housing, because local governments generally provide little welfare housing. Some provide refuges or temporary emergency accommodation. Table E-8 compares expenses incurred by Norfolk Island with those of councils in the rest of Australia.
- 44 The low level of expenses per capita in Western Australia and South Australia are due to the State governments providing water through trading enterprises that operate on a State-wide basis. Local governments are not responsible as they are in other States.
- 45 A discussion of the services included under this group is provided below.

⁶ Tasmanian State Grants Commission, *op cit.*, p 46.

Table E-8 Average per capita expenses on local government-type housing and community amenities, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Water (a)	481	na	na	na	na	na	na	na	na	na
Other	0	na	na	na	na	na	na	na	na	na
Total	481	292	230	529	194	207	344	0	571	313

(a) Water expenses are Water, sanitation and protection of the environment expenses. Other expenses are Housing and community amenities expenses. However, the ABS breakdown is confidential and cannot be shown.

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 46 **Water Supply and Sewerage.** In much of Australia, water supply and sewerage services in small communities are generally local government responsibilities. Most attempt to run them on a cost recovery basis.
- 47 The situation on Norfolk Island and comparable communities is similar to that in 2006. There is no reticulated water supply on Norfolk Island. Every household and tourist accommodation facility has its own rainwater storage facilities. However, hotels and motels, in particular, are unable to service all their requirements from rainfall and draw on bores tapping underground reserves. The Administration monitors the quality of the bore water.
- 48 The Norfolk Island Water Assurance scheme provides sewerage services to the high population density areas of Burnt Pine and Middlegate (about 25% of the area and 50% of the total population, including most of the tourist accommodation). The remainder of the population uses septic tanks and effluent trenches. Tourist accommodation units outside the area covered by the Water Assurance Scheme are required to provide systems that produce a high quality effluent suitable for use in on-site irrigation.
- 49 Norfolk Island's approach to providing water and sewerage is much the same as that in country areas in the rest of Australia that have similar sources of supply. However, many small country towns have a reticulated water supply. When allowance is made for the terrain and dispersed nature of settlement on Norfolk, the sewerage system on Norfolk Island is broadly comparable with those in rural areas in the rest of Australia.
- 50 In 2006, the commission concluded that additional operating expenses for a town public water supply would be required for Norfolk to operate at the same level as comparable communities but that the sewerage system is at about Australian average levels.
- 51 **Waste Management.** Waste disposal is a local government responsibility in the rest of Australia. Circumstances on Norfolk Island and comparable communities are similar to those that existed at the time of the 2006 inquiry by the commission.
- 52 Norfolk Island has a waste management centre adjacent to the airport, which has been operating since about 2004. The facility accepts all waste generated on Norfolk Island.

Batteries are sent back to the mainland and there is some recycling of cans, soft-drink bottles and cardboard, but the rest is burnt and/or tipped into the sea at the Headstone tip.

- 53 The Norfolk Island Government funds the waste management centre by a levy on all goods brought to the Island — the Waste Management Levy — and any revenue from recycling. In 2009-10, the levy raised \$367 000 and sales raised \$5 000. In 2009-10, this fully funded the operations of the centre.
- 54 Waste that cannot be recycled is burnt at the lower Headstone tip. Residents and business are responsible for the removal of their own waste.
- 55 The waste collection services on Norfolk Island are not comparable to those on Christmas Island, the Cocos (Keeling) Islands and small remote communities in Queensland (such as Thursday Island and Weipa) which have regular waste collections.
- 56 King Island Council pursues a waste minimisation strategy but waste management is currently not self funding. It has regular domestic waste collection, a landfill with no public access and a waste transfer facility at which residents can dispose of their rubbish.
- 57 The commission conclusions from 2006 continue to apply. At that time, it said that waste collection and disposal on Norfolk Island are not at comparable community standards and additional expenses would be required to allow Norfolk Island to operate at a comparable level.
- 58 **Protection of the Environment (including planning).** In the rest of Australia, land administration is a responsibility shared between State and local governments. Circumstances on Norfolk Island and comparable communities are similar to those that existed at the time of the 2006 inquiry by the commission.
- 59 The Australian Government has responsibility for land administration on the Island but the Norfolk Island Government has executive and legislative control over various land administration components such as planning, development, building control and environmental management. These are generally local government-type functions.
- 60 In 2004, the Norfolk Island Legislative Assembly approved the Norfolk Island Plan under the Planning Act 2002 which continues to set the framework for planning controls on Norfolk Island. In March 2010 the Legislative Assembly approved a series of amendments to the Norfolk Island Plan as part of the required 5-year review of the Plan. Other site-specific amendments are occasionally proposed and considered.
- 61 The legislation in place appears to give Norfolk Island arrangements similar to other small rural communities in Australia. These arrangements cover comprehensive land administration and title registration legislation and practices.
- 62 A planner is presently employed by the Island but the work is not supported by State-type planning policies as would normally be the case.

- 63 **Conclusion.** In 2006, the commission said that water supply and sewerage, waste management and protection of the environment services could be difficult and expensive to provide in Island environments. It noted that services on Norfolk Island were in some areas below the standard provided in comparable communities (particularly waste management). Therefore, Norfolk Island would need to spend more than the all-State average and more than it was spending. Given little change in circumstances since 2006, we have continued to apply this conclusion in the update.
- 64 In 2006, the commission assessed comparable expenses for Norfolk Island based on per capita costs on King Island to deliver comparable services adjusted for the impact of isolation and tourist numbers. For 2009-10, this was \$669 per capita.⁷ After adjusting for the higher costs associated with isolation and the impact of tourists, this becomes \$774 per capita.
- 65 Norfolk Island's comparable expenses for local government-type housing and community amenities in this update are \$1 407 000 compared to \$1 203 000 in 2004-05, an increase of 17%.

Culture and recreation

- 66 In the rest of Australia, local governments generally provide local cultural and recreational facilities and grants to support local cultural and recreational initiatives. This includes the provision of park and barbeque facilities, libraries, halls, play equipment, local sporting grounds and grants for local sporting and cultural activities, such as support for a sporting team, art displays and theatre groups. State governments also provide culture and recreation services. An assessment for those is in Attachment D.
- 67 Table E-9 summarises the average per capita expenses local governments incur on culture and recreation services.

Table E-9 Average per capita expenses on culture and recreation services, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
74	160	193	179	274	184	186	0	193	187

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 68 The Norfolk Island Government provides local government recreational facilities at picnic areas, sporting ovals and netball courts. It operates a library, museums and the public hall. It also provides some cultural activities, including Bounty Day and Foundation Day, and supports a range of festivals.

⁷ King Island Council, *op cit.*, page 64. Note, due to outsourcing of water and sewerage from 2009-10, data for that year were not available for those 2 services. Expense data for King Island for 2008-09 were used instead.

- 69 When the Norfolk Island Government local expenses on KAVHA are removed⁸, Norfolk Island spent \$74 per capita on local Culture and Recreation in 2009-10, much less than the all-State average.
- 70 In its 2006 report, the commission noted that Norfolk Island had historic sites on the Register of the National Estate, other than KAVHA (Longridge Agricultural Settlement Site, Cascade Agricultural Settlement Site, and St Barnabas Church Area). Local governments in some jurisdictions were assessed as needing more resources to manage such sites. However, the commission concluded that Australian average local government expenses for culture and recreation would provide a suitable basis for comparable expenses. The per capita amount for 2009-10 of \$187 was adjusted for Norfolk Island's isolation, lower wages and above average tourist population to give \$155 per capita.
- 71 In this update, we have assessed Norfolk Island's required expenses for local government-type culture and recreation expense at \$282 000.
- 72 Comparable expenses for 2004-05 were \$247 000. The increase in this update is largely a result of the higher per capita expenses for Australian local governments, tempered by Norfolk Island's smaller resident and tourist population.

Services to industry and tourism

- 73 Local governments generally provide some support to local industries, by attempting to attract tourists to the area, by supporting local markets and products and facilitating development. State governments also regulate and support industry and a separate assessment is included in Attachment D.
- 74 Table E-10 compares what Norfolk Island spends on these activities with what is spent by State and local governments in the States. Norfolk Island's expense on local government-type activities is assumed to be half of its total expense on services to industry and tourism (the other half being State-type). On this basis it spends more than 8 times what local governments in the States, on average, spend.
- 75 Part of the explanation for Norfolk Island's large per capita spending is that Norfolk Island heavily promotes tourism to the Island. This is the industry on which its economy is dependent. In its 2006 report, the commission concluded that Norfolk Island's dependency on tourism is a special circumstance and it would need to spend 9 times the national average on tourism. A similar adjustment was made for State-type tourism expenses (Attachment D).

⁸ We have classified all KAVHA expenses as State.

Table E-10 Average per capita expenses on services to industry and tourism, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Services to Industry	36	20	1	22	16	31	2	0	31	16
Tourism	512	na	na	na	na	na	na	na	na	na
Other economic affairs	na	41	57	36	39	43	51	0	299	47
Total	547	61	58	58	55	74	53	0	329	63

Note: The ABS classifies all ACT revenues and expenses to the State sector.
Other economic affairs for States includes tourism.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistic*. The commission's 2006 Update adjusted budget.

- 76 The commission adjusted this amount for lower wage levels and higher isolation costs. We have done the same in this update to give a per capita comparable expense of \$310.
- 77 The total comparable expenses for local government-type tourism is therefore \$564 000. We observe this is still less than actually spent by the Norfolk Island Government. The commission noted in 2006 that the Island was collecting a departure tax which helped offset some of this cost. However, that tax has now been zero-rated so no revenue is currently being collected.
- 78 Norfolk Island spends little supporting industries other than tourism. Consistent with the commission's conclusions in the 2006 report, we have assessed comparable expenses as half the average spent by local governments in the States, or \$8 per capita. Adjusted for lower salary levels and higher isolation costs, this becomes \$6 per capita.
- 79 In total, for this update, we have assessed comparable expenses for Norfolk Island of \$316 per capita for local government services to industry and tourism, or \$574 000 in total.
- 80 Comparable expenses for 2004-05 assessed by the commission were \$492 000. The increase in this update largely resulted from higher per capita spending by local governments in the States.

Transport and communication

- 81 For local governments in the rest of Australia, expenses in this category mostly relate to roads maintenance. It can also include support for the local airport, maintenance of jetties and boating facilities and subsidies for public transport.
- 82 Norfolk Island's road maintenance expenses are the main items of expenses in this category.
- 83 Table E-11 shows that in 2009-10 Norfolk Island spent \$507 per capita on these functions, compared with an Australian average of \$281.

Table E-11 Average per capita expenses on local government-type transport and communication services, 2009-10

	Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Roads	507	na	na	na	na	na	na	na	na	na
Other	0	na	na	na	na	na	na	na	na	na
Total	507	239	205	454	317	195	336	0	176	281

Note: The ABS classifies all ACT revenues and expenses to the State sector.

A breakdown of expenses is not available for States due to data confidentiality.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 84 In its 2006 inquiry, the commission assessed Norfolk Island's comparable expenses for roads maintenance expenses using the average per capita amount spent by rural councils on rural road maintenance. For 2009-10 the amount is \$223 per capita.⁹ After adjustment for lower wage costs on Norfolk Island, the higher costs of isolation and the larger proportion of tourists to population using the roads, the assessed required expenses were \$185 per capita.
- 85 An additional amount equal to the Australian average on other transport and communication services is also required to allow Norfolk Island to deliver comparable services. For 2009-10, the amount was \$14 per capita, after adjustment for special circumstances.
- 86 For 2009-10, comparable expenses for local government transport and communication were \$199 per capita, or \$362 000 in total.
- 87 A decline in comparable expenses occurred in this update compared with the figure from the commission's 2006 report of \$420 000. The fall has resulted from lower expenses for comparable communities and a decline in the Island's resident and tourist populations.¹⁰

Depreciation

- 88 All local governments record an amount of depreciation in their operating statements. This relates to annualised use made of their assets over their estimated life. All asset replacement can then be funded from accumulated depreciation provisions. Relevant assets include buildings, roads, plant and equipment, vehicles, furniture and fittings used in local government-type service provision.
- 89 Table E-12 lists the major assets the Norfolk Island uses in local government service provision.

⁹ ABS and National Transport Commission customised data provided to the commission. The data used in the 2006 report was not available. Using the data source used in this inquiry, spending by rural councils on rural road maintenance in 2004-05 was \$216 per capita (\$238 was used in the 2006 report).

¹⁰ Some of the decline in comparable expenses has arisen from the change in the data source for roads spending, as described in the previous footnote.

Table E-12 Assets used for delivery of local government-type services

Roads	Open air items (a)
Waste management	Library, radio station, radio shack and satellite building
Sewerage treatment	Rawson Hall
Forestry and nursery facilities	Residences and Barkman estate
Works depot (50%)	Motor vehicles, plant, furniture, fittings and other equipment
Piers and weighbridge	

(a) Toilet blocks, change rooms.

Source: *Norfolk Island Asset Management Plan* and Norfolk Island Government Revenue Fund.

90 The Norfolk Island Government's depreciation we have attributed to local government assets in this update was \$246 per capita in 2009-10. Data on depreciation of local government assets throughout Australia are not available to us since the provisions are now allocated to functions and not shown separately by the ABS. Hence, we are unable to comment on how Norfolk Island depreciation expense relate to the all-State average.

91 Allocation of depreciation to functions does mean, however, that for those comparable expenses based on ABS GFS local government data, depreciation will be included and has therefore already been assessed as part of those expense assessments. The cases where we have not used ABS local government expense data for our assessments and therefore need to consider an allowance for depreciation are:

- general public services (amount assessed by the Tasmanian State Grants Commission was used to assess comparable expenses)
- public order, education health and welfare services (King Island expenses used to estimate comparable expenses)
- housing and community amenities (King Island expenses used to determine comparable expenses)
- transport and communication (mainly roads).

92 In 2006, the commission said its preferred method of estimating depreciation expense was to calculate straight line depreciation over the future life of an Australian average range of local government assets, starting with current replacement values. However, current replacement costs of assets on Norfolk Island were not available in 2006 and are not available in this update.

93 For general public services, the Tasmanian State Grants Commission amount assessed for King Island already includes an allowance for depreciation so no further allowance should be needed.

- 94 For public order, education, health, welfare, housing and communities, we have estimated depreciation expenses for King Island of \$131 per capita.¹¹ After adjusting for Norfolk Island's isolation and higher tourist population, we arrive at comparable expenses of \$152 per capita in 2009-10, or \$276 000 in total.
- 95 In the case of transport and communications, the main depreciation expense is for roads. As the commission did in 2006, we have used King Island depreciation on roads, adjusted for the lower road length on Norfolk Island, resulting in a per capita expense of \$103. After adjusting for Norfolk Island's isolation and impact of tourist numbers, we have estimated comparable expenses for roads depreciation of \$119 per capita or \$218 000 in total.
- 96 Total comparable expenses for roads and other depreciation expenses are \$494 000.
- 97 In the commission's 2006 report, comparable expenses were \$833 000. The smaller explicit depreciation allowance in this update is mainly because depreciation allowances are now implicitly included in many individual expense categories; for example public order, education, health, welfare, housing and community amenities. In the commission's 2006 report, the depreciation allowance for King Island (excluding roads and the Island's airport) was \$284 per capita after adjusting for Norfolk Island's special circumstances. The allowance in this update is \$152 per capita.

Debt charges

- 98 Local governments are required to meet debt charges associated with their borrowings. They do so at rates reflecting their own capacity to borrow. They can also borrow through their State central borrowing authorities at preferential rates of interest. Table E-13 provides a comparison of the average debt charges paid by local governments in each State.

Table E-13 Average per capita expenses on local government-type debt charges, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	26	7	38	7	18	10	0	4	21

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 99 As discussed in Chapter 3, Norfolk Island's capacity to borrow is limited by legislative arrangements. At present, it has 2 loans from the Australian Government which are interest free. Hence, it had no expenses on debt charges in 2009-10.
- 100 This was the same situation as existed in 2006. At that time, the commission concluded that Norfolk Island's comparable expenses for local government debt charges were zero because, if present borrowing arrangements continue, then Norfolk has no need to pay debt charges. Given the similarity of circumstances in this update we have continued to assess no

¹¹ King Island Council Annual Report 2009-10, page 68. Includes an estimated amount for buildings, plant and equipment which are not shown by function.

comparable expenses for debt charges. If the present arrangements were to change, then this assessment would need to be revisited.

Other expenses

- 101 Other expenses include miscellaneous costs, not able to be classified elsewhere. It is reasonable to assume that Norfolk Island would incur costs of this nature. Table E-14 shows that in 2009-10, although Norfolk Island had no expenses classified to this category, the Australian average expense was \$56 per capita.

Table E-14 Average per capita expenses on local government-type other expenses, 2009-10

Norfolk Island	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	All States
\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
0	105	16	23	65	64	44	0	53	56

Note: The ABS classifies all ACT revenues and expenses to the State sector.

Source: Norfolk Island Administration financial statements and ABS publication *Catalogue 5512.0 Government Finance Statistics*.

- 102 In the 2006 inquiry, the commission assessed Norfolk Island's required expenses as equal to the all-State average expense, adjusted for lower salary levels, higher isolation costs and the impact of tourists. We have repeated this assessment to arrive at comparable expenses in 2009-10 for Norfolk Island's of \$47 per capita or \$85 000 in total.
- 103 Comparable expenses in the 2006 report were \$60 000. The higher amount in this update is largely driven by the higher all-State local government expenses but would have been higher had it not been for the lower resident and tourist population on Norfolk Island in this update.

NORFOLK ISLAND LOCAL GOVERNMENT EXPENSE REQUIREMENTS

- 104 The methods used to assess Norfolk Island's expenses requirements are summarised in Box E-3.

Box E-3 Summary of assessment approach — local government expenses

Service	Method
General public services	Equal to assessed per capita expenses for King Island (Tasmanian State Grants Commission), adjusted for differences between Norfolk Island and King Island in tourist incidence and isolation costs.
Public order and safety, education, health and welfare	Equal to the average King Island per capita expense, adjusted for higher isolation costs.
Housing and community amenities	Equal to the King Island per capita expense, adjusted for differences between Norfolk Island and King Island in tourist incidence and isolation costs.
Culture and recreation	Equal to the all-State local government expenses per capita, adjusted for lower wages, higher isolation costs and the impact of tourists.
Services to industry and tourism	Equal to 9 times the all-State average local government expenses on tourism and half the average local government expense on other services to industry, adjusted for salary levels and isolation costs.
Transport and communications	Equal to the average per capita expense of rural councils on roads maintenance, plus an amount equal to the average local government expense on other transport, with both adjusted for salary levels, isolation costs and tourist incidence.
Depreciation	Equal to the King Island per capita depreciation expenses only for those services which did not have depreciation expenses implicitly within the service assessment, including roads, adjusted for isolation costs, tourist numbers and Norfolk Island's road length.
Debt charges	No capacity to pay debt charges required because of Norfolk Island's special circumstances of interest free loans.
Other expenses	Equal to the all-State average per capita local government expense, adjusted for salary levels, isolation costs and the impact of tourists.

105 Table E-15 summarises the commission staff estimates of local government expense requirements for Norfolk Island in this update. It suggests that Norfolk Island would need to spend some \$4.3 million to deliver local government services comparable to those provided in the rest of Australia.

Table E-15 Norfolk Island expense requirements for local government services, 2009-10

	Norfolk Island actual expenses	Adjustment	Comparable expense, current update	<i>Comparable expense, 2006 report</i>
	\$'000	\$'000	\$'000	\$'000
General public services	1 187	-157	1 031	842
Education, health, welfare and public order and safety	51	57	108	85
Housing and community amenities	873	534	1 407	1 203
Culture and recreation	135	147	282	247
Services to industry and tourism	995	-420	574	492
Transport and communications	920	-559	362	420
Depreciation	458	36	494	833
Debt charges	0	0	0	0
Other expenses	0	85	85	60
Total expenses	4 620	-276	4 343	4 183

Note: A separate allowance for superannuation expenses has not been required. This has been included in the individual service assessments.

Housing and community amenities includes water, sanitation and protection of the environment.

Source: Norfolk Island Administration financial statements and commission estimates.

106 In most cases, comparable expenses in this update have changed since 2006 because of a change in per capita expenses in comparable communities — in most cases these expenses grew. The smaller resident and tourist populations on Norfolk Island in this update compared with 2006 served to reduce comparable expenses that we assessed for Norfolk Island. However, in most cases, comparable expenses are higher in total because growth in the expenses in comparable communities was greater than population decline on Norfolk Island. The lower comparable depreciation expenses in this update mainly reflect the use of a narrower, more appropriate subset of expenses on King Island as the comparable expense.

ATTACHMENT F

SIZE OF THE NORFOLK ISLAND ECONOMY

- 1 Although the commission's 2006 review did not make an assessment of the size of the Norfolk Island economy, such an estimate is useful when considering the overall financial capacity of the Island. It is also useful in gauging the reasonableness of our estimates of the Island's revenue raising capacity derived from the tax-by-tax approach. This attachment sets out our estimates of the size of the economy in 2009-10.
- 2 We have derived 2 estimates of Gross Territory Product (GTP) — one based on the production approach using GST information and the other based on the income approach (see Box 1).¹ There are difficulties in applying the income approach to the measurement of GTP as there are no up-to-date data on private sector wages and salaries and profits. We have instead had to place considerable reliance on an ABS business survey for 2004-05.

Box F-1 The 3 approaches to measurement of gross domestic product (GDP)

GDP is defined as the total value of all goods and services produced within an economy within a given period. Given the circular flow of income, it can be measured in 3 different ways. The production approach sums value added — the value of output, inclusive of indirect taxes, less the value of intermediate inputs — across industry sectors. The income approach involves the summing of incomes of factors of production — wages, salaries and supplements plus profits gross of depreciation — to derive a measure of GDP at factor cost. Adding indirect taxes less subsidies gives a measure at market prices. The expenditure approach measures output through valuing final domestic consumption and investment expenditures, and adding net exports.

- 3 We have not attempted to derive an estimate based on the expenditure approach. The absence of household expenditure survey data and data on private investment means the expenditure approach faces major limitations.

¹ The estimates have been compiled in line with those in the Australian national accounts.

THE GST

- 4 Broadly speaking, the GST is levied on gross revenues less GST input tax credits applying on intermediate inputs purchased from other on-Island suppliers. A customs duty drawback has enabled businesses to reduce their GST liability in respect of stock on which they had paid Customs Import Duty prior to the introduction of the GST. This drawback is set to expire in March 2012.
- 5 Some goods and services are GST-free. These chiefly include sales by not for profit bodies, exports including air travel sales, goods imported for home consumption but not for resale, financial services, freight costs and health services.
- 6 The GST Office has provided us with data based on registered businesses' GST returns. Table F-1 provides a summary of the GST collections data.

Table F-1 GST collections, 2009-10

	\$m
Gross revenue (incl GST)	149.0
GST-free sales	45.9
Input tax credits	2.5
Duty drawback	0.3
GST remitted	8.1

Note: Goods imported for home consumption but not for resale are not included in the gross revenues and GST-free sales data as there is no GST form submitted for them.

Source: Norfolk Island GST Office.

THE PRODUCTION APPROACH

- 7 Table F-2 sets out gross monthly revenue data by industry derived from GST returns. Total gross revenues net of purchases on which input tax credits were granted were around \$149 million in 2009-10. To derive GTP, a number of adjustments are required to this figure:
 - The value of intermediate inputs relating to GST-free sales needs to be subtracted. The largest GST-free sales amounts relate to fuel, air ticket sales and banking — together accounting for 68% of all GST-free sales based on February 2011 data. We have used information provided by Norfolk Air on charter fees and fuel costs incurred by the airline outside of Norfolk Island. We have imputed a rough figure for banking intermediate costs using a breakdown for the whole of Australia of the banks' incomes into wages and salaries, profits (gross of taxes) and intermediate inputs. For the remaining 32% of GST-free sales we have applied an average intermediate costs ratio, namely the ratio of purchases on which input tax credits were granted to gross revenues less GST-free sales.
 - To derive total industry value added, the value of imports of registered businesses needs to be subtracted. Businesses do not have to furnish these data to the GST Office. Instead we have used data on commercial imports provided by the Customs Office.

- The value added of GBEs not registered for GST also needs to be added.
- To industry value added, the value added of the general government sector — both the Norfolk Island Administration and the Australian Government — needs to be included. By convention, this is measured as wages, salaries and supplements plus depreciation.
- By convention, the gross operating surplus of the household sector arising from the ownership of dwellings is also included in the measure of GTP.²

Table F-2 Industry gross revenues, 2009-10

GST gross revenues	2009-10
	\$m
A - Agriculture, Forestry & Fishing	2.2
C - Manufacturing	2.8
D - Water & Waste Services (Electricity & Gas incl in F)	0.1
E - Construction	8.6
F - Wholesale Trade	12.7
G - Retail Trade	43.7
H - Accommodation & Food Services	22.0
I - Transport, Postal & Warehousing	9.6
J - Information Media & Telecommunications	4.0
K - Financial & Insurance Services	12.9
L - Rental, Hiring & Real Estate Services	5.4
M - Professional, Scientific & Technical Services	0.7
N - Administrative & Support Services	7.9
P - Education & Training	0.0
Q - Health Care & Social Assistance	0.4
R - Arts & recreation Services	15.0
S - Other Services	2.1
Total	150.1

Source: Norfolk Island GST Office.

8 Table F-3 sets out our calculations of GTP using the production approach. The method gives rise to an estimate of \$89.5 million.

² Measured as rental income net of rental expenses, including an imputed rent for owner-occupied dwellings.

Table F-3 Gross Territory Product, production approach, 2009-10

	\$m
Industry gross revenues reported to GST Office	149.0
Less: Intermediate costs (a)	47.4
Less: Commercial imports	32.3
Plus: Value added of GBEs not registered for GST (b)	0.1
Equals: Industry value added	69.5
Plus: General government value added (c)	13.4
Plus: Imputed gross operating surplus of dwellings (d)	6.6
Equals: GTP at market prices	89.5

- (a) As reflected in GST input tax credits, adjusted to include imputed intermediate costs of banking and insurance and the airline (measured as charter fees and estimated fuel costs incurred outside Norfolk Island) which are GST-free sales.
- (b) For those not registered for GST — Electricity Service, Lighterage Service, Norfolk Island Airport, Cascade Cliff Sale of Rock.
- (c) Measured as wages, salaries and supplements plus depreciation. The general government sector includes the Workers Compensation Fund, the Healthcare Fund, Water Assurance Fund and Norfolk Island Hospital. We have included \$2.2 million for wages, salaries and supplements of on-Island Commonwealth Government employees — we have taken the figure used for our 2006 report.
- (d) Calculated by multiplying the Australian gross operating surplus from the ownership of dwellings by the ratio for Norfolk Island to Australia of dwelling numbers multiplied by average weekly rents for rented properties.

Source: Commission staff estimates.

THE INCOME APPROACH

- 9 A number of data sources have been considered in the estimation of private sector wages and salaries and profits. These include the 2006 Island Census³, the ABS Business Survey of 2004-05⁴, the 2011 Wellbeing Report⁵ and, for wages and salaries, workers compensation data.
- 10 Private sector wages, salaries and supplements have been derived by multiplying hours worked by an hourly wage rate. We have used workers compensation data as the basis for our estimate of total employee hours worked and, by subtracting off public sector hours worked (assumed average hours worked per week of 35), an estimate of private sector hours worked.⁶ We have also derived an estimate of private sector employment (826) based on an assumed average hours worked (per private sector workers compensation return) of 30. Taking account of the decline in tourism numbers, this employment estimate would seem consistent with the ABS Business Survey employee count of 900 as at June 2005. It is difficult to estimate the number of private sector employees from either the Island Census or Wellbeing Survey data as

³ Norfolk Island, Census of Population and Housing, 8 August 2006, Administration of Norfolk Island.

⁴ ABS, Norfolk Island Business Statistics, Cat. No. 8139.0.

⁵ Deloitte Access Economics (April 2011) Wellbeing Report — Norfolk Island. Report to the Department of Regional Australia, Regional Development and Local Government.

⁶ Workers compensation levies paid can be used to derive total hours worked as the levy is imposed at the rate of 20 cents (recently increased to 30 cents) per hour.

assumptions as to the extent of multiple-‘business’ ownership and multiple-job holding would be required⁷.

- 11 Our estimate of private sector wage rates has been informed by 3 information sets. The first is typical hourly wage rates for a range of tourism-related vocations — typically in the range of \$13-\$18, including on-costs. The second is minimum wage rates — \$10.70 per hour — plus entitlements (paid public holidays, sick leave and annual leave). The loaded minimum is \$12.21 per hour.⁸ The third is average wages across the public sector, excluding the hospital and school staff (who receive relatively high rates of pay)⁹ — \$25 per hour. For our estimates, we have assumed an hourly wage rate of \$17 per hour. Based on the 2006 Census average hours worked of 35.6, this would imply an average \$605 per week. This is somewhat below the Wellbeing Survey average income (including non-wage and salary income) figure of the 18+ population of around \$635. This would seem plausible, however, taking account of the higher average incomes of public sector workers and proprietors of unincorporated businesses on the one hand and lower average incomes of the population aged over 65 on the other.
- 12 Taking our hours worked and average wage rate data together, results in private sector wages, salaries and supplements of \$21.9 million, representing an implied average 5% per annum growth on the \$17.2 million in wages and salaries in 2004-05 according to the ABS Business Survey.
- 13 For our private sector profit figure, we have considered 3 different estimates. The first was derived by adjusting the 2004-05 ABS Business Survey profit figure of \$13.5 million for the importance of tourism-related revenues in business incomes according to the Business Survey (71%), and the number of tourists in 2009-10 compared to 2004-05 (a drop of 22%). This results in a profit estimate of \$10.5 million. The second approach was to assume that profits per employee are 80% of those of the profit-oriented GBEs.¹⁰ This resulted in an implausibly high figure compared to the Business Survey number. The third method took account of the growth in GST gross revenues since its introduction. GST gross revenues grew at an average 6.2% over the 2 years, 2007-08 to 2009-10 and so that average growth was applied back to 2004-05.
- 14 The third method is preferred because the GST gross revenue data indicate what has actually been happening in the private sector. It would be reasonable to assume that businesses have been able to adjust their operations to maintain a similar profit margin since 2004-05, although the introduction of the GST may have had an impact. The retail and wholesale trade and accommodation and food services sectors — which experienced an average fall in gross revenues of 6% over 2007-08 to 2009-10 — have been affected by the decline in tourist numbers — which fell by 26% over the same period. Tourist numbers actually increased,

⁷ According to the Wellbeing Report, 37% of Norfolk Islanders hold more than one job.

⁸ The Employment Act: Guide for Employers, 2008, Norfolk Island Administration.

⁹ Teachers are paid at New South Wales rates.

¹⁰ Taken to be the Postal Service, Electricity Service, Norfolk Telecom and Norfolk Energy — but excluding the Liquor Service (a monopoly) and the Gaming Enterprise (a taxing body).

however, over the 2004-05 to 2007-08 period. The reduction in GST gross revenues of the tourist-related sectors has been largely offset by strong growth in financial and insurance services, although intermediate costs would represent a larger share of gross revenues for the financial and insurance services sector than for the tourism-related sectors.

- 15 Adding in interest payments, insurance premiums and depreciation from the 2004-05 Business Survey¹¹, scaled by the growth in GST gross revenues over the 5 years to 2009-10 gives an estimate of the private sector's gross operating surplus of \$24.4 million.
- 16 Net indirect taxes are estimated at \$8.6 million (Table F-4). These calculations give rise to a GTP of \$82.0 million.

Table F-4 Indirect taxes less subsidies applying to the business sector, 2009-10

	\$'000
Indirect taxes	
G.S.T./N.S.L. & Business Transaction Levy	7 640
Customs duty (a)	845
Fuel levy	16
Liquor licence fees	16
Vehicle registrations and licences (b)	101
Tattersalls Lotteries - Commission	143
Stamp duty on cheques	11
Departure fees	248
Company fees	73
Subsidies	
Subsidy - Museums	90
Subsidy - Lighterage Entity	150
Subsidy - Postal Services	165
Subsidy - Sale of Rock	65
Total net indirect taxes	8 622

(a) Estimated customs duty collected from business imports.

(b) Estimated registrations and licences fees collected from business.

Source: Norfolk Island financial statements and data provided by Norfolk Island Customs.

¹¹ Interest payments and insurance premiums should really be measured in net terms, but data on interest receipts and insurance claims were not available. On the other hand, the ABS notes that many businesses did not report a value for depreciation. Accordingly, the data for depreciation would not be reflective of the true value of depreciation of assets.

Table F-5 Gross Territory Product, income approach, 2009-10

	\$m
Private sector	
Wages, salaries and supplements	21.9
Net operating surplus	21.8
Depreciation	2.6
Government Business Enterprises (GBEs)	
Wages, salaries and supplements	3.1
Net operating surplus	1.6
Depreciation	2.4
Norfolk Island General Government	
Wages, salaries and supplements	10.2
Depreciation	1.1
Commonwealth Government Contribution (a)	2.2
Imputed gross operating surplus of dwellings	6.6
Indirect taxes less subsidies	8.6
Gross Territory Product	82.0

(a) We have included \$2.2 million for wages, salaries and supplements of on-Island Commonwealth Government employees — we have taken the figure used for our 2006 report.

Source: Commission staff estimates.

GROSS TERRITORY PRODUCT ESTIMATED RANGE

- 17 The 2 alternative GTP estimates suggest economic output in the vicinity of \$82-90 million. This is equivalent to \$45-49 000 per capita, which places Norfolk Island at around the ABS 2009-10 estimate of GTP per capita of Tasmania (\$44 000) and South Australia (\$48 000).

ATTACHMENT G

CHANGES IN THE ASSESSMENTS

- 1 This attachment reports changes made to the assessment methods used in the 2006 review and changes since the draft report.

CHANGES TO 2006 METHODS

- 2 Because staff have been asked to update the estimates contained in the commission's 2006 report, replicating the methods used in that report, we have used the 2006 methods and relied on the decisions made by the commission at that time wherever possible. Some methods have been changed, as explained in the attachments, when:
- data to replicate the old method were unavailable
 - new data were available, or
 - special circumstances had changed.
- 3 The boxes below summarise the changes.

Box G-1 Summary of changes in compiling comparable Norfolk Island budget

Norfolk Island budget	Method
Federal-type transactions	Additional funds analysed — Healthcare fund
Introduction of GST	Analysed GST fund
Health	Medivacs and overseas treatment costs funded through the Healthcare Fund were not included in the 2006 report. We have also obtained a breakdown of the welfare item, 'medical expenses for approved persons' into overseas treatment and patient travel, and local medical expenses, and have now included the former within State health expenses — the latter would consolidate out with the Norfolk Island Hospital accounts. The cost of goods sold was also not netted off from the hospital income data in the 2006 report.

Box G-2 Summary of changes in comparable revenue calculations — State

Source of revenue	Method
Payroll tax	No method change.
Land tax	Australian Valuation Office data not available. Used data on detailed commercial land zoning information and absentee landowner valuation listings for individual blocks. Land sorted into value ranges before applying appropriate average tax rate for that value. This could not be done using the Australian Valuation Office data.
Stamp duty on conveyances	Additional data were used to estimate value of transactions with no transfer value shown, based on the individual size and zoning of each affected property.
Financial transaction taxes and stamp duties on marketable securities	No method change.
Gambling tax	No estimate of household disposable income available. Used State average revenue per capita used to assess comparable revenue instead.
Insurance tax	No method change.
Motor vehicle taxes	No method change.
Other revenue	No method change.
Mining revenue	No method change.
Contributions by trading enterprises	No method change.
Interest earnings	No method change.
Fees and fines	No method change.

Box G-3 Summary of changes in comparable expense calculations — State

Service	Method
Education	No method change.
Health	Essentially the same method, but removed the effect of population growth in comparable communities and included the effect of the change in population of Norfolk Island.
Welfare and public housing	No method change.
Police	No method change.
Administration of justice	Adjustment to strengthen arrangements for magistrates removed. Norfolk Island Government is now funding sitting fees.
Corrective services	No method change.

Public safety and emergency services	No method change.
Culture and recreation	No method change.
Water, sanitation and protection of the environment	No method change.
Electricity	Subsidy calculated to provide an increase in the consumer electricity price equivalent to the increase in the Bass Strait Islands subsidised consumer price, rather than to subsidise the full increase in the Norfolk Island consumer price.
Transport	Allowance for subsidy for passenger access removed due to new arrangements for the airline.
Tourism and services to industry	No method change.
General public services	No method change.
Superannuation	No method change.
Depreciation	No method change.
Debt charges	No method change.

Box G-4 Summary of changes in comparable revenue calculations — local government

Revenue source	Method
Municipal rates	No method change.
User charges	No method change.
Interest and other revenue	No method change.
Grants from the State government	Used the all-State average per capita council receipts as base instead of Tasmanian Council receipts to better reflect the basis on which comparable expenses (on which these grants are spent) are calculated.

Box G-5 Summary of changes in comparable expense calculations — local government

Service	Method
General public services	Same method, but a discounted tourist adjustment used.
Public order and safety, education, health and welfare	No method change.
Housing and community amenities	No method change.
Culture and recreation	No method change.
Services to industry and tourism	No method change.
Transport and communications	No method change, but different data source used to derive per capita spending by local governments on local roads because the source used in 2006 was unavailable.
Depreciation	Equal to the King Island per capita depreciation expenses only for those services which did not have depreciation expenses implicitly within the service assessment. This was narrower than in 2006.
Debt charges	No method change.
Other expenses	No method change.

CHANGES SINCE THE DRAFT REPORT

4 The following changes have been made since the draft report:

- The Norfolk Island total resident population has reduced, from 1 866 to 1 817. This was because the Norfolk Island 2011 Census data were released to us. This has changed all the Norfolk Island per capita numbers in the report and other adjustments such as the tourism adjustment.
- The Norfolk Island Government has been attributed the capacity to raise interest income at the comparable community level in 2009-10 but its inability to raise revenue in the years after that has been recognised as a special circumstance that might be taken into account as an addition to the financial assistance required if sustainability issues were considered.
- The GST raised by the Norfolk Island Government has been accepted as a special circumstance which would reduce the amount of financial assistance that the Australian Government would need to pay if the Norfolk Island Government retained its right to raise GST.
- Airline staff have been removed from the airport payroll, meaning that the Norfolk Island Government has not capacity to raise revenue from the airport enterprise. This is

part of the special circumstances relating to the Australian Government's decisions on the airline.

- An assessment of local roads depreciation has been added.
- The state health assessment has been changed to remove the effect of population growth in comparable communities and include the effect of the change in the population of Norfolk Island.
- The tourist adjustment used in the assessment of local government-type general public services has been discounted by 40%, to reflect that services relating to the Assembly and Administration are not affected by tourists.
- An interest payment made by the Australian Government on behalf of the Norfolk Island Government has been included in its state expense data. However, we have continued with the approach in the draft report that the special circumstances attached to Norfolk Island's borrowings do not warrant assessment of a capacity to pay debt charges.
- There have been minor adjustments made to the Norfolk Island comparable budget and a number of minor errors in the calculations corrected.

ATTACHMENT H

CONTRIBUTORS TO THE REPORT

DISCUSSIONS HELD ON ISLAND

- 1 Commission staff visited Norfolk Island in September 2011 to discuss the department's request for an update of the 2006 review.
- 2 We met with the Administrator and Official Secretary, the Norfolk Island Chief Minister and other ministers and key staff of the Administration, as well as business operators. We were keen to hear their views on changes in revenue raising capacity, service provision and other circumstances in the Norfolk Island community since 2006.
- 3 During and after the visit, we were provided with much valuable information and data which we used to update the analysis undertaken in the 2006 review and to produce a draft report.

DRAFT REPORT

- 4 On 2 November 2011 we provided copies of the draft report to the Norfolk Island Government and staff, the Administrator and Official Secretary, other members of the Norfolk Island community and several external entities who provided data or information, and the Australian Government Departments of Regional Australia, Regional Development and Local Government; Finance and Deregulation; Treasury; and Prime Minister and Cabinet.
- 5 We sought comment on the draft report, in particular in relation to a number of assumptions we made and whether there were any inaccuracies or misunderstandings in the draft.
- 6 Below is a list of people or entities who submitted comments. For reasons of privacy, providers of confidential submissions have not been identified.

Submission	Provider
NI2011/SUB/001	Confidential
NI2011/SUB/002	Alan McNeil, Planning Officer, Norfolk Island Administration
NI2011/SUB/003	Confidential
NI2011/SUB/004	Norfolk Island Police Force
NI2011/SUB/005	Bruce Baskerville, Site Manager, Kingston and Arthur's Vale Historic Area
NI2011/SUB/006	Department of Regional Australia, Regional Development and Local Government
NI2011/SUB/007	Department of Finance and Deregulation
NI2011/SUB/008	Confidential
NI2011/SUB/009	Confidential

ACRONYMS AND ABBREVIATIONS

ABS	Australian Bureau of Statistics
Administration	The Norfolk Island Government Administration
AFP	Australian Federal Police
AIHW	Australian Institute of Health and Welfare
Commission	Commonwealth Grants Commission
CTP	Compulsory third party
Department	Department of Regional Australia, Regional Development and Local Government
FTE	Full-time equivalent
GBE	Government business enterprise
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GHDI	Gross household disposable income
GST	Goods and Services Tax
GTP	Gross Territory Product
IOT	Indian Ocean Territories
Island	Norfolk Island
KAVHA	Kingston and Arthur's Vale Historic Area
NPP	National Partnership Payment
NPR	Non-principal residence
NSL	Norfolk Island Sustainability Levy
SPP	Specific purpose payment
VET	Vocational education and training