



Norfolk Island Government Submission to the GST Distribution Review Second Interim Report

July 2012

Introduction

Norfolk Island is the only Australian self-governing external territory and is unique. It is the only jurisdiction that has the responsibility for delivery of services to its community from all three tiers of government and the ability to levy taxes to fund them. It is however excluded from the Australian social security and healthcare arrangements and from applying for most grant programs, particularly those relating to infrastructure development. Unlike other Australian States and Internal Territories It cannot borrow money externally for any purpose without Australian Government approval. Norfolk Island has its own GST system.

The island has a single industry –tourism, (visitors derived) predominately from the east coast of Australia¹. It has been severely effected by the Global Financial Crisis from which it has failed to recover as well as the more recent impact of the high Australian dollar. Since the 2007/08 financial year visitor arrivals to the island have decreased by 28%. The Island’s economy has been classified as being in an economic “Depression” since June 2010².

The Norfolk Island Government signed a Roadmap for Change³ with the Minister for Regional Development, Local Government, Arts and Sports (DRALGAS) in March 2011. As part of the Roadmap developing a transitional model for the introduction of the Australian Taxation system with the Commonwealth Government is scheduled to occur over the 2011-13 period. Since the signing of the Roadmap the Commonwealth Government has commissioned an update of the financial capacity of the island by the Commonwealth Grants Commission (CGC Update⁴) along with an up to date Economic Development Study of the island.

In September 2011 the Norfolk Island Government signed a funding agreement⁵ with DRALGAS which required it to prepare a proposal for revenue measures that are more closely aligned with those of other Australian jurisdictions⁶. This proposal was to consider the findings of the Public Service Review⁷ the CGC Update and the Economic Development Study.

A Discussion Paper outlining Revenue Measures Options for the Norfolk Island Government was presented to DRALGAS in April 2012 and is attached to this submission. Based on the information available to it the Norfolk Island Government has adopted a position to opt into the Australian GST system and that should make it eligible to receive transfer payments according to the principles of HFE. For this reason the Norfolk Island Government appreciates this opportunity to provide comments on the Panel’s first and second interim reports. The comments are restricted to those areas of particular relevance to the Norfolk Island situation.

¹ New Zealand is the second market and represents approximately 15-20% of arrivals

² P.6, Norfolk Island Economic Development Report, ACIL-Tasman, March 2012

³ See (<http://www.info.gov.nf/news/Information/Norfolk%20Island%20Road%20Map%20-%20March%202011.pdf>)

⁴ See (http://www.cgc.gov.au/publications2/other_inquiries2/2011_-_norfolk_island_inquiry_1)

⁵ See (<http://www.info.gov.nf/news/Information/Funding%20Agreement%20-%20FINAL%2030%20September%202011.pdf>)

⁶ Schedule 2; Item 15

⁷ Norfolk Island Public Service Review, Australian Continuous Improvement Group, 21 November 2011

Comments on the First Interim report issues

Proper role and purpose of the GST distribution

The Norfolk Island Government currently provides its community with comparable services to those provided in the other States and Territories. In some cases the service provided is at a lower standard than mainland Australia due to both the Government and community's financial capacity. The Road Map reforms currently underway on the island are to ensure that residents of the Territory can expect to access a similar range and quality of basic services as those available to other Australian's living in rural and remote communities.

The Norfolk Island Government would be very concerned about joining a system in which partial equalisation results in outcomes for the community that entrenches a lower capacity to provide essential services. For this reason it supports the current objective of equalisation based on being able to provide the same capacities between states and territories.

Fixing annual relativities

Budget predictability is an important aim of the Norfolk Island Government joining the Australian GST system. It believes that a shift to data back casting would appear to increase the unpredictability of future year allocations particularly in Norfolk Island's situation where the frequency of all data collection is much lower than elsewhere. For this reason not back casting data changes is a preferred approach.

Limiting relativity changes

The concept of limiting relativity changes by ensuring that in years when the GST revenue pool is growing a State does not receive a lower nominal amount of GST than in the previous year is seen as a potential mechanism for Norfolk Island to increase economic stability. Such a "ratcheting up" approach to revenues the Norfolk Island Government believes should allow all States and Territories to have a reliable base line from which to budget each year.

Simplification

Proposals such as distributing GST on an EPC basis would dramatically disadvantage a small remote territory like Norfolk Island. It could also be argued that this would be inequitable as even though the island has a small population most GST revenue would be generated from servicing the tourist population. However an EPC type distribution may result in the island receiving less GST revenue than it contributes and may place it in a worse position than it currently operates to provide local services thus defeating the entire objective of HFE.

Removing the Northern Territory (and the Australian Capital Territory) from equalisation calculations

The Norfolk Island Government agrees with the views expressed by the Northern Territory in opposing the removal of the Territories from the equalisation calculations. In the case of Norfolk Island the existing equalisation calculations have been made for the Island by the Commonwealth Grants Commission. They are relatively simple and reasonably well understood. Norfolk Island currently exists outside any equalisation framework and because of this its community suffers.. Unless a firm alternative proposal was made which allows for surety over future budget revenues at

levels enabling the delivery as the standards enjoyed in the rest of the country, and allowing for future growth the Norfolk Island Government would not be in agreement. Since the existing system is designed to deliver this objective there seems no valid reason to exclude either the Northern Territory, the ACT or Norfolk Island from the current System.

Comments on Second Interim Report Issues

As discussed earlier Norfolk Island is embarking upon major tax reform involving the relinquishing of some Commonwealth type taxes (GST, Customs, Healthcare levies) and preparing to adopt other common state and local government taxes (Property based taxes) which presently do not exist locally. It is in this changing local tax environment that the following comments are offered to the Panel.

Promoting State tax reform

The Norfolk Island Government agrees with the panel that the optimal way to pursue State tax reform is on a multilateral basis, which includes the States, Territories and the Commonwealth. Norfolk Island is in the process of examining what State type taxes it should adopt in reforming its local taxation system and may be regarded as a suitable test case for tax reform, by adopting some of the tax measures proposed in the AFTS. It is willing to work co-operatively with the other States and the Commonwealth to examine suitable and efficient taxation mixes.

Attachment 1:-Norfolk Island Revenue Options Paper