

The Capacity of Norfolk Island to Raise Revenue –
Description of and Commentary on the
Commonwealth Grants Commission
2019 Norfolk Island Inquiry

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1. Preface

In 2019 the Department of Infrastructure, Regional Development and Cities (DIRDC) engaged the Commonwealth Grants Commission (CGC) to inquire into the provision of, and funding for, state-type and local government-type services for Norfolk Island. The Terms of Reference for the Inquiry are reproduced as Appendix II to the present paper. In responding to this brief the CGC described its task as seeking:

"credible costing-related information to:

- ❖ *support its [DIRDC's] consideration of options for the provision of State-type and local government services, and for State-type government business enterprises;*
- ❖ *provide estimates of the annual expenditure, including infrastructure costs, required to provide these services, by reference to the services available in comparable [Australian]communities;*
- ❖ *identify the capacity of Norfolk Island to raise revenue from a range of taxes and charges comparable to those levied by State and local governments, assuming it makes the average Australian revenue raising effort." (p. ix)*

The CGC published its final report in November 2019. (CGC, 2019) In considering the CGC Report here, the focus will be on determining whether it fairly represents the capacity of Norfolk Island businesses and families to finance these state- and local-government type services. The evidence to be presented here suggests that the CGC Report overstates this capacity by a considerable margin.

2. The CGC Report

2.1 Introduction

The provision of services on Norfolk Island is complex for a number of reasons, not least on account of the island's recent governmental and economic history. Australian Government agencies on the island are responsible on their own account for some functions on the island (e.g. KAVHA, Norfolk Island National Park). However because Norfolk Island is directly subject to Commonwealth laws – albeit modelled on a NSW state government template – the Commonwealth is also responsible for providing some state-type services on the island (e.g. education, health, justice). The Norfolk Island Regional Council (NIRC) is responsible for providing local-government-type services (e.g. town planning, roads, rubbish processing).

Provision of the various services are often in fact multi-layered e.g. where the NIRC has a service delivery contract with the Commonwealth for the provision of one of their services. Furthermore the Norfolk Island Regional Council (NIRC) is unique amongst Australian local authorities in being responsible for the provision of a wide range of commercial operations including telecommunications, electricity supply, management of an international airport, and a liquor bond. (The totality of service delivery arrangements amongst the three tiers of government is tabulated in Attachment A to the CGC Report.)

In carrying out its various responsibilities towards Norfolk Island, the Commonwealth provides the island with substantial monetary input. Decisions as to how best to provide services and how to fund them are therefore important. A core issue is then to identify the cost of provision, and to compare this against the capacity of Norfolk Island to raise its own revenues in funding them. This is what the CGC Inquiry has set out to do.

It needs note that the CGC Report makes clear that the CGC "in no way implies how Norfolk Island should be raising revenues or delivering services" (p. 21). In the same context it must be emphasised that DIRDC was the client for the CGC inquiry, which therefore focusses on the matters at issue from a Commonwealth perspective, not an NIRC one. Commonwealth-type services (such as KAVHA, Norfolk Island National Park) are out of scope for the CGC inquiry, which relates only to state-type and local-government type services. The CGC analysis emphasises data from the 2017-18 fiscal year as the most recent and relevant (2016-17 being a year of major upheaval). The Report excludes issues relating to infrastructure capital expenditure. Within this context, the CGC Report is thorough and systematic, open and explanatory. Almost all reasoning is set out clearly in the text.

2.2 Report's approach

State-type services were classified into 10 functional groups: Schools; Post-secondary education; Health; Justice; Welfare; Housing; Services to communities; Transport; Services to industry; and Other expenses. Some of these groups were further disaggregated.

Local government services were also classified into 10 functional groups: General administration; Health, housing and welfare; Law, order and public safety; Planning and community amenities; Environmental protection; Recreation and culture; Roads and bridges; Depreciation; Airport; and Other services.

For each of these functional groups, estimates were made of:

- (i) service delivery cost for Norfolk Island, determined with reference to the service delivery costs for "comparable communities" in Australia, with adjustments as deemed necessary to reflect the "unique circumstances" of Norfolk Island; and
- (ii) revenue raising capacity of Norfolk Island, determined with reference to revenues raised by "comparable communities" in Australia, and assuming that Norfolk Island makes "the average revenue raising effort" of those communities.

Thus estimates of potential revenues and expenses for each service provided on Norfolk Island can be set out and compared with the actual amounts of revenue and expenses recorded in each case in NIRC's accounts.

Because exact measurement is rare in economics, economic appraisals invariably need to make assumptions, approximations, and estimates – rather than exact determination – of quantities of interest. This is accepted in all economic analysis. It is important therefore to be clear about the core assumptions of the CGC Report.

2.3 Key terms

"comparable communities". The CGC Report sets out its approach to this matter as follows:

The Terms of Reference asked us to make our calculations by reference to revenues raised and services provided in comparable communities and allow for other circumstances of Norfolk Island.

This conceptual approach recognises that, while Norfolk Island requires services similar to those in comparable communities, there are particular circumstances that mean those services cannot be provided at the same cost, or that other supplementary services may be required. Similarly, circumstances on Norfolk Island may mean per capita revenue collected there may differ from that in comparable communities, even when the same revenue raising effort is made.

In general terms, we considered Norfolk Island was comparable to small, very remote communities with a relatively low Aboriginal or Torres Strait Islander population in the States. However, our concept of comparable communities did not rely on full comparability with an actual community. Instead, it relied on establishing a base from the costs and revenues in communities or regions where the major features are broadly comparable with those on Norfolk Island and making adjustments to it to better recognise any other circumstances of Norfolk Island. (p. 4)

Thus the concept is used flexibly, at both state and local government services levels. The idea will require further examination (see below).

"unique circumstances". The special circumstances under which Norfolk Island finds itself are set out in Chapter 2 of the CGC report. As there explained, these unique circumstances include matters relating to:

- ❖ location: the island being both remote and isolated;
- ❖ economy: in relation to tax bases, service delivery;
- ❖ population issues: such as size, age distribution, socio-economic status, community and culture; and
- ❖ governance and service delivery arrangements: including service delivery arrangements and grants to local governments.

These items provide adjustment factors that may be applied in circumstances where Norfolk Island is adjudged uniquely different from mainland Australia. More will be said of these matters below.

"average Australian revenue raising effort". The Report explains with regard to state-based taxes and charges:

We estimated Norfolk Island's capacity to raise revenue from each tax by applying the average tax rates and exemptions of the States and local governments to the potential revenue bases on Norfolk Island.

This approach gives an estimate of what Norfolk Island could raise if the average tax policies of the States were applied to its potential revenue bases. It recognises all communities within a State face the same tax regimes but the per capita amounts raised may differ from community to community because their circumstances and potential revenue bases differ. (p. 42)

And for local-government-based taxes and charges:

The assessed local government revenues have been derived by the same broad process as that used for State revenues. That is, for each tax or charge, the revenue raising policies observed in broadly comparable circumstances on the mainland have been applied to estimates of the revenue base on Norfolk Island.

The choice of the mainland circumstances used to derive the base or standard revenue raising policies for each tax or charge depended on what we considered was most consistent with the circumstances of Norfolk Island. In some cases, we derived the base or standard policies from an average of those adopted by local governments in all or selected States (such as Tasmania), in others we based them on King Island policies.... (p. 55)

Other terms of considerable relevance are:

"average efficiency".

As in all other Commission inquiries, we have assumed the average level of efficiency is reflected in the average amount spent by States, local government or comparable communities. However, an allowance has been included to recognise that some costs incurred in delivering administrative and regulatory services are independent of the size of the community. (p. 4)

"Capacity". This is commonly defined as the maximum amount something can contain or produce, although the term is not specifically defined by the CGC. The emphasis here is however on "capacity to pay".

2.4 Estimation of the costs of service provision

(i) state-type services: viz. schools; post-secondary education; health; justice; welfare; housing; services to communities; transport; services to industry, other expenses.

Cost of provision of these services on Norfolk Island have been estimated as the cost of services normally provided by State governments in comparable communities, possibly with some "unique circumstances" adjustment, and assuming that Norfolk Island operates at the Australian average level of efficiency.

In the CGC Report a wide variety of estimation methods are used. Here are two examples from the CGC Report (with slightly edited text in some cases):

Schools (CGC Report, p. 65):

The Commission's assessment of State school expenses uses a regression model to estimate service delivery costs. Based on school profile and financial data from the Australian Curriculum, Assessment and Reporting Authority, the model measures the effects of the following school and student characteristics on service delivery costs:

- . schools size (enrolments)(with 9% loading per student for NI)*
- . student remoteness area (with 55% loading per student for NI)*
- . socio-economic status (with 66% loading per student in lowest SES quintile)*
- . Aboriginal or Torres Strait Islander status (with 54% loading for ATSI students).*

The regression estimate for the cost of school services on Norfolk Island is \$5.5 million or \$19,129 per student (287 students), whereas the base Australian average cost per mainland student is \$10,862.

On-island hospital services (CGC Report, p. 71):

NIHRACS is a small facility in a very remote location. If it was on the mainland it would be considered as a block-funded hospital. Based on the current level of on-island activity and using King Island's similar sized very remote facility as a benchmark, we have classified the on-island facility as a middle-range block-funded hospital in the Independent Hospital Pricing Authority's service volume group C.

The Independent Hospital Pricing Authority uses actual expenses from mainland hospital procedures to estimate the costs of procedures in very remote contexts, taking into account: the health and demographic status of patients in very remote contexts, the costs of servicing patients in very remote hospitals and the complexity of treatment provided to acute and sub-acute patients.

The pricing authority's costing for block-funded hospitals in group C provides a benchmark estimate of on-Island hospital costs, of \$5.5 million in 2017-18.

(ii) local government services: viz. general administration; health, housing and welfare; law order and public safety; planning and community amenities; environmental protection; recreation and culture; roads and bridges; depreciation; airport; other services.

The CGC Report notes:

For most services, the calculation began with the Australian average spending by all councils with adjustments for remoteness (34%), isolation (5%) and wages...

For general administration and depreciation, King Island actual per capita expenses and asset values provided the starting point with adjustments for isolation and wages.

A summary of assessment methods for local government type expenses is given in the CGC Report at p. 94.

2.5 Estimation of Norfolk Island revenue raising capacity

Table 1 summarises the methods by which Norfolk Island was assessed for revenue raising and the modifications made for the island's particular circumstances, for both State taxes and charges and local government taxes and charges.

Table 1: CGC Estimation Methods for NIRC revenue raising capacity

Revenue source	Norfolk Island assessment tax base
State taxes and charges	
Payroll tax	Average of state policies – only banks on NI are above threshold
Land tax	Average of state tax rate for each value range – land values from NI Valuer General
Stamp duty on conveyances	Average of state tax rate for each value range – applied to NI conveyances
Insurance tax	Limited NI data available – used per capita premiums paid in Tasmania
Motor tax (rego)	Average of state fees for light and heavy vehicles; stamp duty on initial registrations and transfers – as Tasmania
Mining	Average Australian royalty per tonne of rock produced
Gambling tax	Average state gambling tax revenue per capita applied to NI pop'n
Other fees & charges	Ave of state revenue per capita from charges in this category
Local government taxes and charges	
Municipal rates	Limited NI data available; used per capita King Island rate revenue, modified by relative land values and NI pensioner rebate
Other – fees and charges	Average per capita non-rate revenue King Island
Cwlth financial assistance and road grants	Per capita grants for Brewarrina Shire made by NSW gov't
State govt grants	Average per capita grant by NSW to local governments, by NI pop'n

Source: CGC Report, 2019. Attachments C and D.

As the CGC Report details, State policies themselves can be variable, so there can be variability in what is determined to be "average". With regard to local government taxes and charges, King Island and Brewarrina are identified to as "comparable communities" in different circumstances, and comparisons are also made to Shoalhaven City Council, and to the Northern Territory.

2.6 Assessed overall expenses and revenues

As a result of the detailed analyses carried out, the CGC provided its results in summary form, as reproduced here as Table 2 (CGC Report, Table 1).

Table 2. Norfolk Island revenue and expenses: assessed and actual, 2017-18

	Norfolk Island assessed		Norfolk Island actuals	
	\$ per capita	\$m	\$ per capita	\$m
Revenue				
State	1,824	3.2	1,335	2.3
Local	4,460	7.8	4,698	8.2
Total	6,284	11.0	6,033	10.6
Expenses				
State	18,237	32.0	18,954	33.3
Local	3,168	5.6	3,980	7.0
Total	21,405	37.6	22,934	40.3
Funding difference				
State	- 16,413	- 28.8	- 17,619	- 30.9
Local	1,292	2.3	717	1.3
Total	- 15,121	- 26.6	- 16,901	- 29.7

Source: CGC staff analysis (CGC, 2019, p. xv)

The CGC Report explains:

[Table 2] compares the amounts Norfolk Island actually spent and raised in 2017-18 with what it would have spent and raised if it operated like comparable communities. In 2017-18, there was a difference of \$26.6 million between the Norfolk Island State and local government assessed revenues and expenses. This is the net assistance needed to provide comparable State and local government services at average levels of efficiency, if comparable State and local government revenues were raised.

The difference between assessed State-type revenues and expenses was \$28.8 million. However, local government grants (including the assessed revenue from State-type grants) and own source revenue exceeded the amount needed to provide comparable local government services. The assessed local government surplus would provide NIRC with the capacity to fund some capital expenditure on new local government-type infrastructure. (p. xiv-xv)

It is evident that Norfolk Island is in considerable deficit in revenues raised, in relation to the cost of government services provided. However regrettable that may be, it is a circumstance it shares with many local government areas across Australia. State-based surveys suggest that between 25 per cent and 40 per cent of Australian councils are financially unstable, while a sample-based national survey has indicated a figure of between 10 and 30 per cent. (Access Economics, 2006; Price Waterhouse Cooper, 2006) Those local governments considered the least financially viable are accumulated in the categories of "rural agricultural" and "rural remote". An analysis by the NSW Treasury Corporation (2013) found that in 2012 only one third of NSW councils reported an operating surplus, and that the financial sustainability position was expected to deteriorate for nearly 50 per cent of all NSW councils.

3. A Norfolk Island Perspective

Note: In this Section all dollar prices were recorded prior to the first Australian National Cabinet Meeting in relation to the COVID-19 emergency (15/03/20)(with one exception as noted).

3.1 *The main issue*

Suppose for argument's sake that at some time the levels of prices on Norfolk Island were – for some undisclosed reason – substantially higher than the level of prices in Australia. This would have the consequence of overstating the capacity of the Island to pay taxes and charges directed at providing public services, when compared to an Australian average. This is the principal matter that requires examination here.

One aspect that arises in this consideration is in relation to the "unique circumstances", which provide factors which might be brought into play to adjust for locational, economic, population, and governance issues, particular to Norfolk Island. What is noteworthy about the Report's description of the unique circumstances of the island (CGC Report, Chapter 2) is that although it is acknowledged that special circumstances may occur in either the costs of service provision and/or in the ability of Norfolk Island to raise revenue, almost all of that discussion is in fact carried out in relation to the former. And this is reflected in the specific applications to individual services as described in the Report.

To take some examples: the cost of *delivering school services* on Norfolk Island is given a loading of 55 per cent per student on account of the remoteness area (as previously noted); the cost of *providing services* for family and child protection is given a loading of 10 per cent on account of the use of contractors, and 5 per cent on account of the island's isolation. On the other hand, we can find no case of a calculation for *raising revenue* – state-type (CGC Attachment C) or local government type (CGC Attachment D) – where a rider is applied in relation to particular circumstances on Norfolk Island.

Related to this is the matter of "comparable communities". With regard to Norfolk Island's revenue raising capacity: for State-type taxes and charges, the CGC assessment is essentially based on average Australian State tax rates applied to Norfolk Island (or in two instances, Tasmanian); and for local government type taxes and charges the assessment is based on levels in King Island and Brewarrina (see Table 1). That is to say that, in terms of the analysis, Norfolk Island – after any adjustments made – is to be compared to King Island (or for a few details Brewarrina) as most comparable in terms of revenue-raising capacity for local government type taxes and charges, and compared to "Average Australia" (or Tasmania) in terms of revenue-raising capacity for state-type taxes and charges. It is the acceptability of these assumptions that is at issue.

From a Norfolk Island perspective, we need to start at the local level.

3.2 *Norfolk Island, King Island and Brewarrina*

Table 3 compares some basic statistics for Norfolk Island with those of King Island and Brewarrina. Norfolk Island is more akin to King Island than to Brewarrina on the variables displayed. Even so, in comparison with King Island, Norfolk Island's GTP is half that of King Island on a per capita basis, and Norfolk Island has a 16 per cent lower median household weekly income, a 30 per cent higher median monthly mortgage repayment, and an eight per cent higher median weekly rental payment. Median mortgage payment as a percentage of household income is 29.6 per cent on Norfolk Island, over ten percent higher than on King Island. The figure of 30 per cent of income spent on housing is equal to the Australian threshold figure for "rental stress". Mortgage and rental payments as a percentage of household income are also higher on Norfolk Island than in Brewarrina.

Table 3. Basic statistics for Brewarrina Shire, King Island, and Norfolk Island (2016)¹

Variable	Brewarrina Shire	King Island	Norfolk Island
Population	1,651	1,585	1,748
Private dwellings	725	842	1,080
Ave people per household	2.6	2.1	2.2
Median household weekly income	\$864	\$1,199	\$1,012
Median monthly mortgage payment	\$433	\$1,000	\$1,300
Median weekly rent	\$90	\$128	\$138
Gross Territory Product (GTP)		\$150m (2017-18) ²	\$82m (2016) ³
Mortgage as percent of household income (medians, monthly)	11.6%	19.2%	29.6%
Rent as percent of household income (medians, monthly)	10.4%	10.6%	13.6%

Sources:

¹ Basic data from ABS 2016 Census QuickStats; populations various

² King Island Council, 2019.

³ KPMG, 2019, p. iv.

3.3 Norfolk Island prices

We consider the major determinants of prices on Norfolk Island and compare them where possible with those of King Island and Brewarrina.

(i) freight rates

Every thing that comes to Norfolk Island is transported either by sea or air freight. Table 4 compares sea and air freight rates (per revenue tonne and per kilogram respectively) to Brewarrina, King Island and Norfolk Island, from their associated metropolises.

The cargo ship serving King Island is the *John Duigan*, an 80m long and 16m wide landing craft, built in 2018, and designed for containerised, bulk and vehicular cargo and livestock. The cost of stevedoring at both ends is included in the freight charge.

For Norfolk Island, cargo shipments from Sydney to Norfolk Island must come via Auckland, as there is no direct shipping service between the Australian mainland and this island. In Auckland sea freight attracts transport and repackaging charges and Customs fees, and at Norfolk Island various stevedoring and other charges accrue based on the fact that all cargoes are brought ashore by lighters from ships unloading in ocean waters. To which it must be added that because of the way shipping charges are imposed, there is almost no difference in the cost of shipping one revenue tonne of goods to Norfolk Island from point of origin Sydney or point of origin Auckland: freight trans-shipment charges aside. The details of Sydney to Norfolk Island sea freight costs are set out in Appendix I.

Table 4. Freight charges from capital cities, current March-April 2020

Variable	Sydney to Brewarrina	Melbourne to King Island	Sydney to Norfolk Island
Sea freight (per rev tonne) ¹			
- basic	n/a	\$171.65	\$285.00
- taxes & charges		\$28.23	\$417.32
Total		\$199.88	\$702.32²
Air freight RPT (per kg) ³			
- basic		\$4.00/kg (\$17 min)	\$2.65/kg (\$35 min)
- taxes, charges		Nil	\$30 + \$0.21/kg ⁴
Total			
- 10 kg		\$40.00	\$81.50
- 20 kg		\$80.00	\$100.00
Air freight charter (per kg) ⁵			
- basic			\$3.75/kg (\$35 min)
- taxes, charges			\$30 + \$0.21/kg ⁴
Total			
- 10 kg			\$83.55
- 20 kg			\$122.00
Road freight (tonne) ⁶	\$271.97	n/a	n/a
Distance	760km	246km	1,673km

Sources:

¹ Sea freight data from Transam Argosy P/L (NI), Foodland P/L (NI), Christian Bailey Agencies P/L (NI), Currie Cargoes (KI)

² See further Appendix I

³ Air freight by RPT (regular passenger transport) data from Air New Zealand; King Island Airlines, Sharp Airlines

⁴ Airways bill \$30; security fee \$16 or 16c/kg whichever is greater; NI waste mgmt levy 5c/kg

⁵ Air freight charter data from Toll Group, Burnt Pine Travel (NI)

⁶ Western Parcel Express: goods palletised, 1 tonne, Sydney to Bourke (add Bourke-Brewarrina)

As Table 4 shows, with regard to sea freight the cost per revenue tonne from Sydney (or Auckland) to Norfolk Island is roughly **two hundred and fifty per cent higher** than the cost from Melbourne to King Island. This is a huge impost on every item of goods that arrives on Norfolk Island – from foods and household goods, to commercial and industrial equipment, to stock feed, and to construction materials such as roofing iron, timber and cement. For those living on Norfolk Island, the cost and consequences of sea freight charges outweighs almost every other commercial consideration. (Regarding foodstuffs, Management at Foodland P/L Norfolk Island attest that - within the limits imposed by Biosecurity Australia as to the origin of specific products - the company sources product to ensure lowest cost for items as landed on Norfolk Island, and that items sourced from New Zealand are those less costly overall than those sourced from Australia.)

It should also be noted in terms of sea freight rates that Neptune Pacific Line – the only shipping company currently serving Norfolk Island: (i) announced on 3 April 2020 an increase in CABAF (a fuel adjustment factor) from 34.5 percent to 42 per cent of the ocean freight charge; and (ii) a 10 percent increase in freight rates from New Zealand to compensate for a depreciation of the New Zealand dollar against the US dollar; both new charges to commence in May 2020. (See further Appendix I.)

Because of the lack of any direct shipping service from Australia to Norfolk Island, and as a result of the current indeterminacy of the shipping service from New Zealand (see Section 3.4), an increasing volume of cargo is air-freighted to the island. Due to the limitations of air cargo on regular passenger transport services imposed by passenger loadings, Norfolk Island has come to rely increasingly on air charters, at greater freight cost.

(ii) energy prices

Table 5 compares energy unit prices for the three locations of Brewarrina, King Island and Norfolk Island. On the date of record, petrol price per litre was four per cent higher on Norfolk Island than King Island and diesel price per litre 11 per cent higher (and 59 per cent and 54 per cent higher respectively than in Brewarrina). Electricity price per kilowatt hour on Norfolk Island is 42 per cent higher than on King Island, and the cost of 550kWh of electricity on Norfolk Island (a representative average electricity usage by one household over a billing period of 3 months) is **58 per cent higher** than the cost on King Island.

Table 5. Energy prices, 3 localities, February-March 2020

Energy unit prices (29/02/20)	Brewarrina	King Island	Norfolk Island
Petrol/litre	\$149.9	\$220	\$239
Diesel/litre	\$154.9	\$215	\$239
Electricity - price/kWh		28.93c	70.00c
- cost 550 kWh (w. charges) ¹		\$243.62	\$385
LPG (45kg) ²	\$184.40	~\$200	\$215.95

Sources:

Petrol, diesel prices: Service stations in Brewarrina, King Island, Norfolk Island.

Electricity: Hydro Tasmania, NIRC. Tariffs are the same for businesses and households.

¹ King Island: add service charge 84.58c/day; meter charge 8.29c/day.

² As at 16/03/20.

(iii) food prices

In recognition of the substantial difference in prices between Norfolk Island and mainland Australia, the Norfolk Island Legislative Assembly established its own retail price index (RPI) with the passage of the *Retail Price Index Act 1983*. This index was calculated regularly over many years, although not after 2013.

An informal study of supermarket prices for a range of 39 items, carried out in December 2019, which compared prices on Norfolk Island with those of a suburban Brisbane supermarket, indicated that Norfolk Island prices ranged from slightly less than Brisbane prices (4 items) to over double the Brisbane price (5 items). The average price increase for Norfolk Island compared with Brisbane over the 39 items was +46 per cent, and the **median price was higher by 28 per cent**. (Nobbs, 2020)

Efforts have been made by the Regional Council towards restarting the RPI. KPMG in its August 2019 report on the monitoring of the Norfolk Island economy, made this as its first recommendation. (KPMG, 2019)

(iv) wages and superannuation

Under the pre-2016 regime on Norfolk Island there was considerable flexibility in employment with regard to working hours, shift lengths and overtime, which were conformable to the needs of on the one hand the tourist industry (e.g. days of flight arrivals and departures; preferences of tourists regarding shopping etc.; accommodation room cleaning), and on the other hand to employees' choices, responsibilities and home duties.

With regard to wage levels at that time, some were higher than the equivalent Australian award, but there was also some trade-off between wage and flexibility for workers. With imposition of the

Australian Modern Awards System in 2016 this flexibility has been lost, particularly with regard to minimum shift length, and weekend overtime (when tourist flights often arrive). A case mounted by the Norfolk Island Chamber of Commerce (assisted by the NSW Chamber) before the Australian Fair Work Commission, for Norfolk Island employment contracts to be specifically designed to counter some of these problems, at least temporarily, was rejected.

Prior to the changes introduced by the Australian Government in 2016, superannuation was the responsibility of the individual, excepting the Norfolk Island Public Service which had its own scheme.

Payment by Norfolk Island 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, to three per cent on 1 July 2018, and increased by one per cent annually after that. The current Australian 2019-20 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 per annum in 2025-26 and henceforth. However in 2020/2021 the rate on Norfolk Island will have reached only 5.0 per cent per annum, so on the island the rate will continue rising at 1.0 per cent per annum until 2027/2028.

(v) fares to major cities

Table 6 gives details of the cost for return fares from Brewarrina, King Island and Norfolk Island to their relevant metropolises, as advertised publicly in early March 2020, for travel over that year. Such flights are (were) available daily from King Island, three days per week from Brewarrina, and two or three days per week from Norfolk Island. For Brewarrina the option of land-based travel also exists.

Table 6. Basic return fares one adult, between named locations, 2020

Variable	Brewarrina – Sydney	King Island – Melbourne	Norfolk Island – Sydney	Norfolk Island – Brisbane
Air fare	\$497, \$698 ¹	\$304 - \$436 ²	\$508-\$666 ³	\$561 - \$981 ³
- days of week	3	7	3	2
Sea fare	n/a	n/a	n/a	n/a
Land fare				
- train/coach	\$161 ⁴	n/a	n/a	n/a
- drive	\$140	n/a	n/a	n/a

Sources:

¹ Pelican Airlines: Cobar-Sydney, add Brewarrina-Cobar cost; 1 bag (20kg max); cheaper flight for Far North West NSW residents only.

² Sharp Airlines, King Island Airlines: 1 bag (15kg max); no food; excl. govt taxes and charges.

³ Air New Zealand: 1 bag (23kg max); no food; excl. govt taxes and charges. Flights for March, May, August, November as advertised online 13/03/20. Prices vary dependent on season, time before travel.

⁴ NSW Trainlink.

We note the following factors:

(a) That air travel from Norfolk Island to mainland Australia is **more than double** the equivalent travel cost from King Island, and for Brewarrina there exists land-based transport at half the price of the King Island air fare, or around a quarter of the air fare for Norfolk Island;

(b) Because flights from and to Norfolk Island are restricted to few days of the week, travel to Sydney or Brisbane may also incur significant accommodation and city travel costs for the traveller;

(c) A need to travel at short notice from Norfolk Island to the Australian mainland confronts much higher air fares than those indicated in Table 6, on account of Air New Zealand's practice of raising advertised fares substantially as departure date approaches;

(d) There are many reasons why trips to Australian capital cities by Norfolk Island residents may be essential, both for businesses and for households:

- ❖ business needs that cannot be adequately done or completed online e.g. large machinery purchases, attendance at trade fairs, recruitment;
- ❖ businesses and households seeking professional advice unavailable on Norfolk Island e.g. tax and estate matters, loan facilities;
- ❖ anyone seeking medical assistance unavailable on the island (with or without Norfolk Island Patient Travel and Accommodation Assistance Scheme - NIPTAAS). Plus expenses in Sydney. Need is augmented because there is no operating theatre on Norfolk Island. For some Norfolk Island residents this is a regular journey, often quarterly.

3.4 Some additional issues

In addition to the factors mentioned above, Norfolk Island is subject to a number of additional issues, not experienced by King Island or Brewarrina, which impose additional costs of time and/or money on the Norfolk Island community, and in so-doing decrease further its ability to raise revenues.

On-going shipping crisis. In recent years, Norfolk Island has been served by two freight ships, the *Capitaine Wallis* and the *Southern Tiare*. These ships have provided regular service of around 12 voyages per year to adequately provision the island. Following an accident on the *Capitaine Wallis* it has been removed from service, precipitating a serious crisis in freight provision. This is because of the rudimentary means of unloading ships at Norfolk Island, and the very limited number of ships that can accommodate to conditions on Norfolk Island. Although the *Southern Tiare* has been chartered to provide six voyages in 2020, no alternative ship has so far been identified as available in the Pacific Region to augment supply.

Although some foodstuffs and other provisions can be uplifted to the island by air – at substantially increased costs – many supplies cannot e.g. heavy food goods such as flour, sugar, packaged milk, stock, poultry and pet foods, canned and bottled products; and building and plumbing goods. As long as this situation continues Norfolk Island will suffer further price rises and diminished economic and building activity.

Commonwealth legislation without concern for Norfolk Island. Over the period 1979-2015 all Commonwealth legislation was subject to the rider that it would not extend to Norfolk Island unless expressly stated to do so. Since the change of regime in 2016 and despite the unique position of Norfolk Island – as acknowledged by the CGC Report – this proviso has been abolished. In consequence it is likely that in future Commonwealth legislation will be imposed on Norfolk Island without due consideration of its effects on the island. This is likely to impose additional costs on the island, whether fair or not.

Land custodianship. Norfolk Island families of Pitcairn origin do not consider land as a mere fungible asset, but as a cultural possession to be passed on to descendants as part of their island identity. The imposition of municipal land rates on Norfolk Island by the Commonwealth has substantially disadvantaged these families, often being land rich but cash poor. There is therefore on Norfolk Island an active group campaigning for the removal of land rates as a means of revenue raising, a proposal being investigated currently by Councillors.

Interactions with Commonwealth departments. In Norfolk Island's experience in recent years Commonwealth departments often impose decisions on the island without consultation or negotiation, which means abrupt change in conduct and economic costs for the island. e.g. biosecurity decisions by the Department of Agriculture, Water and the Environment (DAWE). Some DAWE biosecurity

decisions have directly weakened the island's traditionally high ecological protection levels. Government departments often do not respond to correspondence e.g. to a private Norfolk Island proposal for the establishment of a bee sanctuary on the island, DAWE took eight months to respond that the Department did not have the powers to establish such a sanctuary on Norfolk Island. (Buffett & McPherson, 2019) Some Commonwealth departments (and also some Australian businesses) do not accept Norfolk Island telephone numbers as legitimate for on-line log-ins or service access; at least one department on some of its webpages does not accept 2899 as a legitimate postcode (author's experience, 1 May 2020).

3.5 Summary and analysis

For a range of matters prices and costs on Norfolk Island are not comparable to those on King Island (or Brewarrina). These are summarised in Table 7.

Table 7. Summary comparison of economic variables: Norfolk Island and King Island

Norfolk Island has, in comparison to King Island:

- Gross Territory Product (GTP) per capita lower by 50 per cent
- median household weekly income lower by 16 per cent
- median monthly mortgage payment higher by 30 per cent
- median weekly rent higher by 8 per cent

And:

- sea freight rates higher by 250 per cent
- air freight rates (passenger aircraft) higher by up to 100 per cent
- petrol, diesel and LPG prices higher by around 10 to 11 per cent
- electricity prices (family bill) higher by 58 per cent
- air fares to metropolises higher by more than 50 to 70 per cent (NI to Sydney),
by 85 to 125 per cent (NI to Brisbane)

Together with:

- higher food prices (~ 30 per cent?)
- additional adjustments to Australian superannuation guarantee levy over time
- an on-going crisis in freight shipping to the island
- complexities from land custodianship and municipal rating.

Sources: Tables 3–6, this paper.

The CGC has chosen King Island as that Australian local authority area which reflects most closely conditions on Norfolk Island. However on all the economic indices we have (above), and without exception, Norfolk Island fares worse than King Island. The notion that Norfolk Island is a "comparable community" to King Island for the purposes of revenue raising – even on a flexible interpretation of that concept – appears therefore, on the evidence available, to be extremely weak. For it is not the case that one island is advantaged or disadvantaged in relation to the other in a random fashion, but that on all the above indicators Norfolk Island shows a systematic bias to disadvantage.

The evidence is that prices and the costs of living and doing business on Norfolk Island are far higher than is the case for King Island. On the evidence available it is not possible to estimate the extent of that difference, but with Norfolk Island sea freight costs 250 per cent higher, air transport costs to the metropole 85 to over 100 per cent higher, and electricity bills around 60 per cent higher, the difference is evidently great.

For Norfolk Island there is a downward bias of economic capacity and well-being in every indicator when compared to King Island. That is to say that rather than occupying comparable places on the

distribution of local authorities in Australia with regard to revenue raising capacity per capita (and indeed economic well-being), the two appear substantially separated. And it is relevant here to recall the earlier discussion on the lack of "unique circumstances" adjustments for revenue items (Section 3.1 above).

The evidence suggests furthermore and *a fortiori* that Norfolk Island cannot be fairly and reasonably represented by an "average Australian revenue raising effort" for state-type services. This is because there is an underlying assumption being made in the CGC Report that the price levels met by families and businesses on Norfolk Island are at least roughly comparable to those in Australia. However the foregoing analysis shows that this is not the case. (Or: if the claim is made that the price levels are roughly comparable, this has not been demonstrated to be so, and is not supported by the evidence.)

With regard to Brewarrina we do not know what the local price level is, but with lower freight rates (more than 50 per cent less), lower prices for fuels (40 percent less), lower travel prices to its metropole (16 per cent less by air, around 75 per cent by cheapest option), lower median rent (by 35 per cent) and mortgage repayments (by 67 per cent) - but with lower median household incomes by 15 per cent - it is hard to consider that the effective price level (price level in relation to income) there approaches that of Norfolk Island.

3.6 Conclusion: unresolved issues

The CGC Inquiry was invited by DIRDC to estimate the capacity of Norfolk Island to raise revenue for the public services that are provided on the island. The CGC Report of this Inquiry has revealed two unresolved issues of importance.

The first is to demonstrate how far Norfolk Island is from being able to raise revenues to cover the services it currently receives from the Commonwealth, and provides itself as a local government (at "Australian levels" of service). Like many other local governments in Australia, particularly those that are rural or remote, NIRC runs a deficit and with little capacity to fund infrastructure investment.

Second, and from the evidence available, it appears that the CGC has significantly overestimated Norfolk Island's revenue-raising capabilities based on the criteria that it has used. This is because of the much higher price levels on Norfolk Island as a consequence – in particular – of the very high freight rates, fuel costs and travel costs which confront the island and which undercut the expenditure possibilities of businesses and families.

Although the CGC's methodology is no doubt appropriate for state-on-state comparisons, it does not appear to be well attuned to comparisons of Australia with Norfolk Island, without some means of price level comparison and adjustment being included, and/or a close analysis of "ability to pay" amongst other individual Australian local governments being available.

The above analysis was largely carried out prior to the advent of responses to the COVID-19 pandemic. The economic futures for Norfolk Island, Australia, and indeed for the world, may now look different from those in the past, in the light of this experience. However this does not mean that the significance of the issue of fair and appropriate allocation for Norfolk Island discussed in the foregoing is in any way diluted, or that discussion over methods of analysis, and the seeking of improvements to them, should not proceed.

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Appendix I

Shipping costs Sydney to Norfolk Island via Auckland - one revenue tonne¹ landed

Excludes: delivery to loading wharf; insurance charges; biosecurity permit costs in Norfolk Island

All dollar prices recorded prior to the first Australian National Cabinet Meeting
in relation to the corona virus emergency (15/03/20)

	A\$ per RVT
Basic Freight charges	
Ocean freight	285.00
CABAF ² (fuel)(at 34.5%) ³	98.32
Low sulphur surcharge (fuel)	17.00
Auckland-based charges	
Auckland repacking surcharge	
-Transfer containers from Sydney to NZ depot & de-van	65.00
Consolidation and documentation	
- repacking to export pallets, wrapping, strapping, documentation (dangerous goods etc), Customs fees	110.00
Norfolk Island charges	
Lighterage charges (ship to shore)	40.00
NI stevedoring surcharge	30.00
NI lighterage penalties surcharge	8.00
NI destination surcharge	8.00
Waste management levy	41.00
	<hr/>
	<u>\$702.32</u>

Notes:

¹ Revenue tonne (RVT) equals one cubic metre of volume or one tonne weight, whichever is greater

² CABAF = Currency Adjustment and Bunker Adjustment Factor.

³ On 3 April 2020, Neptune Pacific Line announced an increase in CABAF to a rate of 42% from voyage 27 (Scheduled ETA Norfolk Island 8 May 2020)

Appendix II

Department of Infrastructure, Regional Development and Cities CGC 2019 Norfolk Island Inquiry – Terms of Reference

Terms of Reference for the Norfolk Island Inquiry 2019

The Department of Infrastructure, Regional Development and Cities (Infrastructure) is seeking to obtain credible costing-related information to both:

- (1) Support consideration of options for the provision of state-type government services on Norfolk Island; and
- (2) Assist in defining the optimal service provision framework for the delivery of state-type and local government services, and legacy-type government business enterprises.

Infrastructure is seeking estimates of annual expenditure for services on Norfolk Island from the Commonwealth Grants Commission (CGC). CGC will make its calculations with reference to the services available in comparable communities, having regard to the circumstances of Norfolk Island, and assuming that Norfolk Island makes the average Australian revenue raising effort from its state and local government equivalent revenue bases, and that Norfolk Island operates at the average level of efficiency.

CGC will:

- (1) Calculate the amount of annual expenditure, including infrastructure costs, required to provide state-type government services, local government services and support for legacy-type government business enterprises on Norfolk Island, taking into account the circumstances of Norfolk Island.
- (2) Provide a breakdown by expense categories for state-type government services, local government services and legacy state-type government business enterprises.
- (3) Determine the capacity of Norfolk Island to raise revenue from a comparable range of taxes and charges levied by state and local governments.
- (4) Determine the costs of infrastructure that would be required for the provision of state-type government services, local government services and support for legacy state-type government business enterprises at the range and levels provided in the states, assuming Norfolk Island has the average per capita infrastructure at the beginning of the financial year.
- (5) Provide Infrastructure with a final report and modelling tool or mechanism for updating annual expenditure for state-type government services, local government services and legacy state-type government business enterprises, by September 2019.
- (6) Publish the final report on its website, on a date to be agreed with Infrastructure.

CGC will refer to and, where applicable, update the Commission's 2011 Norfolk Island Inquiry, noting that Norfolk Island was self-governing at that time.

[Note: The modelling tool mentioned in item (5) was not finally required.]

Appendix III: Initial Circulation of this Paper

Commonwealth Grants Commission

Mrs. Alison Harper, Assistant Secretary

Commonwealth Parliament

The Hon. Nola Marino MP, Assistant Minister for Regional Development and Territories

Senator the Hon Zed Seselja, ACT

Senator Katy Gallagher, ACT

Mr David Smith MP, Member for Bean, ACT

Department of Infrastructure, Transport, Regional Development and Communications

Mr. Alex Foulds, FAS, Territories

Ms. Nicole Pearson, AS, Norfolk Island and Mainland Territories

Administrator, Norfolk Island

Mr Eric Hutchinson

Norfolk Island Regional Council

Mr. Andrew Roach, General Manager

Mr. Bruce Taylor, Group Manager Services

Norfolk Island Regional Councillors

Ms. Robin Adams, Mayor

Mr. Rod Buffett

Mr. John McCoy

Mr. David Porter

Mr. Lisle Snell

Norfolk Island Accommodation and Tourism Association

Mr. Rael Donde, President

Norfolk Island Chamber of Commerce

Mr. Brett Sanderson, President
