

- On the Brink of Disaster -

The Impact of the Australian Government Reforms on Norfolk Island Businesses

An Independent and Unsolicited Report provided to

The Norfolk Island Community

and to

The Hon Darren Chester MP

Minister for Infrastructure and Transport

Acting Minister for Regional Development

Acting Minister for Local Government and Territories

by

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Norfolk Island
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Biographical Note

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Preface

The third settlement of the British territory of Norfolk Island commenced in 1856 with the resettlement on the island of the descendants of the HMS *Bounty* mutiny, then over-populating Pitcairn Island. Currently Norfolk Island is an external territory under the authority of the Commonwealth of Australia. In recent years Norfolk Island has been subject to changes wrought by the Australian Government that have been the most sweeping on the island since its settlement by the Pitcairn Islanders. These changes have included changes in representation and governance, and in the economic and financial regime on the island.

From 1979 until 2015 the island enjoyed a degree of self-government, but this was terminated in June 2015 by the Australian Government in actions that saw the closure of the Norfolk Island Legislative Assembly and the disbanding of the Norfolk Island Government and Public Service. The Legislative Assembly was replaced by a "regional council", constructed under Commonwealth legislation, and modelled on a New South Wales local authority template.

The centrepiece of the new economic and financial regime is the absorption of Norfolk Island into the Australian taxation and welfare systems. The activities of the new Norfolk Island Regional Council (NIRC) are regulated by the Commonwealth-enacted *Local Government Act 1993 (NSW)(NI)*, and by other Commonwealth Acts and Norfolk Island Acts still applicable to Norfolk Island.

The purpose of this report is to identify major changes that these recently introduced measures (and others that have been foreshadowed) have wrought on businesses on Norfolk Island, and to point to some of their consequences. In doing so it recognises the critical importance of tourism for the Norfolk Island economy. The report describes an island in economic crisis, and goes on to suggest actions that need to be taken to resolve it.

All the figures quoted - where not referenced - are current and in general circulation. Commonwealth Government departments, departments of the New South Wales Government, and the Norfolk Island Regional Council have all provided information. I have discussed the matters which are raised in this report over several months with many engaged with the economy of Norfolk Island, including successful business people. I thank them all for their contributions and advice. However responsibility for the content of this report rests with me.

The report is based on evidence and analysis. The conclusions follow from these. To deny the conclusions requires at least equally compelling other evidence and alternative analysis.

There does not appear to be any study of the prospects for the Norfolk Island economy, comparable to this one, carried out by the Australian Government or any other body.

Individuals and groups will make up their own minds as to the relevance of this report for their own purposes and for the Norfolk Island community more generally. Those who wish to discuss the content of the report, or who would like to provide alternative or additional information, are invited to contact the me at: nobbs298@gmail.com.

Chris Nobbs
Norfolk Island

Executive Summary

1. The Norfolk Island economy is in a state of crisis and on its current trajectory is heading towards a disaster in which many businesses and families will suffer substantially.
2. This crisis is a result of the manner of intervention by the Australian Government in the island's government and economy commencing 1 July 2016. By requiring *both* that Norfolk Island pay its own way *and* that Norfolk Islanders become like mainland Australians in terms of their obligations and expectations, the Australian Government is by its decisions crushing the island's economy in a vice from which few groups will escape unscathed.
3. Critical factors in this crisis include:
 - ◆ the imposition of Commonwealth and NSW regulatory regimes which have raised, and will inevitably continue to raise, business costs and prices substantially;
 - ◆ the planned introduction of Australia's Modern Award System for employment (which in some instances will see an overnight 30 per cent rise in small business wage costs);
 - ◆ the failure of the Australian Government to take up the responsibilities previously held by the Norfolk Island Government for the promotion of tourism on the island;
 - ◆ the loss of direct passenger airline services between New Zealand and Norfolk Island;
 - ◆ restrictions on island agricultural pursuits due to biosecurity preconditions;
 - ◆ the removal of general revenue raising powers previously held by the Norfolk Island Government; and
 - ◆ the little evidence of any "upside" for Norfolk Island's future economic development.
4. It is projected that the combination of these factors along with others will cause a very large increase in Island prices, a steep downturn in tourism, a slump in business, a rise in unemployment, and widespread community distress.
5. The Australian Government has given insufficient thought to the genuine requirements of a very small and marine-isolated economy such as Norfolk Island has. (Given that Australia comprises almost *in toto* one vast continent, this may not be surprising.) The "development" model currently in place for Norfolk Island is grossly inappropriate.
6. As a result of the analysis provided here, the Australian Government is urgently enjoined to:
 - ◆ halt for the meantime any further Commonwealth or state impositions on Norfolk Island under current arrangements;
 - ◆ commission the Australian Productivity Commission to carry out research and conduct a public inquiry to determine the real financial capacity of the island and how it can survive economically, socially and culturally at reasonable cost;
 - ◆ restore some general revenue-raising powers to the Norfolk Island Regional Council;
 - ◆ specify clearly and in much greater detail than has been done hitherto, exactly what its objectives on Norfolk Island are, and specify indicators to measure their achievement.

1. The Australian Government's Legal Changes and their Economic Consequences for Norfolk Island Businesses

1.1 Commonwealth level changes

All of the changes introduced by the Commonwealth Government under its "reform programme" impact businesses on Norfolk Island either directly or indirectly. These changes have come in the wake of the modest performance by Norfolk Island businesses in the years following the global financial crisis of 2007-09. Many of these changes impose substantial new and increasing costs on Norfolk Island businesses, which are enumerated in the following:

(i) The Australian minimum wage applicable to Norfolk Island rose 16 per cent on 1 July 2016, 22 per cent on 1 July 2017, and is set to increase by two to three per cent per year in following years

The Norfolk Island minimum wage administered by the Norfolk Island Government (NIG) stood at A\$13.00 over FY2015-16. The Norfolk Island minimum wage from 1 July 2016 was set by the Australian Government at 85 per cent of Australian national minimum wage i.e. $0.85 \times \$17.70 = \15.05 , a 15.8 per cent increase. As of 1 July 2017 the Norfolk Island minimum wage was increased to 100 per cent of Australian national minimum wage (\$18.29), a 21.5 per cent increase from the previous year [viz. $100(18.29-15.05)/15.05$]. The Australian Fair Work Commission commonly resets the minimum wage on an annual basis: the average annual increase over the last three years has been 2.7 per cent. Thus, beyond 30 June 2018 the Norfolk Island minimum wage is likely to continue to rise at about this rate – over and above the 41 per cent rise sustained over the last two years [viz. $100(18.29-13.00)/13.00$].

(ii) Employee entitlements under the National Employment Standards (NES) from 1 July 2016 have increased costs by reducing the standard working week on Norfolk Island by two hours and increasing employee leave entitlements

Prior to 1 July 2016 employment on Norfolk Island was regulated under the *Norfolk Island Employment Act 1988*, which provided for a standard working week of 40 hours and 10 days holiday leave, and a minimum of 5 days sick leave. The Australian National Employment Standards (NES) have introduced a maximum standard working week of 38 hours for full-time employees, twenty days paid annual leave per year, and up to ten days paid personal/carer's leave. These entitlements are available to all employees (including permanent part-timers).

(iii) Employee entitlements under the Australian Modern Award System (MAS) from 1 July 2018 will increase business costs very substantially, particularly as they relate to penalty rates

Under the *Norfolk Island Employment Act 1988* all overtime hours beyond the 40-hour standard, were paid at 150 per cent of the rate for regular hours; public holidays were paid days, and if worked were doubly paid (i.e. 200 percent the rate for regular hours).

It is proposed by the Australian Government that the Modern Award System (MAS) administered by Fair Work Australia will extend to Norfolk Island from 1 July 2018. Amongst other things the MAS introduces the concept of a specified minimum weekly wage for different levels of work responsibility above the basic minimum wage, in each of several different industry categories. All of these specified wage rates change over time by the same percentage as the minimum wage rate does (approx. +2.7 per cent per annum).

The MAS also introduces penalty pay rates for overtime, which will have very serious implications for Norfolk Island where tourist air service arrivals occur on four days of the week, two of which are on the weekend. The MAS also introduces specified minimum working hours for part-time employees (who on Norfolk Island are naturally restrained to live within 10 minutes travel time from work, and who due to other commitments may be quite comfortable with shorter and more flexible working hours).

Appendix I sets out the wage calculations for a small Norfolk Island retail business open during the week and on weekends in order to serve both tourists and local residents, before and after the introduction of the MAS. Wage costs are set to rise abruptly by 35 per cent per employee. Assuming that current opening hours are in some sense optimal for the business and its customers, such a wage increase would be inconceivable for future economic viability.

(iv) Employee superannuation is increasing at one per cent of employee normal earnings per year

Over many years the NIG operated a provident fund (superannuation) scheme for its employees, with superannuation provision for others in the community left for individuals to organise. It is probably true to say that up until the present the issue of retirement has not been the major issue on Norfolk Island as it is within Australia, as a result of the island's bounty, simple lifestyle, and supportive community.

Payment by businesses of employee superannuation under the Australian superannuation guarantee commenced 1 July 2016 at one per cent of employee normal earnings, moved to two per cent on 1 July 2017, will move to three per cent on 1 July 2018, and increase by one per cent annually after that. The current Australian rate of 9.5 per cent is fixed by Commonwealth legislation until 2020/2021, after which it will rise by 0.5 per cent per annum until it reaches 12.0 per cent p.a. in 2027. However in 2020/2021 the rate on Norfolk Island will have reached only 5.0 per cent p.a., so it will need to continue rising at 1.0 per cent p.a. until 2027/2028.

(v) Cost of compliance with Commonwealth legislation relating to employment and taxation (from 1 July 2016) is high

Set-up costs for businesses have included comprehension and training in relation to the changes introduced, computer hardware and software purchases, and payments for financial consultants and accountants. Advice from chartered accountants in relation to business structure options can run to many thousands of dollars. (Chartered accountant fees in Sydney commonly being well above \$400/hr.) Initial establishment of money value for depreciation scheduling and allowances on existing capital assets can require the hiring of registered quantity surveyors (cost for a 10-unit accommodation business around \$5,000).

On-going increased costs include the use of accountants in BAS preparation, and in taxation and superannuation matters.

(vi) Effects on businesses of general taxation changes from the Norfolk Island Government regime to the Australian Government regime appear so far to be small or negative

Prior to the 1 July 2016 changeover, businesses paid taxes to the NIG, particularly Norfolk Island GST and import duties. Goods imported into Norfolk Island for on-selling were not subject to import duty (a waiver not granted to imported vehicles, liquor, and tobacco products) but were subject to NI GST at the rate of 12 per cent of dollar value. Goods imported into Norfolk Island for the importer's use – and of value greater than \$500 – paid import duty at 18 per cent but were NI GST free.

From 1 July 2016, NI GST and import duties were abolished. The Australian Government has stated that goods and services provided on Norfolk Island will be Australian GST-free in future.

Based on Australian taxation law a business needs to be declared as either a sole trader, partnership, company or trust. These entities have different tax obligations and allowances. Most businesses on Norfolk Island operate as sole traders or partnerships (often husband and wife).

Claims for depreciation allowances for small businesses can cover capital works, plant and equipment, and renovations and improvements. Over the 2016-17 financial year the Australian Government provided 100 per cent instant depreciation for individual capital goods purchased at a cost of less than \$20,000 (including freight charges). This has now been extended for FY2017-18.

There is a range of other tax deductions claimable against expenses incurred by business entities and against personal income for sole traders and partnerships, incurred in running the business. These are

set out on the ATO website. Partnerships do not pay tax as such, but the business profits are divided amongst the partners who pay tax individually on their income. Norfolk Islanders paying income tax benefit from the special area zone tax offset allowable on Norfolk Island as a remote area (allowable to individuals who have lived or worked in the remote area more than 183 days in the tax year). Currently this offset is set at \$1,173.

The question that arises is whether the Australian taxation changes represent a nett positive or nett negative stimulus for Norfolk Island businesses. This is not easy to estimate, but the results of a business confidence survey carried out on Norfolk Island recently (see section 3.2) suggest overall that businesses have been disadvantaged by the taxation changes introduced by the Australian Government relative to their previous circumstance. Anecdotal evidence appears also to support this observation.

(vii) Commonwealth's extension of NSW legislation to Norfolk Island

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

With regard to the application of other NSW legislation, Schedule 1 item 1 of the Norfolk Island Applied Laws Ordinance 2016 temporarily suspends the application of other NSW laws until 1 July 2018 (see Appendix II). As the NSW Government lists over 950 Acts currently in force in NSW (NSW Government, 2017), if this proposition is imposed on Norfolk Island it is likely to provide a feast for financial and legal intermediaries, increased costs of business, but with little or no tangible benefit for the island.

See further section 1.2(i) on the extension of NSW regulatory provisions to Norfolk Island.

(viii) Effects on employment opportunities

The negative consequences of the charges accumulating on businesses over time on the future *level* of employment are likely to be very serious, but unpredictable in precise terms. There are however other aspects of the Commonwealth changes that are having negative influence on island employment.

The NIG operated a Temporary Entry Permit (TEP) programme, under which businesses wishing to hire a skilled employee and having found no one suitable after advertisement on the island, could support someone to come to Norfolk Island (from Australia as from elsewhere) as a TEP worker. These permits were renewable every 12 months, and provided a path to permanent settlement on the island for those so-disposed. The programme provided a flexible but controlled labour market on the island.

Under the NIG regime skilled workers could often be attracted to work on Norfolk Island on account of the better conditions and tax advantages on the island. This opportunity has now been lost as New Zealanders now require visas to work on Norfolk Island, and there is no comparable financial advantage for similarly skilled Australians to work on the island. Currently, a Norfolk Island business cannot sponsor skilled employees to come to the island to work. The Commonwealth's Regional Sponsored Migration Scheme has no regional certifying body responsible for Norfolk Island.

Also for residents of Norfolk Island the NIG regime provided a means by which they could find part-time work in tourism and other industries as seasonal and other variables required. This flexibility has now been lost to a large degree on account of: individuals receiving welfare support from the Australian Government are who likely to be penalised if they take part-time employment, and individuals taking a second job being penalised by withholding tax taken out of their secondary employment pay (and which is returned later by means of their income tax assessment).

1.2 NSW State (NSW) level changes

As noted above, the Australian Government has replaced, under Commonwealth legislation, the Norfolk Island Legislative Assembly with a "regional council" modelled on a NSW local government template. (The concept of "regional council" does not exist in NSW.) In comparison to NSW local governments Norfolk Island is unique in NSW, and perhaps in Australia, in that it is responsible for a very wide range of services, including the island's telecommunications, lightering and ports, electricity utility, and an international airport.

In previous years the NIG had the ability to raise general revenues, particularly from the NI GST and import charges. The NIRC no longer has this power, and is limited to revenue raising methods specified in the *Local Government Act 1993 (NSW)(NI)*. This has placed an immense burden on the 1,200-odd ratepayers of the island and has undermined the ability of the island to respond adequately and flexibly to needs as they arise. These changes are also reflected in the increasing imposts being made on businesses. The Australian government has enforced on Norfolk Island the requirement of raising an annual minimum in rates of \$1million (see Appendix II) (and see further section 1.2(vii) below).

There is a misplaced optimism that local authority funds-raising can support a community of around 1,200 ratepayers on an isolated island in a manner similar to mainland Australia, given the breadth of responsibilities that the NIRC has, and the usage of the island's infrastructure by 30,000 tourists per year. A further difficulty for the NIRC is that the current Council's senior management were appointed by the Australian Government not the NIRC.

(i) NSW regulatory compliance

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

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

Again, consider red meat (cattle) slaughter. The NSW legislation, and regulations administered by the NSW Food Authority are drafted with large scale plant operations e.g. abattoirs, in focus, a quite different situation to Norfolk Island where a mere dozen or so cattle beasts are slaughtered each week. If the full NSW specified requirements for licencing and registration, meat safety inspection, facilities construction, hygiene and handling, labelling, inspection and audit were applied on Norfolk Island, it is possible that they would wipe out the local industry, and in addition raise the cost of red meat through necessary importation. In contrast the previous *Norfolk Island Slaughtering Act* is a short Act and gives considerable discretion to the Stock Inspector, and its success is demonstrated by the high public health and OH&S standards achieved under it. It is flexibility of this sort which is far more appropriate to Norfolk Island conditions than high-cost regulations appropriate for different circumstances.

The main point is that Norfolk Island businesses are supportive of public health and OH&S objectives, however the costs and the benefits need to be assessed in a manner which a small community is capable of sustaining. It is imperative to put in place a flexible system that does not drive small businesses to the wall. Within the ambit of World Health Organisation criteria, the current Australian state regulations do not necessarily represent a unique best solution to these issues. As Danny Gilbert, former director of National Australia Bank and Chair of the Business Council of Australia's Ease of Doing Business Committee stated in a recent essay (Gilbert, 2017):

This is not a call to blindly slash regulationbut to take a culturally thoughtful, systematic, evidence-based approach to reforming our nation's insidious regulatory culture and deliver the best outcome for Australians.

If regulation is necessary, it should be fit-for-purpose. It shouldn't be too complex or excessive for the risks involved....

(ii) increasing tradesperson rates

Tradespersons (electricians, plumbers, carpenters) are both businesses in their own right, and provide a direct input cost to the proper functioning of other businesses. They have their own regulatory compliance requirements. In 2014-15 prior to the reform process, rates on Norfolk Island for tradespersons ranged around \$35-\$40 per hour. Current rates on Norfolk Island have risen to \$45-\$50 per hour (a 25-30 per cent increase). These rates are still below rates current in NSW, and will inevitably rise substantially as new regulations come into force, and new employees expect Australian levels of allowances and superannuation. Unless an alternative decision is taken by the Commonwealth, NSW regulatory requirements for tradespersons in relation to OH&S, compulsory insurance etc. will be extended to Norfolk Island from 1 July 2018. This is likely to occasion significant cost increases for all businesses.

(iii) Commonwealth and NIRC airport charges

Under the Norfolk Island Government regime, Australian federal departure tax did not apply to flights from Norfolk Island to New Zealand. From 1 July 2016 the Australian Government introduced a passenger movement charge for people departing from Norfolk Island to New Zealand, of A\$55. This was increased to A\$60, from 1 July 2017.

The NIRC has also announced an increase of its passenger movement charge (levied on all arrivals and departures) at the Norfolk Island airport from January 2018, from \$25.70 to \$45.60 (an 85 per cent increase). From 1 January 2018 these imposts will raise the total passenger fees payable on an airline ticket to Norfolk Island to A\$158.94 ex Brisbane, and A\$214.10 ex Auckland. These are extremely serious increases for Norfolk in a very competitive tourist marketplace: the price elasticity of demand for short-haul holiday flights being very elastic i.e. < -1.00 .

See further Section 2.1(ii) below, on airline services' response to these issues.

(iv) NIRC "fee unit" increased 12.7 per cent from 1 July 2017

Charges for many NIRC services are determined in terms of a "fee unit". The fee unit for 2016-17 was set at \$25.20, and this has been increased for 2017-18 to \$28.40, an increase of 12.7 per cent.

The influence of this increase will be pervasive. Services which are set in relation to the fee unit and which are relevant for businesses include conveyancing, register searches and provision of documents, lodging of documents, licence issuance, examination of stock, water assurance and so on, contained in NSW Acts and Regulations including the *Sale of Food Act*, *Electricity Supply Act*, *Water Assurance Charges Act*, *Companies Regulations*, *Electricity Supply Regulations*, *Liquor Regulations*, and *Planning Regulations*.

(v) Other NIRC fees and charges have also increased from 1 July 2017

These increases include the following:

- ◆ Norfolk Telecom landline and mobile charges increased by 15 per cent;
- ◆ lighterage charge per cubic metre/tonne increased by 13 per cent, and it is understood that a further increase is projected;
- ◆ the electricity tariff remains at 62c/kWh however new charges effective 1 October 2017 include: a general infrastructure charge to all electricity consumers for grid access of \$37 per quarter; and a solar infrastructure access and development charge for consumers with photovoltaic arrays, of \$26 x Kw capacity per quarter.

(vi) wastes management

Under the NIG all Norfolk Islanders, including Norfolk Island businesses, paid a waste management levy at the rate of \$32/tonne on the import of all goods (incoming mail the only exemption). On 1 July 2017 the NIRC increased this levy to \$35/tonne (a 10 percent increase). The NIRC has now introduced from 1 August 2017 an additional waste management fee for disposal of non-recyclable waste, with the cost dependent on the volume of waste. This is set at \$15 per medium truck (1 cubic metre), \$20 per large truck (2 cubic metres).

In 2012 the Commonwealth declared the Norfolk Marine Park under the Australian Environment Protection and Biodiversity (EPBC) Act. This includes a sea area completely circumscribing Norfolk Island. Under the EPBC Regulations the disposal of wastes into a marine reserve is prohibited without the approval of the Director of National Parks, and the Director has made her view known to the NIRC that current disposal practices are inconsistent with the conservation objectives of the park and that current practices must cease. The NIRC supports this objective and is working towards this goal. The point requiring emphasis in the present context is that this represents a further, however unintentional, impost by the Australian Government on Norfolk Island businesses and the community. (Further on the Marine Park, see section 2.1(iv))

(vii) property rates

The Australian Government has imposed on the NIRC the requirement of raising from property rates a minimum of \$1,000,000 from property rates in the year ending June 2018, and thereafter (see Appendix II). This imposed further new costs on island businesses. (See further section 2.2(vi))

1.3 Summary

Businesses on Norfolk Island are being subject to an avalanche of cost increases imposed directly and indirectly by the Commonwealth, which many businesses will not be able to sustain.

It should be recalled that the downturn of economic activity experienced by many economies around the world over the years 2007-09 – when national GDP figures fell by around only 5 per cent – was characterised as a "financial crisis". With the Norfolk Island economy bracing for a plunge in activity much greater than that, the description of "crisis" is also applicable here.

The changes in imposts to which Norfolk Island businesses are subject in 2016-17, and will be subject in coming years are summarised in Table 1. Invariably these represent cost increases. Wage costs alone for some small businesses are set to rise over 30 per cent immediately on 1 July 2018 (see Appendix I). (And it is important to recall in relation to Table 1 that small percentage increases on large money amounts can also represent substantial cost increases e.g. the superannuation levy.)

Table 1.
Cost Increases for Norfolk Island Businesses since FY2015-16
as a result of the Commonwealth Intervention

NB: For each issue (as discussed in the text) this Table gives the chosen baseline measure and cost increases (in dollar or percentage terms) subsequent to FY2015-16. There are no known cost decreases that can be identified. Symbol (+) refers to estimated increases: the more symbols the larger the change. See text for full explanation.

Issue	Base	Cost Increase for Financial Year			
		2016-17	2017-18	2018-19	2019- (best knowledge)
Commonwealth					
Minimum wage	NI min. wage	+16%	+18%	+3%	Continues to increase at ~3% pa
Employee entitlements	NI min. wage	+11%	—	—	Continues at this higher level
MAS	NI wage, penalty rates	—	—	>25%	Continues at this higher level
Superannuation guarantee	NI wage/salary	+1%	+1%	+1%	Continues to incr. annually to 12.0%
Compliance costs Cwlth (tax, emp.)	Business turnover	+++ \$	—	—	After setup, cont. at const. level
Income tax (compliance, profit)	NIG tax level (w. allowances)	(+) \$	(+) \$?	
State level					
Compliance NSW (Public health etc.)	Equipm't, training, registr'n etc	++ \$	++++ \$?	
Tradespersons (as inputs)	Hourly rate	+12.5%	+12.5%	?	
NIRC services	NI fee unit 2016-17	—	+12.7%	?	Continues this higher level?
NI Telecom - landlines & mob	Charges 2016-17	—	+15%	?	Continues this higher level?
Lighterage	Charges 2016-17	—	+13%	?	Further increase foreshadowed?
Electricity	Fees & charges 2016-17	—	+ \$?	
Wastes management	Fees at 2016-17	—	+ \$?	
Property rates	Rates at 2016-17 (min. \$500k)	Intro-duced	+100% (min.)	?	Continues this level or higher
Cwlth & State					
Airport & passenger fees	(i) Cwlth pass. tax ex NZ prev. nil (\$)	+\$55	+9%	?	
	(ii) NIRC pass. levy 2016-17 (\$25.70)	—	+85% (>Jan '18)	?	

2. Uncertainties and Complicating Issues

Quite apart from the issue of known cost increases as discussed in previous sections, there is a further number of issues which have increased uncertainty for Norfolk Island businesses. Some of these are of major significance and represent substantial impediments to business investment on the island.

2.1 Aggravating Uncertainties

(i) tourism budget

The former Norfolk Island Government over many years provided steady base funding for Norfolk Island tourism organisation and promotion (around \$1.3m per annum), as a foundation for forward planning by island businesses. Under the NIRC such reliable funding no longer exists. Under the Australian Government reforms, the Commonwealth agreed to fund state functions. Because tourism promotion is a state function, it is contended that it is the Commonwealth's responsibility to provide stable and reliable funding for tourism promotion on Norfolk Island – as Australian states do for their own tourism. So far the Commonwealth has refused to do this, although the Commonwealth has provided some emergency funding over 2016-17 (\$100,000).

Norfolk Island does not have access to NSW state tourism funding, such as the \$300million Tourism Fund, or Destination NSW.

(ii) airline service reduction

Norfolk Island has been served over many years by scheduled air services from Brisbane, Sydney, and Auckland. In recent years Air New Zealand has provided all these services, of which those from Australia are underwritten by a contract with the Australian Government which provides a "top up" to the airline if average fare (revenue/passengers) falls below a specified level. On 16 December 2016 Air New Zealand announced that it would be withdrawing direct air services between New Zealand and Norfolk Island from May 2017, and it did. In early 2017 the company Norfolk Island Airlines indicated that it would provide an Auckland–Norfolk service, and additional flights between Norfolk and Brisbane. These flights commenced in May 2017. However, on 11 September 2017 Norfolk Island Airlines announced it would be withdrawing from the Norfolk Island-Auckland route from 14 January 2018, citing the impact of tax increases imposed by both the Australian Government and the NIRC (see section 1.2(iii)), and higher than planned operating start-up losses due to the delay in the NIRC destination marketing campaign. (Norfolk Island Airlines, 2017)

The New Zealand tourist market represents 16-20 per cent of Norfolk Island's tourism. This reduction will hit not only the New Zealand market but also the Australian: Norfolk Island is a well-known location for international events e.g. jazz festival, country music festival, food festival, Norfolk theatrical festival, and these will be compromised if in future they are seen as without international flavour. Sports teams from New Zealand will also be discouraged from visiting if they can only get to the island by travelling via Sydney. The service withdrawal also represents a substantial loss of freight capacity for island businesses.

(iii) reduced multiplier effects of off-shore ownership

The absorption of Norfolk Island into the Australian taxation system, the unrestrained immigration of those with Australia-based interests to the island, and the contracting of services to off-island companies, have reduced the multiplier effects of economic activity on the island, with negative but unmeasured consequences. (For example the petrol supply contract, formerly held by a local firm, has been awarded by the Australian Government to an international company.)

(iv) recreational fishing around Norfolk Island

Recreational fishing in the waters around Norfolk Island is an important asset for Norfolk Island tourism, and in addition provides fresh fish for the tables of island families.

Norfolk Island is situated wholly within the Norfolk Marine Park, established by the Australian Government in 2012. The Park covers a somewhat rectangular area of around 188,000km² (almost one quarter the area of NSW) with Norfolk Island at its core. The Norfolk Island Government's *Norfolk Marine Reserve Act* remains in operation however the supporting regulations were not completed prior to the Australian takeover on 1 July 2016. The Park is managed by Parks Australia on behalf of the Commonwealth, with fishing under the control of Australian Fisheries Management Authority (AFMA). Within the Park is a rectangular area of 67x40 nautical miles around Norfolk Island referred to as the "MoU Box", within which tourist and local recreational fishing by Norfolk Island-based vessels is permitted under a Memorandum of Understanding entered into in 2010 by the Norfolk Island Government and AFMA. (NIG and AFMA, 2009) The Box is defined as a "multiple use zone" in the marine park plan. (Australian Marine Parks, 2017)

For many years the Norfolk Island Government and its successor the Norfolk Island Regional Council, together with NI Fishers Association, have petitioned the Commonwealth to identify the Box on all planning maps, including those of the Temperate East Commonwealth Marine Reserves Network, in order to confirm the status of the Box in relation to Norfolk Island and its economy. So far this request has been denied.

2.2 Other matters

(i) biosecurity and agriculture

Under the NIG regime the importation of live animals into Norfolk Island was controlled by the NIG under the *Norfolk Island Animals (Importation) Act 1983*. On 1 July 2016 control passed to the Commonwealth Department of Agriculture and Water Resources (DAWR) acting under the requirements of the *Biosecurity Act 2015*. Norfolk Island is now designated as a distinct region within Australia for biosecurity purposes (as some regions within Australia are also so-recognised).

In February 2017 an application was made by a Norfolk Island resident family to DAWR for a permit to import live milking goats from Australia. Following an exchange of information with the applicant the Department informed the applicant in July 2017 of its decision to deny the granting of the permit on the basis of the biosecurity risk. This decision is now the subject of an internal departmental review at the request of the applicant. Concurrently and independent of this application, the Department made it clear that they intended to refuse all applications to import ruminants (cattle, sheep, and goats) to Norfolk Island.

The issue of the importation of ruminants is a very important one for Norfolk Island both because of the status of the island's current stock, and because of Island's high agricultural potential and its potential to provide viable economic activity alternative to the Island's reliance on tourism – and indeed as an adjunct to tourism itself.

The reasons given by DAWR for the permit refusal referred to the results of the quarantine survey carried out on Norfolk Island over 2012-14 (Department of Agriculture, undated), which demonstrated the high biosecurity status of the island and the absence of ruminant-specific diseases on the island at that time. In any proposed importation the primary concern is for the potential introduction of disease, and in the case of ruminants particularly, Johnes's disease: a chronic and debilitating ruminant disease which exists in Australia and is difficult to eradicate once established in a herd. However up until 30 June 2016, cattle, sheep and goats imported to Norfolk Island under the strict biosecurity protocols provided under the Norfolk Island legislation were subject to no known incursions.

As an alternative to the import of live animals DAWR has suggested the use of artificial insemination for ruminants on Norfolk Island. This has disadvantages due to the fact that it provides only half the genetic material as new, and which is a particularly significant impediment on Norfolk Island due to the small ruminant numbers currently on the island. In the case of the proposed goat importation this approach also presumes that goat does are available to the importer, which they are not. Furthermore the denial of live imports may well signal the gradual demise of the existing ruminant-based industries on the island, including the existing single goat-owner's fledgling business. (Currently Norfolk Island is home to around 1,500 cattle, 100 sheep and not more than 10 goats.)

For DAWR, when it is proposed to import a good (including animals) into Australia from overseas – and now equally into Norfolk Island from Australia – the *Biosecurity Act* provides for the Director of Biosecurity to conduct a Biosecurity Import Risk Assessment (BIRA) in relation to that particular good. This is then assessed against a criterion called the "appropriate level of protection" (ALOP), in which an investigation is made to determine whether risk management measures exist which can reduce the assessed risk to achieve the relevant ALOP level, which is not of necessity zero. If it is considered that the appropriate level of protection cannot be achieved, then importation is refused. (DAWR, 2016)

In the case of the application for a permit to import the goats to Norfolk Island, it appears that a BIRA has not been undertaken and that the decision has been made on less comprehensive grounds. For their part the applicants did in fact propose a number of risk-reducing strategies, and that the goats be subject to comprehensive testing and screening prior to departure and after arrival on Norfolk Island. Furthermore the decision by the Department to intend to refuse all live ruminant imports to Norfolk was not preceded by any consultation with the Norfolk Island community, nor in particular with the island's veterinarian or the Norfolk Island Cattle Association (NICA). The NICA in fact supports the continued importation of ruminants under strict quarantine conditions such as those in place under the previous regime.

Furthermore it appears that under BIRA procedures, the potential benefit to Norfolk Island of an expanded goat (or other ruminant) industry could not be taken into account, because that would apparently transgress World Trade Organisation international trade rules which allow only for the consideration of the *dis-benefit* of a disease outbreak in risk assessment procedures (DAWR, 2016, p.8). This would be truly ridiculous, and is a further example of the Commonwealth's entanglement of Norfolk Island in laws and rules and protocols not designed for small isolated islands and which are largely irrelevant, inhibitive, and decidedly costly for the island itself.

We need to be very clear what is happening here: namely that DAWR is – with the stroke of a pen – making a decision about how it thinks it should save Norfolk Island agriculture from itself, for no benefit to the Australian mainland, and for a great dis-benefit to Norfolk Island. This approach needs urgently to be reviewed.

The stringency so-far accorded by DAWR to the import of ruminants to Norfolk Island stands in stark contrast to the apparent relaxing of biosecurity protocols for horses, dogs and birds, and to the apparent unwillingness of DAWR to inspect marine consignments arriving at Norfolk Island on board ship and prior to physical landing on the island – as was done under the previous regime. On at least one occasion a ship has been turned away from the island in the past due to infected cargo.

(ii) new industries? The example of medicinal cannabis

The Commonwealth does not have a good record in assisting the promotion of new industries on Norfolk Island. One recent episode relates to the possible commercial cultivation of medicinal cannabis on the island. Given the island's severe isolation, biosecurity status and climatic conditions, commercial research showed that this could be a very valuable crop for the island. On two occasions (in 2014 and 2015) the Norfolk Island Government issued separate licences under Norfolk Island law to Australian companies to import to, cultivate and harvest cannabis in, and export cannabis from Norfolk Island. On both occasions the licence was cancelled by the Norfolk Island Administrator on instructions from the Commonwealth Minister. (Hardgrave, 2014; Adams, 2015a & b).

In 2016 the growing of medicinal cannabis became legal in Australia, and a number of companies both Australian and from overseas have expressed substantial interest in investing in the industry in Australia.

(iii) loss of government buffer

Island economies are naturally subject to quite wide swings in economic fortunes as a result of their very small size, and their being price takers in the economic arena and having to respond to economic conditions elsewhere. The loss of the ability to raise general revenues inhibits the ability of the NIRC to respond promptly and adequately to economic downturns (or upturns) effecting the island and its citizens. Furthermore under the NIG regime public funds available from the NI-GST increased naturally with increasing economic activity, but this link has now been broken.

(iv) loss of economic and tourism statistics

During the period of its existence the NIG maintained a number of statistics by which to monitor the island's economy. NI Customs kept records of goods imported, and whether they were for resale or not; NI Treasury had records of GST payments; and visitor arrival cards on arriving passenger aircraft provided a range of data about island visitors, particularly tourists, for tourism planning purposes. NI CPI figures were regularly calculated according to an Australian Bureau of Statistics (ABS)-derived and locally-relevant formula.

Under the new regime the NIRC has lost access to monitors of almost all its key economic indicators. There are no records of imports; no GST is payable; the Australian Border Force administers the Australian Government's passenger arrival cards system and although some information on tourist arrivals is now provided to the NIRC, this is circumscribed in content and at the discretion of the ABF.

There is no simple means available to make up these losses. Statistics available from the ABS are only rarely adequate and timely for island purposes due to factors including: long time intervals between collections; the time interval between collection and publication; Norfolk Island not necessarily being separately identified; confidentiality issues requiring the suppression or rounding of small numbers; and data collected not necessarily being locally relevant. And special data requests to the ABS have to be paid for.

(v) cruise ships

In recent years Norfolk Island has received visits from smaller-sized cruise ships which may carry their own inflatable boats for disembarkation. An increase in the number of visits to Norfolk Island by cruise ships represents one of the few positive opportunities on a bleak economic landscape. (In calendar year 2015 seven cruise ships came to the island, five discharged passengers totalling 1,925 persons; in 2016 five cruise ships came, three discharged passengers totalling 154 persons. In 2017 five ships have come - up to 22 October - discharging passengers on three occasions totalling 225 persons. Two more cruise ships are scheduled to arrive before the end of the year. (Transam Argosy, 2017)) Measures are afoot to increase the number of cruise-ship based visitors. There are a number of difficulties yet to be addressed, including the probability of not landing from larger vessels due to wind and weather (finally a decision for the ship's captain), and issues relating to passenger insurance in transfer and on land. While increased cruise ship visits can benefit the island, there are cogent reasons why net benefits will be limited. (Nobbs, 2017a)

(v) small business mentoring

The NIRC has recently sponsored a consultancy group from Queensland to provide mentoring for small and start-up businesses on the island. These activities may well prove useful for the island, however any positive effects are likely to be at the margin. The issue of how to energise new and novel business sectors in order to stimulate economic growth on the island has been the subject of discussion and debate over many years, and is recognised – as elsewhere – to be a difficult issue.

(vi) community effects

It needs to be noted that the continued impositions by the Commonwealth Government, and the lack of genuine acceptance by them of community input into strategic decision-making, has led to a widespread loss of self-confidence and self-esteem by many members of the community, and this has its own repercussions on economic and social wellbeing in the community.

Quite apart from the direct business concern with the introduction of land rates, the author is constrained to emphasise the distress that the introduction of land rates is having on many in the Norfolk Island community, and in particular on the descendants of the original settlers from Pitcairn Island. These folk hold their land as part of their patrimony and cultural identity to be passed down through the generations, and not as a merely fungible financial asset. Being often land rich but cash poor, many of them are being forced to sell their patrimony to pay their rates. Such sales are also likely to have the effect of driving land out of rural uses in an era in which immigration to the island is no longer controlled and housing represents a higher money value for the land.

2.3 Summary

Uncertainty is corrosive to business confidence and the willingness of businesses to invest. It also provokes emigration of working-age people. On this matter there is very little visible upside to the situation in which Norfolk Island finds itself.

The combination of rising costs and uncertainties about the future have caused many businesses on the island to close, others to reduce their business hours, and many to be put up for sale. (See Appendix III)

3. Surveys, Models, and Commonwealth Expenditures

The serious challenges faced by Norfolk Island businesses into the future and outlined in foregoing chapters, are confirmed by other lines of evidence.

3.1 The accommodation business model (June 2016)

In June 2016 model calculations were done for a typical or average Norfolk Island accommodation house undergoing the announced legislative changes of the Australian Government over the years to come. The model was conservative in its assumptions, the results of the calculations were described in the media at the time, and the model including its assumptions made available publicly in its entirety. (Nobbs, 2016a)

Making necessary assumptions about how the business functioned, the model made profit and loss projections for the business over the coming years. The results of calculations for a conservative "base case" scenario showed that individual after-tax income would register a 33 per cent drop from 2015-16 to 2018-19 (from around \$27,600 in 2015-16 to around \$18,500 in 2018-19). In the first year of the changes (2016-17) the business showed net benefit from the effects of the removal of the NI-GST, the new depreciation allowance and special zone tax offset effects, but these were rapidly eaten away by rising minimum wages, and in the year 2018-19 by penalty rates under the MAS. These numbers raised very serious concerns not only about the future income for accommodation business proprietors, but also their ability to invest and ensure their businesses remained economically viable. (The model did not of course take into account the loss of the New Zealand tourism market due to the withdrawal of air services from January 2018 (see section 2.1(ii)).

The results of the model calculations were provided at the time to the then Minister for Territories Hon Paul Fletcher and to the Secretary of the Department of Infrastructure and Regional Development Mr Mike Mrdak, and to other members of the Department responsible for Norfolk Island affairs.

3.2 Business confidence survey (August 2017)

A survey of business confidence on Norfolk Island was carried out over 21-28 August 2017. The survey was restricted to business owners/operators who were members of the Norfolk Island Chamber of Commerce (COC) and/or the Norfolk Island Accommodation and Tourism Association (ATA). The COC and the ATA are the peak bodies on Norfolk Island representing their members' interests. (Not all businesses on the island belong to either of these organisations.) Approximately one half of the relevant membership of the COC and one third of the relevant membership of the ATA responded to this survey.

Based on the responses received, business confidence on Norfolk Island is low, and getting worse. Sixty-one percent of respondents considered the financial position of their business was worse in FY 2016-17 than it was in FY2015-16, while 21 per cent considered it was better. With regard to the outlook for FY 2017-18, 43 per cent of respondents considered the performance of the businesses would be "about the same", and 43 per cent considered they would be "worse off" (13 per cent considered they would be "better off" in FY2017-18 than they were in FY 2016-17). Furthermore about half of the respondents (48%) see no respite in the medium term (5-7 years ahead) although a minority (30%) do see such a respite. (Nobbs, 2017c)

It must also be emphasised that the responses to the survey are probably biased in the direction of optimism because of the surge of money into the community from termination payments to Norfolk Island public servants in June 2016, and from the capital works programme being undertaken on the island by the Commonwealth. Neither of these will recur in future years.

Appendix III also provides some additional data bearing on the matter of business confidence: in relation to business closures, business for sale advertisements, and empty commercial space.

3.3 Australian Government direct expenditure (2015-18)

The Australian Government has in the past year spent, and at the time of writing is spending, significant amounts of money on Norfolk Island infrastructure. These expenditures will have a positive impact on island businesses in terms of local employment and services provided to them. However these expenditures will shortly end and to all knowledge will not be repeated. Commonwealth pensions and entitlements are also paid on the island, replacing those paid by the former Norfolk Island Government (in some cases the coverage and entitlement amounts have increased, in some decreased).

Longer term infrastructure projects by the Australian Government include:

- ◆ refurbishments at the Norfolk Island Central School, and at the Norfolk Island Health and Residential Aged Care Service (formerly the Norfolk Island Hospital);
- ◆ the Cascade pier project, including the redesign and extension of the pier, and the installation of a crane designed to handle containers; and
- ◆ the construction of four barges: three for the disembarkation of cruise ship tourists, and one for the unloading of freight. (investment in pier and barges estimated at around \$18m).

This infrastructure spending will have long-term beneficial effects for the island, particularly if the Cascade improvements function to specification. The contract for the construction of the barges has now been let, with a start date of January 2018 and a scheduled completion date of April 2019. However uncertainty clouds this work in the short to medium term. Difficulties with the shipboard craning of containers particularly in moderate to heavy seas have yet to be resolved, as do occupational health and safety issues. There is no evidence to suggest that sea freight costs to the island will fall in the short or medium term.

On the other hand, requests by the NIRC to the Australian Government for assistance with regard to projects the NIRC considered as high priority – including connection to the trans-Pacific Hawaiki telecommunications cable, a waiver on the debt relating to the airport runway resurfacing in 2006, and reliable tourism funding – have been declined.

3.4 CIE econometric modelling (2004, 2014)

In 2006 the Centre for International Economics (CIE) of Canberra was asked to prepare a report for the Commonwealth Department of Transport and Regional Services (DOTARS) on the effects of an extension of all Commonwealth legislation to Norfolk Island. The report was not released by the Commonwealth, and only became available publicly in August 2015 by decision of the Administrative Appeals Tribunal (AAT) following a four-year-long campaign by Mr Brett Sanderson, opposed by the Commonwealth (CIE, 2006/2015). According to court documents DOTARS, together with the Department of Prime Minister and Cabinet, argued that release of the report would be contrary to the public interest. (Belot, 2015)

In 2014 the CIE was asked by the Department of Infrastructure and Regional Development (DIRD) to prepare a second and final report on the same issue. This report was released by the Commonwealth and gave a much more positive perspective on the merits of the intervention by the Commonwealth on Norfolk Island.

As we now know following the AAT ruling, the 2006 report forecast that following implementation of the Commonwealth changes Norfolk Island's gross domestic product (GDP) would initially fall by around four per cent before rising to around nine per cent above the "business as usual" baseline by the end of the ten-year projection period; and that consumption per household would rise some four per

cent above baseline over the same projection period. On the other hand the 2014 report forecast that the basic "core reform" with the combined application of Australian income tax, welfare payments and Medicare reforms, would see a jump in economic activity of around 14 per cent, and a large increase in household consumption of around 38 per cent by the end of its ten-year projection period (CIE, 2014, p.3). These latter figures have featured prominently in many subsequent Australian ministerial and departmental utterances.

Concerns were expressed at the time of the publication of the 2014 report as to the appropriateness of the computable general equilibrium (or CGE) model used in these calculations. (Nobbs, 2015) CGE models are commonly used to project things like global trade, and the economic performance of countries as diverse as the USA and Japan, while here it was being applied to an economy involving a population of around 1,800 (about the same size as Eumundi in Queensland or Narooma on the south coast of NSW). CGE models are extremely intensive in data requirements and if necessary data are not available, then the model requires that they be made up, and this can introduce considerable unreliability in the results obtained. The CIE reports acknowledged this issue. (CIE, 2014, pp 11-12)

The model assumes that resources will always be forthcoming to support the changes indicated, and that all change is "at the margin" (i.e. small and continuous). This latter is a particularly misplaced assumption because in Norfolk's small economy the market for many individual goods and services can adequately be provided by one supplier, so that monopoly or near monopoly is a common condition (e.g. in air transport, shipping, and in professional and technical services, quite apart from in government services such as power provision and the Norfolk Island liquor bond.) Furthermore, the model does not consider changes in the distribution of income consequent on the scenarios, nor environmental costs, nor the repatriation of money profits from the island to overseas owners rather than being reinvested locally.

Professor Michael Common, an English economist who spent ten years as a Senior Fellow at the Centre for Resource and Environmental Studies (now the Fenner School of Environment and Society) at the Australian National University in Canberra, and who was thoroughly familiar with the ORANI CGE economic model used in the two CIE reports, was engaged as an independent academic expert to compare the contents of, and the differences between, the two CIE reports. In his report Common notes that the numbers generated by the two model applications (2006 and 2014) are quite different, and concludes that due to the lack of transparency as to the data entered into the model and how it has been treated, it is not possible to discriminate amongst possible causes for this discrepancy. The usefulness of the CIE2014 report in particular was undermined by the fact that it does not make clear what the baseline is against which the economic changes are assessed, nor what infrastructure spending will be made and by whom: issues critical to any coherent assessment of Norfolk Island's future. Furthermore, Common's judgement was that given the very small size of the Norfolk Island economy, the use of the type of econometric model employed by CIE was "not a useful exercise". (Common, 2015) The CIE 2014 report makes no mention of the CIE 2006 report.

A further note from the perspective of November 2017. With the availability of both reports and the passage of time we can start to gain an augmented impression of the projections made by the CIE models. We note:

- (i) According to the 2014 model the economic impact of the reform package would be felt immediately with an initial and substantial surge in gross territory product (GTP/GDP). There is no available evidence that this has occurred, in fact the recent business confidence survey on the island suggests the contrary;
- (ii) The 2006 report indicated that prices on Norfolk Island would fall by around 5 percent, however the 2014 report makes no mention of prices. In fact following the introduction of the reforms on 1 July 2016 and except in rare instances, prices did not fall, and they have continued to rise as increased costs are placed on businesses and the community more generally;

(iii) One way of monitoring the output reliability of such CGE models is to employ "sensitivity analysis" i.e. to change slightly some key assumptions and observe what happens to the results of the model runs. Although two such analyses are recorded in the 2006 report, none are recorded in the 2014 report. The possibility therefore arises that the island is exposed to dangerously inappropriate policy choices as a result of inadequate assumptions underlying the modelling calculations.

(iv) The CIE modelling contains *no consideration of or reference* to the effects of the introduction of the MAS system into the Norfolk Island economy, scheduled for 1 July 2018, and to all available evidence *no consideration or reference to* the costs of meeting NSW and Australian regulatory provisions: two on-the-ground critical matters for business survival and profitability on the island.

3.5 Summary

The results of the accommodation house modelling (section 3.1) and the business confidence survey (section 3.2) indicate that the Norfolk Island economy is on a downward path. This is not alleviated by Australian Government direct expenditures on island infrastructure (section 3.3). The econometric modelling carried out by CIE for DIRD is compromised by its history, and at this time cannot be considered in any way legitimate as a basis for policy.

The application of abstract and mathematically sophisticated macroeconomic models to micro economies such as Norfolk's may give an impression of accuracy and sophistication, but this is illusory. Much greater attention needs to be paid to what is actually happening on the ground. (See further section 4.2(i) below.)

4. Overview of the Norfolk Island business situation

4.1 The current crisis

Norfolk Island businesses and the economy generally have been exposed to immense changes since 1 July 2016, which have brought the Norfolk Island economy to the brink of disaster. The evidence suggests that the island's economy and society is heading for collapse; tourism, upon which the island depends for its livelihood, is in disarray.

By requiring both that Norfolk Island pay its own way and that Norfolk Islanders be subject to taxes and benefits like mainland Australia, Australian Government policies are crushing the Norfolk Island economy in a vice from which few groups will escape. (Groups more likely to escape include: accountants and financial advisors whose rise is a consequence of the Australian Government's intervention, service providers to the Commonwealth and Commonwealth public servants with salaries fixed independent of conditions on Norfolk Island, and those with independent financial wealth from wherever they may come.)

The business community on Norfolk Island is very supportive of improving the wellbeing of its employees. However if the price is business closures, then no one benefits. Unemployment on a small island may mean emigration.

Norfolk Island has always been a relatively high cost-of-living economy due in particular to the high costs of freight and transport. Freight and associated costs impact heavily on the prices of imported goods – especially products such as building materials, fuel, groceries, and stock feed. Electricity prices on the island are very high relative to mainland rates. The electricity cost in South Australia, attested to be the highest power price in the world at 47.13c/kWh (Potter & Tillett, 2017), compares with the current Norfolk Island price of 62c/kWh. For Norfolk Islanders the return "bus ride" to the nearest destination starts at a minimum cost of around \$600.

In this environment the increased financial burdens put on island businesses and the community more generally by the changes being wrought by the Australian Government, as described in the foregoing pages, are likely to be crippling. Price rises, combined with the well-known price sensitivity of short haul tourism demand, the loss of direct air services to New Zealand, and the lack of institutionalised support for the island's tourist industry, are likely to result in a steep decline in tourism, a deep slump in business generally, and a rise in unemployment. The economic outlook is further darkened by great uncertainties in relation to the island's economy which diminish investment, and the apparent lack of any coherent plan or motivation by the Commonwealth to support sectoral initiatives on the island alternative to tourism.

As for those made unemployed, they will be protected to some extent by Australian welfare benefit payments, but this is an outcome that few on the island are likely to desire, and would represent a shameful outcome to the "reforms" put upon the island by the Australian Government. Eventually many of these people may be forced to leave the island with their families, as their aspirations and hopes for a life and career on the island – in many cases the island of their birth – are eroded.

We can summarise here **important causative issues underlying this crisis**:

- ◆ the imposition of the Australian Modern Award System, due to be introduced on 1 July 2018 (section 1.1(iii));
- ◆ the costs associated with compliance with Australian and NSW laws and regulations generally (sections 1.1(v) and 1.2(i));
- ◆ the failure of the Commonwealth to guarantee reliable tourism funding (section 2.1(i));

- ◆ the problems associated with achieving reliable flights to the island from New Zealand (section 2.1(ii));
- ◆ the loss of the ability of the NIRC to raise general revenues, together with the forced reliance on land rates (section 1.2(vii)).

The difficulties being experienced by businesses on the island (and by the community in general) **have been exacerbated by:**

- ◆ the overwhelming diversity and magnitude of the changes that have been and continue to be imposed on the island, coming on top of an economy that has seen only modest performance in the wake of the global financial crisis;
- ◆ the complexity of some of the changes e.g. those in relation to company structures, tax and superannuation requirements; and by
- ◆ the immediacy of the changes, many of which have been introduced with no or minimal transitional arrangements.

All these have added costs to the island of one sort or another.

The evidence more generally indicates that:

- (1) Despite the changes being wrought on the economy there is no evidence as yet that they have been of benefit to the Norfolk Island economy overall. The tax system changes show no clear evidence of net benefit (section 1.1(vi)); the Accommodation House Model of June 2016 (section 3.1) and the Business Confidence Survey of August 2017 (section 3.2) show net dis-benefits. The heavily compromised econometric modelling is without current relevance (section 3.4).
- (2) Depressed business confidence is exacerbated by the absence of evident upside to the present situation. Businesses have closed, others have gone onto shorter hours, and many are advertised for sale (See Appendix III). The increase in cruise ship visits can offer only a minimal respite to this problem.
- (3) When new sectoral economic opportunities have presented themselves on the island, they have failed to attract the support of the Commonwealth (sections 2.2(i) and (ii)).
- (4) Although not discussed in this report, there is abroad in the community an increased level of emotional distress that has its origins in the fragmentation and depersonalisation of life under the current regime, and which are eroding the fabric of Norfolk Island society. Many people on the island are exhausted and disillusioned by the imposed changes. Not all people on the island feel this way however.

4.2 Some functional elements underlying the crisis

(i) Incomplete appreciation of the attributes of small scale marine-isolated economies

There has been a failure of the Australian Government to come to terms with the nature of very small economies on very isolated islands. (In one respect this is understandable as that government deals by and large with economic life on an immense and continuous continental landmass.) This failure has been concretised by the inappropriate use of CGE modelling of the Norfolk Island economy, and the unwarranted picture it created.

Economies on very small isolated islands have some important and particular characteristics which it is important to understand if adequate economic policies are to be put in place:

- (1) They are not the same as small country towns, *inter alia* because they lack a surrounding-towns hierarchy to draw upon (see also Nobbs, 2016b);
- (2) What might be apparently small government-induced *institutional* changes in the case of larger economies, can have very major effects on small islands. (This is the lesson that can be taken from the matter of regulatory cost relative to enterprise size, and other examples given below);
- (3) Similarly, from a *market* perspective, marginal change doesn't necessarily mean marginal outcome on a small island (such as when a single supplier chooses to close his or her business and there is no replacement).

These issues entail two matters of major consequence:

- ◆ the need to pay close attention to specific island circumstances, on the ground; and
- ◆ the need for policy to allow for flexibility above all.

Australian Government policies implementing the current changes have so far shown little evidence of either of these characteristics.

In the foregoing report we have encountered a number of specific issues in this genre:

- ◆ the cost to businesses of regulatory compliance relative to revenue;
- ◆ employment penalty rates under MAS in relation to aeroplane arrival days;
- ◆ minimal hours of overtime under MAS given the characteristics of Norfolk Island living;
- ◆ a one airline default on the New Zealand route means no airline at all;
- ◆ costs to business as a result of the declaration by the Australian Government of the Norfolk Marine Reserve;
- ◆ the irreducible high cost of freight;
- ◆ with the island having no harbour there is no reliable or necessarily smooth transition of sea passengers or cargo from ship to shore despite the pier and barge improvements;
- ◆ the loss of economic and tourism statistics that cannot be replaced by ABS statistics;
- ◆ unemployment on an island versus emigration;
- ◆ tax on second jobs and their consequences for labour flexibility.

And in a more general sense the unique and problematic nature of remote island life and economy relative to metropolitan life, is exemplified by:

- ◆ the patched-up nature and derivation of laws being applied to Norfolk Island;
- ◆ the matter of requiring or not requiring passports for travel from Australia to Norfolk Island (particularly if planes from Australia are diverted by island weather to New Zealand);
- ◆ passengers from Australia having to fill in Australian Border Force passenger arrival cards;
- ◆ plant biosecurity differences with Australia;
- ◆ Norfolk Islanders being governed by NSW laws but having no vote in NSW elections.

These matters too reveal the general difficulty of fitting marine-isolated islands into standard categories.

(ii) the unnecessary characteristics of the changes applied

Quite apart from the content of the Australian Government's approach to Norfolk Island's economy, its implementation of that approach has been unnecessarily abrupt and abrasive.

One of the actions agreed in the *Norfolk Island Road Map*, signed in March 2011 between the Commonwealth Government and the Norfolk Island Government, related to processes to be involved in the transition and included the idea of introducing Australian tax file numbers to be followed by a

"dry-run" of tax returns to allow individuals and businesses time to adjust adequately to the proposed changes. A similar idea was recommended by the CIE in its 2014 report (CIE, 2014, p.54). Another idea promoted prior to the Federal Election of 2013 by Michael Keenan MP, Liberal Federal Member for Stirling and Shadow Minister responsible for Norfolk Island at the time, proposed that a Coalition government would decouple the dates of introduction of the Australian welfare system on Norfolk Island and the Australian taxation system, in order to provide some respite for people adjusting to the changes. (The introduction of Australian income tax in the Indian Ocean Territories was in fact phased in over four years.)

ACIL-Tasman in their consultant report of 2012 to the Commonwealth on the economic development of Norfolk Island stated their advice as:

In the immediate, it is not, however, necessary to resolve the final status of the integration of Norfolk Island with the Australian tax and transfer payment system. Rather, it is simply necessary to provide business with certainty regarding the operating environment. This certainty can be provided by the Commonwealth and Norfolk Island governments agreeing that company and income tax will not be extended to Norfolk Island until there is sustained evidence that the Norfolk Island economy is growing, and that the imposition of such taxes will not derail this growth; and that regardless of evidence of economic growth the extension of such taxes will not take place within the next five years. (ACIL-Tasman, 2012)

Unfortunately, none of these possibilities was activated. Economic consultants retained by the NIG also offered alternative strategies for the embracing of change (Econtech, 2006, 2008).

(iii) The Commonwealth's approach to date

Warnings of the impending crisis on Norfolk Island have been made by individuals and organisations on the island over at least the last eighteen months (e.g. NI Accommodation and Tourism Association, 2016). Even in recent months the responsible Commonwealth Minister and politicians have continued to maintain an approach in public that "all's going well" (e.g. Nash, 2017): this despite personal representations to the contrary by Island business people. It is hoped that the present report will provide the opportunity for the Commonwealth to reconsider its approach.

4.3 Immediate needs

The economic and governance model imposed on Norfolk Island is at base flawed and very damaging to the island's economic well-being. There is an urgent need for the Australian Government to take steps to avert the crisis and the impending collapse of the Norfolk Island economy. These steps include:

- (1) calling a halt to imposing on Norfolk Island any further legislative or regulatory changes under current arrangements;
 - (2) commissioning the Australian Productivity Commission to carry out research and conduct a public inquiry to determine the real financial capacity of the island and how it can survive economically, socially and culturally at reasonable cost;
 - (3) restoring some general revenue-raising powers to the Norfolk Island Regional Council; and
 - (4) specifying with much more precision than hitherto what its objectives on Norfolk Island are, and developing indicators to measure outcomes on the ground.
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APPENDIX I

Effects of the Australian Modern Award System on a Small Norfolk Island Retail Business: Wages per Employee FY2017-18 and FY2018-19

The following tables compare the wages cost per employee for a modelled small Norfolk Island retail business between the current situation in FY 2017-18 and the projected situation in FY 2018-19.

The calculations are done on the basis of those relevant to an adult employee being paid the required minimum wage under the relevant legal requirements. These requirements include:

- (1) National Employment Standards (applying on Norfolk Island from 1 July 2017)
 - details 10 minimum employment entitlements, includes provisions for national minimum wage, 4 weeks annual leave, etc.
- (2) Modern Award System (applying on Norfolk Island from 1 July 2018)
 - includes provisions for legal minimum wage for employees under different industry awards, and for different levels of job requirements, etc.

Different provisions are made for full time (FT) and part-time (PT) permanent employees, and casual staff.

Under Australian law the Fair Work Commission determines the legal minimum wage, normally on an annual basis. This wage for the coming financial year is announced to coincide with the first full pay period on or after 1 July. The standard working week is determined to be 38 hours. The minimum wage determinations in recent years have been as set out in Table 1.

Table 1. Australian national minimum wage rates 2014-2018

Financial year	Min. hourly rate (\$/hr)	Standard weekly wage (\$)	Percent increase on previous year (%)
2014-15	16.87	640.90	
2015-16	17.29	656.90	2.5
2016-17	17.70	672.70	2.4
2017-18	18.29	694.90	3.3
Average			2.7

Ref: Fair Work Ombudsman, "minimum wages":

<https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements/minimum-wages>

It is assumed that the increase in minimum wage for 2018-19 will be the average of the three previous determinations i.e. 2.7 per cent.

FY2017-18

The following (Table 2) refers to a single permanent staff worker employed in a small retail business on Norfolk Island serving both tourists and residents, in FY2017-18.

Table 2. Wages payable per permanent staff member (minimum wage rate) - FY2017-18

	Wage rate (\$/hr)	Ave hours per week	Gross weekly wage (\$)
Weekdays	18.29	22.5	411.52
Saturday	18.29	6.5	118.89
Sunday	18.29	6.0	109.74
	Total weekly wage		640.15
	Annual wage		33,287.80

Additional expenses:

(i)	Compulsory superannuation at the rate of 2.0 per cent annual wage = annual wage x 0.02 = 33287.80 x 0.02 =	\$665.76
(ii)	Cover by casual staff during permanent staff 4 weeks annual leave = min. hourly rate x 25% loading x hours worked = 18.29 x 1.25 x 35 x 4 =	\$3,200.75
(iii)	Allowances (clothing, meals etc.) =	\$0.00
(iv)	Additional loadings for public holidays not accounted	----
	Total employee expense, 35 hours work, min pay, 2017-18 =	\$37,154.31

FY2018-19

It is proposed that on 1 July 2018 Norfolk Island will join the Australian Modern Award System (MAS). Under the MAS General Retail Industry Award 2010 (GRIA), the award wage for Level 1 employees over 2017-18 is \$20.08/hr. As award wages benefit from minimum wage determinations, the award wage for Level 1 employees in 2018-19 is estimated to increase by 2.7 per cent to $(\$20.08 \times 1.027)/\text{hr} = \$20.62/\text{hr}$.

GRIA also specifies penalty payments: for ordinary hours worked on **Saturday** of 25 per cent loading for FT and PT employees; and for **Sunday** work penalty payment for FT and PT employees - specified for 1 July 2018 – 30 June 2019 - as a loading of 80 per cent. (GRIA S.29.4) (The Australian Parliament has recently enacted legislation to reduce penalty rates for Sunday employment.)

The following (Table 3) refers to a single permanent staff worker employed in a small retail business on Norfolk Island serving both tourists and residents, in FY2018-19.

Table 3. Wages payable per permanent staff member (MAS for General Retail L1) – FY 2018-19

	Wage rate (\$/hr)	Ave hours per week	Gross weekly wage (\$)
Weekdays	20.62	22.5	463.95
Saturday	25.78	6.5	167.57
Sunday	37.12	6.0	222.72
	Total weekly wage		854.24
	Annual wage		44,420.48

Additional expenses:

(i)	Compulsory superannuation at the rate of 3.0 per cent annual wage = 44,420.48 x 0.03 =	\$1,332.61
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- (ii) Cover by casual staff during permanent staff 4 weeks annual leave (see Table 4).

Table 4. Wages payable to casual employee covering permanent staff 4-weeks annual holidays, with casual loading of 25 per cent (MAS for General Retail L1) – FY 2018-19 (estd.)

	Wage rate (\$/hr)*	Ave hours per week	Gross weekly wage (\$)
Weekdays	25.78	22.5	580.05
Saturday	27.84	6.5	180.96
Sunday	40.22	6.0	241.32
	Total weekly wage		1,002.33
	Total wage 4 weeks		4,009.32

* MAS wage rates for casual employees FY2017-18 x 1.027

(iii) Allowances (clothing, meals etc.) =	\$0.00
(iv) Additional loadings for public holidays not accounted	-----
(v) Leave loading 17.5 per cent for permanent staff on holiday = 854.24 x 4 x 0.175 =	\$597.97
Total employee expense, General Retail, L1, 2018-19 =	\$50,360.38
Increase in expenditure per employee (as specified) in dollars =	+ \$13, 206.07
Increase in expenditure per employee (as specified) percent =	+ 35.5 per cent

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(all accessed and as at 15 September 2017)

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Fair Work Ombudsman, 'Norfolk Island Reform'

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APPENDIX II

Norfolk Island Applied Laws Ordinance 2016 (excerpts)

Ordinance No. 9, 2016, made under the Norfolk Island Act 1979 (Compilation No. 3, date: 20 January 2017)

Schedule 1 - Suspension

1 Suspension

- (1) The operation of the legislation of New South Wales, other than an Act specified in the following table or legislation made under such an Act, is suspended in the Territory for the period:
- (a) beginning on the day this item commences; and
 - (b) ending immediately before the start of 1 July 2018.

Legislation of New South Wales that is not suspended

Name of Act

Health Services Act 1997

Interpretation Act 1987

Local Government Act 1993

Long Service Leave Act 1955

Public Health Act 2010

- (2) Subitem (1) applies to legislation of New South Wales whether the legislation is in operation on the day this item commences or whether it comes into operation after that day.

Schedule 4 - Amendment of the Local Government Act 1993 (NSW)

.....

35 At the end of Part 2 of Chapter 15

Add:

513A Minimum revenue to be raised from ordinary rates

Despite any other provision of this Act, an ordinary rate made for a year by the council must be such as to ensure that the total of ordinary rates levied on all rateable land for the year is at least:

- (a) for the year ending on 30 June 2017—\$500,000; and
 - (b) for the year ending on 30 June 2018 and any later year—\$1,000,000.
-

APPENDIX III

Some Data on Status and Changes of Businesses on Norfolk Island since mid-2016

1. Business Closures since mid-2016

NAME	DESCRIPTION
ABC Hobbies	hobbies shop
Advance Hire Cars	car hire
Automotive Service Centre	automotive repair
Bligh Court	tourist accommodation
Blue Bull	restaurant
Cameralines	photographic equipment
Colony Restaurant	restaurant
Cynthia's Garden Tours	garden tours
Diamonds Exclusive	jewellers
Gallery 2899	photographic retail
House of Scruples	variety department store
Joel's Café	cafe
Just the Thing	mixed: clothing, souvenirs etc
Karlene's Guided Snorkelling	marine sport
Leeside	mixed: clothing, souvenirs etc
Menswear International	men's wear
Milt's Joinery	window frames
MiniBar	night spot
Minischool	preschool education
Norfolk Blue	restaurant
Norfolk Optical - Now located off-island, with visits	optometrist
Norfolk Premium Holidays	bus tours
Ocean Blue	fish & chips shop
Pa Yeas	restaurant
Paton Place	gifts
Pinnacles	fish and chips shop
Rick's Personal Tours	guided island tours
Silky Oaks Horse riding	horse riding
Swiss House	Swiss-origin gifts etc
The Deli Café	cafe
The Italian Shop	gifts
The Rock	restaurant
Video Shop	video sale and hire

Note: This list refers to business **closures** for **any and all reasons**. Some island businesses continue to trade but with reduced opening hours, and/or reducing inventories.

2. Businesses (retail and others) publicly advertised for sale (19 October 2017):

Barney Duffy's	restaurant
Bounty Folk Museum	museum
Butcher in the Mall	butcher shop
Café Latitude 29	cafe
Café Tempo	cafe
Cascade Investment Park	joinery and other
Fish & Chook Shop	fish and chips shop
Iwii Paradise	offices, accommodation
Jolly Roger	restaurant, night spot
Norfolk Industries	quarrying, earth works
Norfolk Island Real Estate	real estate
Norfolk Plumbing	plumbing
Parkland Estate Villas	retirement and function centre
Prestige Auto Care	auto panel/paint, upholstery
Prouds	gifts, chemist
Rumours (lease)	café, restaurant
The Golden Orb	café

On Norfolk Island as at August 2017: there were 27 commercial spaces (shops, offices etc.) vacant or for lease in the Burnt Pine area; there were 10 businesses (excluding accommodation businesses) plus four commercial sites listed publicly for sale (industrial, auto, retail) in the real estate columns.

3. Tourist Accommodation publicly advertised for sale (19 October 2017):

<i>Name</i>	<i>no. beds</i>
Aataren Villas	16
Anson Bay Lodge	20
Bounty Lodge Apartments	12
Callam Court	27
Cascade Garden Apartments	17
Cumberland Lodge	34
Fantasy Island Resort	24
Jacaranda Park Holiday Cottages	10
Norfolk Holiday Apartments	25
Nuffka Studio Apartments	18
Panorama Court Apartments	35
Shiralee Executive Cottages	24
The White House	10
TOTAL	

Note: Others accommodation houses are known to have changed hands without public notification.

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