

Background Brief

3.05 Norfolk Island reforms – the case for reform

Case for Reform

- The governance model in place since 1979 required the elected Norfolk Island Government (NIG) to legislate for federal, state and local functions.
- The gaps in legislative protections, and in the range and standard of services, between mainland Australia and Norfolk Island were considerable.
- The NIG was facing an increasing deficit, in part a consequence of having to provide services at all three levels of government.
- The case for reform was further highlighted in the 13 separate Parliamentary inquiries on the governance of Norfolk Island and over 20 reports commissioned from experts in various fields. For example:
 - the Joint Standing Committee on National Capital and External Territories reports, such as:
 - the Report of the visit to Norfolk Island 29-30 April 2013; and
 - the 2005 Inquiry into Norfolk Island Governance Part 2: Sustainability of Government;
 - the consulting firm ACIL Tasman's Norfolk Island Economic Development Report (March 2012); and
 - Deloitte Access Economics reports on Norfolk Island government business analysis (2014).
- In March 2015, the Australian Government announced comprehensive reforms to address the issue of Norfolk Island sustainability.
- These reforms are underway and aim to deliver a new model of governance and service delivery appropriate to a small community that meets modern Australian standards.
- The new model is based on a system similar to states and other Australian territories whereby services are delivered by the relevant federal, state or local government body.

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NIG Financial Performance Timeline

- The following table and chart summarises the NIG's financial performance over the 10 years to 30 June 2015:

Financial Year	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Income	\$24,965,360	\$26,095,794	\$58,751,199	\$56,890,494	\$54,210,710	\$49,680,120	\$46,575,476	\$32,021,372	\$30,151,941	\$31,419,466
Commonwealth Revenue	N/A	N/A	N/A	N/A	N/A	\$6,160,004	\$14,517,686	\$3,453,896	\$4,799,088	\$6,887,892
Expenses	\$24,761,083	\$23,600,272	\$55,594,200	\$58,762,316	\$55,716,414	\$54,191,305	\$57,913,993	\$35,314,038	\$32,639,890	\$34,278,252
Depreciation	\$1,912,572	\$2,876,747	\$3,091,042	\$3,152,356	\$3,256,518	\$3,152,789	\$6,161,171	\$6,210,027	\$5,938,530	\$5,714,367
Surplus/Deficit	\$1,708,295	\$381,225	\$65,957	\$5,024,178	\$4,762,222	\$1,503,970	\$2,982,002	\$6,048,797	\$3,627,391	\$1,685,261

- The Norfolk Island economy suffered a major shock around the time of the Global Financial Crisis (GFC) in early 2008-09. However, it is clear from the above financial results that the NIG had structural sustainability issues before this time with deficits being reported before the GFC.

2005-2008 – Cost Savings and Introduction of Goods and Services Tax

- A \$1.7 million loss was reported in 2005-06 and, in response to this, the NIG implemented cost savings through a public service recruitment freeze and the introduction of a local Goods and Services Tax (GST).
- This was effective in returning the NIG's financial result to a small surplus in 2007-08 exclusive of depreciation of assets.
- The NIG also assumed responsibility for air services in 2007-08, accounting for a sharp increase in revenues and expenses in this year.

2008-2010 – Failure to Adapt to Impacts of Global Financial Crisis

- There was a significant decrease in tourism numbers in 2008-09 and, as a result, Norfolk Island revenues significantly decreased.
- This included Government Business Enterprises (GBEs) and airline related revenue.
- Costs were not able to be contained and a significant loss of \$5 million was recorded in 2008-09.
- This trend continued in 2009-10 with tourism numbers decreasing again.
- Over the two years leading up to 30 June 2010 there was a 26 per cent decline in Norfolk Island's major economic driver: tourism.
- Savings measures were not sufficient to offset major losses in air services. In 2009-10 the NIG reported a further loss of \$4.7 million.

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2010-2013 – Ongoing Poor Financial Performance and Collapse of NIG’s Airline Agreement

- 2010-11 was the first year funding was provided by the Australian Government (\$6.0 million) and this assisted in offsetting some of the NIG’s loss.
- Tourism numbers decreased by a further 7.8%, taxation revenue fell further and GBEs continued to perform poorly.
- This resulted in a loss of \$1.5 million being reported.
- Significant funding (\$14.5 million) was provided by the Australian Government in 2011-12 to the NIG to allow it to terminate its airline charter agreement and reform its service delivery.
- Notwithstanding this, a \$3.0 million loss was reported. Tourism numbers continued to decline (9.7%) in 2012-13, taxation revenues continued to fall and GBEs continued to perform poorly.
- Combined with falling revenues there was also significant increases in welfare and health care costs in 2012-13 and these factors resulted in a loss of \$6.2 million.

2013-2015 – Recognition by the NIG of the Need to Enter into Australia’s Taxation, Welfare and Health Care Systems

- The 2013-14 NIG Statement of Financial Policy and Objectives (SFPO) recognised that Norfolk Island was entering its fourth year of economic recession, with the economy having contracted by 35%, the population having decreased significantly and tourism numbers being at their lowest levels for 25 years.
- The NIG had reported significant year on year losses which were unsustainable and urgent structural change was needed.
- To address these issues the SFPO stated that the NIG had agreed to enter into the Australian income tax, Medicare and social welfare systems under the Australian Government’s proposed *Norfolk Island Road Map* (the Road Map).
- Under the Road Map the NIG was to pursue reforms to improve the local economy and streamline the operation of GBEs.
- Some savings were realised and this resulted in a reduced loss in 2013-14 (\$3.6 million).

2015-2016 – Governance Reforms Introduced

- The required structural reform could not be achieved by the NIG, as demonstrated by funding agreement milestones which were consistently not met.
- This resulted in the Australian Government introducing governance reforms in late 2014-15.

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- The Australian Government agreed to amend the funding agreement milestones after the reforms were announced.
- Many of the amended milestones were achieved late in the year, resulting in an improved financial outcome (a loss of only \$1.7 million).
- Reforms to business processes and prudent budget management during the year 2015-16 resulted in a surplus of \$2.1 million being reported in the 2015-16 Quarter 3 Periodic Financial Statements.
- Cash reserves were built in 2015-16 in order to provide for a sustainable Norfolk Island Regional Council in 2016-17 and beyond.

Consultation

- There was extensive consultation on the need for reform over many years.
- This consultation revealed a widely-held view within the community, particularly among some disadvantaged sectors, that the previous governance arrangements were unsustainable.
- The Australian Government committed sustained efforts toward retaining self-government on island from 2007-2011, including the preparation of a 'Road Map' in consultation with the NIG.
- The Australian Government and the former Norfolk Island Legislative Assembly acknowledged the need for the Road Map to address the deteriorating economy.
- The NIG was unable to operate without cash injections from the Commonwealth and this situation was unlikely to change without governance reform.
- The Hon Jamie Briggs, former Assistant Minister for Infrastructure and Regional Development, visited Norfolk Island in February 2014 and restated the Commonwealth Government's intention to integrate the Norfolk Island community into Australia's broader taxation and welfare system.
- The Joint Standing Committee on National Capital and External Territories held five public hearings during their inquiry into Norfolk Island reforms, including one on Norfolk Island in April 2014.
- The Committee also conducted community statement sessions on 29 April 2014, during which individuals and organisations were given the opportunity to address any of the terms of reference.
- Members of the Committee undertook a diverse range of inspections, visiting staff at tourist sites, and meeting business owners including farmers, tourist and retail operators, accommodation providers and boutique producers.

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- The inquiry received 34 written submissions from a range of stakeholders including the Commonwealth and NIA, business owners, community groups, former public servants and Norfolk Island residents.
- The inquiry was advertised in The Norfolk Islander on 29 March 2014 and The Australian on 9 April 2014, 14 May 2014 and 11 June 2014.

Sensitivities: Nil

Attachments: Nil

