Christmas Island: A question of self-determination

Kelvin Matthews
Chapter 5: Financial and Funding Dependency

Critical to maintaining Australian standards of services to the community of Christmas Island (and the IOTs) are the financial arrangements with, and the funding dependency on, the Commonwealth. This chapter will discuss these financial and funding dependency arrangements for the administration of Christmas Island that are currently the responsibility of the Commonwealth DIRDC. The Department administers its operations financially from offices on Christmas Island (that also serve the Cocos Keeling Islands) as the ‘Indian Ocean Territories Administration’ (IOTA), and also has an office located in Perth WA, with the head office located in Canberra. The Shire of Christmas Island receives operational financial grants from the Commonwealth by way of the WA-administered Grants Commission process that applies normally to all WA State-based local government authorities. Funding for capital grant projects that are normally directly available to mainland state-based local government authorities are considered under the ‘state-type grant’ process that requires assessment approval by the Commonwealth.

As noted in the previous chapter, the Commonwealth have not consistently consulted with the community of Christmas Island regarding the explanation and review of the SDAs process that applies to the governance of the island. This includes the annual budgetary process and the allocation of revenue and expenditure, both recurrent operational and capital. Previous Administrators of the IOTs have often queried, and indeed complained that they have had little input into the annual departmental budget process on behalf of the community. An example of this was the complaint by former Administrator Jon Stanhope in 2014 in accordance with his ‘Administrators Bulletin’ where he advised the community of the IOTs of his (ongoing) frustration in having no input to the departmental budgetary process, which in turn would allow him to explain to local residents where the allocation of expenditure was made for the benefit of the community. The purpose of this chapter
is to therefore emphasise the critical importance on the financial and funding dependency that the Territory of Christmas Island has on the Commonwealth, and the Island’s inability to raise enough revenue to meet its financial requirements. It also seeks to outline challenges around the sustainability of the current arrangements. These challenges take place in an environment where the community has had little knowledge or understanding of the budgetary process. More broadly, this chapter situates the issue of budgets and funding arrangements within the context of earlier discussions on representative democracy and self-determination.

**Funding allocation**

Previously, this assessment process also included the relevant WA State Government agency. However, this arrangement was changed in 2014, so that now any such consideration is by the Commonwealth directly. In the 2013–2014 IOTs Annual Budget the total combined operating and capital budget for both IOTs was around $167 million.\(^441\) Using a proportional percentage division of approximately 65% of this total budgeted amount being expended only on Christmas Island, this translates to an amount of approximately $108 million. Two years later, in the 2015–2016 financial year, the Budget Book of the IOTs reveals a total operating and capital budget for the IOTs at about $128.8 million.\(^442\) While this is lower than the 2013–2014 budget and the 2014–2015 budget, the Department (DIRDC) advises in the 2015–2016 IOTs’ Budget Book that the change in the funding model between 2014–2015 and the subsequent years is owing to the commencement of the Indian Ocean Territories Special Account 2014 from 1 July 2015. In previous financial years, revenue earned

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\(^442\) Department of Infrastructure and Regional Development, *Indian Ocean Territories Budget Book 2015–16*, (Canberra: Australian Government Publishing Service, 2016), Table 1 page 3, Table 2 page 4 and Table 11 page 22.
by the Department was deposited into the Consolidated Revenue Fund and returned to the Department in the Portfolio Additional Estimate Statements in February of the following financial year. From 1 July 2015, revenue is placed directly into the Special Account and immediately available for investment in the IOTs. However, this is not necessarily reflected in the latest DIRDC 2017–2018 Budget Overview Book where there does not appear to be any direct correlation between the Special Account inclusion in future IOT budgets and the total budget amount. At the very least, the increased Special Account, according to the Department comments in the 2015–2016 Budget Book, appears to be included at the expense of decreases in operational services when comparing with the previous annual budget descriptions. Further, there is no specific amount noted in the Budget Overview of the proposed $8,240 capital expenditure other than the description provided as expenditure on the Christmas Island Port Redesign Project.443

In summarising the budget comparison between 2013–2014 to the recent 2017–2018 budget, there is a distinct decrease in the funding allocation by the Commonwealth to the IOTs (and Christmas Island) that can perhaps be explained by the Commonwealth basing its funding allocation on a per capita basis where the decline in population, especially on Christmas Island, is explained by the 2016 ABS Census data noted in Chapter One of this study. Further, with the Commonwealth announcing, and therefore planning for, the closure of the IDC on Christmas Island, the decline in population could reasonably be expected to continue.

Both the IOT’ local governments receive operational Financial Assistance Grants from the Commonwealth by way of the WA-administered Grants Commission process that applies normally to all WA-state-based local government authorities.

This process is secured through the relevant SDAs between the Commonwealth and the WA Department of Local Government. Funding for capital grant projects that are normally directly available to mainland WA State-based local government authorities are considered under the ‘state-type grant’ process that requires assessment approval by the Commonwealth. In the 2014–2015 year, this arrangement was changed so that now any such consideration is by the Commonwealth directly through the Indian Ocean Territories Regional Development Organization (IOTRDO). Fundamentally, the Commonwealth predicate their financial assistance to the IOTs based on the principle that current arrangements, with annual adjustments, provide a level of services consistent with those in comparable communities in WA. This comparison in itself is problematic, given there is no comparative community in remote and/or regional WA to the IOTs. No other communities are separated from the nearest centre by vast distances of ocean, nor do they have the same cultural mix in their populations.444

The historical context in which the financial arrangements apply to Christmas Island can be found in the 1992 Islands in the Sun report. That is, it was clearly articulated in the Report that the Commonwealth Minister (from time to time) has administrative (including financial) responsibility for Christmas Island.445 Little has changed as noted above in the DIRDC 2015–2016 annual budget direct allocation for the IOTs. While this can be reflected accurately as the financial arrangements for DIRDC in its obligations to the IOTs, it also reflects the financial dependency of the IOTs on the Commonwealth. Other avenues of financial arrangements include:

- State-Type taxes imposed on the IOTs by the Commonwealth under administrative arrangements between the Commonwealth and the

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445 Islands in the Sun, 41.
Chapter 5

WAGovernment such as mining royalties, alcohol sales, pay-roll tax, various stamp duty taxes, land transaction (conveyancing) tax and other financial taxes such as motor vehicle registry, gambling and lotto sales, with the revenue raised paid by the WA Government directly to the Commonwealth.446

- Local government revenue raising capacity through legislative rating of freehold properties on the island and various fees and charges it imposes for services, such as waste collection and landfill disposal, and private works. As noted above the local government also receives annual operational Financial Assistance Grants from the Commonwealth by way of the WA-administered Grants Commission process that applies normally to all WA State-based local government authorities. In the Shire of Christmas Island 2015–2016 Annual Budget, this annual Financial Assistance Grant allocation is $4.237 million from a total budget of approximately $14 million.447

An analysis of the funding arrangements also reveals the proportion of revenue collected and expenditure in defined services, both operational and capital. For example, expenditure on health related services through the Indian Ocean Territories Health Services (IOTHS) extrapolated from the 2015–2016 Annual DIRDC budget in the following Table 5.1, reflects $16.125 million allocated for direct health-related operational services, excluding funds allocated for capital projects:

446 Commonwealth Grants Commission, 50.
Table 5.1: 2015–2016 IOT Health Service Budget

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees and Related Expenses</td>
<td>10,424,347</td>
</tr>
<tr>
<td>PATS (Patient Assistance Travel Scheme) Subsidy</td>
<td>1,469,665</td>
</tr>
<tr>
<td>Property and Maintenance</td>
<td>1,168,072</td>
</tr>
<tr>
<td>Medical Medivac</td>
<td>955,727</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>483,232</td>
</tr>
<tr>
<td>Medical Supplies and Services</td>
<td>396,132</td>
</tr>
<tr>
<td>Travel</td>
<td>387,387</td>
</tr>
<tr>
<td>Postage and Freight</td>
<td>216,906</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>190,907</td>
</tr>
<tr>
<td>St John Ambulances Training Grant</td>
<td>75,000</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>357,747</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,125,122</strong></td>
</tr>
</tbody>
</table>

While the total amount in Table 5.1 above reflects the operating expenditure only for the 2015–2016 year, the total capital expenditure for the IOTs in this year is identified separately as $7.8 million and does not identify any capital programme expenditure for the IOTHS. In the 2013–2014, year capital expenditure for the IOTHS was identified at $23.808 million, which proportionately represented about 14% of the total 2013–2014 IOT Annual Budget. The Commonwealth funds the IOTHS to provide health services directly to the IOT communities. The IOTHS, under management from the island administration, operates a Primary Health Care Service combined with a 24-hour 8-bed health service on Christmas Island. In comparison to the recent 2017–2018 Budget Overview Book where the estimated expenditure on Health Services is $13,201 million, a decrease is evident that again may be
attributable to the expected decrease in local population together with a decrease in health-related services owing to the closure of the IDC.\textsuperscript{448}

The above Table breakdown also reflects expenditure budgetary provision only (operational and capital) and does not reflect any income revenue to the Commonwealth that has appeared consistently in previous Commonwealth Budget Books. This is primarily because the IOTHS provides services in a ‘Medicare’ context where patients attending the IOTHS are ‘bulk billed’ under the Commonwealth Medicare system and are not required to pay any ‘gap’ amount for health-related services. Conversely, the delivery of services by the Commonwealth via the Indian Ocean Territories Power Authority (IOTPA) for the provision of electricity attracts a tariff for the consumer that is levied similarly to the tariff that applies on mainland WA. The Power Authority’s 2017–2018 Annual Budget expenditure estimate is $15.935 million, with the cost of delivering power in the IOTs being offset through revenue received from fees and charges.\textsuperscript{449}

The provision of Home and Community Care (HACC) health services, which is directly provided to the community by the IOTHS, is instead a funded program on the mainland by the Commonwealth to local government authorities. On Christmas Island, the IOTHS is the sole source of HACC-type services, and there is no community-wide health focus and minimal community participation in the health service. The services are limited owing to funding allocation by DIRDC, and not necessarily directly beneficial to the community, points that were included in a 2014 Aged Care Study commissioned by the Commonwealth. The issue of aged care on Christmas Island (together with HACC services), where there is no specific aged-


\textsuperscript{449} Department of Infrastructure, Regional Development and Cities, 4.
Financial and Funding Dependency

care facility comparable with that on mainland Australia and aged-care
requirements are met by accommodating patients in a 24-hour, 8-bed facility of the
hospital, resulted in a study on aged care. The (then) Department of Infrastructure
and Regional Development contracted Australian Healthcare Associates to conduct
an aged-care review of the IOTs, and a key finding of the report identified that there
is a need for community and aged-care services that is currently unmet.450 Although
the report was completed in early 2015, it was not released to the public until late
2015. As the senior’s demographics in the community grows, the need for access to
aged-care services and facilities will only increase. There is no justification for the
continued exclusion of the IOTs’ (aged) community from decision-making in these
programmes and services. Further, the hospital owned and operated by the
Commonwealth on Christmas Island is the only one in Australia that the
Commonwealth directly operates, manages and funds, where simultaneously, there
is no corresponding Hospital Board in place to govern the hospital unlike in models
on mainland Australia.

The 2010 JSCNET Inquiry into the Changing Economic Environment in the Indian
Ocean Territories Report identified that phosphate mining contributes
approximately $27 million to the Christmas Island economy annually. It is the only
contemporary JSCNET Inquiry Report that actually identifies any monetary figure,
although subsequent JSCNET Reports such as the 2015–2016 Inquiry into the
Governance in the Indian Ocean Territories Economic Development or the 2017
Inquiry into The Strategic Importance of Australia’s Indian Ocean Territories refer to
the important contribution of the phosphate mining industry to Christmas Island.451


That is, for many years, the Christmas Island economy has been characterised by the phosphate industry as noted in Chapters Two and Three of this study, and therefore, it plays an important role in the economic and social viability of the community on the island. Certainly, it is difficult to identify from the Department and JSCNET Reports where any community input has occurred from the taxes and royalties paid, and the community has consistently raised this issue in submissions to several JSCNET Inquiries. Only a small proportion of the annual amount paid can be identified as financially beneficial to the community by direct payments by the mining company to community organisations. The 2010 JSCNET Report identified that the phosphate mining’s direct financial impact on the Christmas Island economy was:

- $17 million in company tax
- 4.9 million in income tax paid on employee wages and bonuses
- $3.2 million in phosphate royalties
- $1.3 million rehabilitation levy
- $260,000 fringe benefits tax
- $140,000 local government rates
- $24,000 rental of mining leases
- $200,000 annual community donations
- $250,000 annual sponsorships.\(^{452}\)

In the 2017 JSCNET Inquiry Report, the Committee received evidence that one of the main drivers of Christmas Island’s private sector economy is phosphate mining. The largest private sector employer is Christmas Island Phosphate Resources, which employs approximately 250 people in mining and subsidiary businesses. Concern

\(^{452}\) Commonwealth Joint Standing Committee on the National Capital and External Territories, 26.
Financial and Funding Dependency

was expressed by local residents about the mine’s uncertain future. This has been substantiated by recent media articles regarding the future of Christmas Island by the Shire of Christmas Island President, Gordon Thomson, when lobbying for the mine’s expansion in July 2017 where he stated that:

‘The Federal Government needed to urgently approve the land clearing application or risk the mine’s closure and the loss of 250 jobs and the whole economy won’t exist except for government services if the mine closes’.

In its 2018 Annual Report to shareholders, Phosphate Resources Limited (CIP) reported an operating consolidated profit after tax for the financial year ending 2017–2018 of $21.1 million. The Chair of Phosphate Resources Limited (PRL) also noted that this was a strong result, given the externalities that affected the business, such as the failure to access further mining tenement sites. This is an increase in comparison to previous years and highlights that PRL mining activities on Christmas Island contribute significantly to the financial viability of its economy. However, in a recent media article release by the Chair of PRL to the community of Christmas Island, in his response to the announcement by the Minister for Environment and Energy that the Government decided not to approve PRL’s

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456 Christmas Island Phosphates, 3.
proposed exploration program because it is likely to have a significant impact on the Christmas Island environment, the PRL Chair stated:

‘The decision by the Minister for the Environment and Energy to reject PRL’s application to re-clear a total of some 6.8 hectares of historic drill lines on Christmas Island is a slap in the face for PRL employees, shareholders and long-term Island residents wanting the Island to maintain industries capable of providing jobs well into the future. At a time when the island is facing an uncertain economic future with the impending closure of the Immigration Detention Centre, the Turnbull government seems determined to ensure that other potential job prospects are choked off before being properly considered. Clearly, the Government have no desire to provide a future, which balances both economic development and environmental protection’.457

While this decision by the Minister related to an application by PRL for exploration drilling permission, which was intended to be the first step in the evaluation of further economic resources and the possibility of making a future proposal for mining that could have guaranteed the continuation of mining jobs and investment beyond the current 2030 lease, the impact of the decision in regard to the long-term effects of the phosphate mining industry on the island now appears to question the island’s economic and social sustainability and future.

The 2014–2015 DIRDC budget reflects a similar amount as the 2013–2014 budget, albeit with a slight total amount decrease. That is, while the 2013–2014 total DIRDC budget for the IOTs was approximately $167 million, the total 2014–2015 budget is about $149 million (including capital), as shown in Table 5.2, as extracted from the

recent JSCNET Final Report 2016 on Economic Development and Governance in the Indian Ocean Territories.\textsuperscript{458}

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>WA Service Delivery Arrangements (includes 2013-14 offset funding)</td>
<td>Administered Capital Budget</td>
</tr>
<tr>
<td>$32,120,922</td>
<td>$12,297,084</td>
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<tr>
<td>Other Service Delivery Arrangements and Expenses</td>
<td>$1,947,230</td>
</tr>
<tr>
<td>Private Sector Contracts</td>
<td>$30,343,958</td>
</tr>
<tr>
<td><strong>Australian Government Managed Services</strong></td>
<td><strong>Major Capital Projects</strong></td>
</tr>
<tr>
<td>Policing</td>
<td>Fuel Consolidation Storage</td>
</tr>
<tr>
<td>$4,345,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Health Services</td>
<td>Flying Fish Cove Jetty Extension</td>
</tr>
<tr>
<td>$16,004,000</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Power Authority</td>
<td></td>
</tr>
<tr>
<td>$18,765,354</td>
<td></td>
</tr>
<tr>
<td>Support to the Community</td>
<td></td>
</tr>
<tr>
<td>$3,520,200</td>
<td></td>
</tr>
<tr>
<td>Support to Local Government</td>
<td></td>
</tr>
<tr>
<td>$7,234,970</td>
<td></td>
</tr>
<tr>
<td>Administration, Operations and Corporate Services</td>
<td></td>
</tr>
<tr>
<td>$11,902,366</td>
<td></td>
</tr>
<tr>
<td><strong>Total Operational Budget</strong></td>
<td><strong>Total Capital Budget</strong></td>
</tr>
<tr>
<td>$126,184,000</td>
<td>$23,297,084</td>
</tr>
<tr>
<td><strong>2014–2015 Total IOT Budget</strong></td>
<td><strong>$149,481,084</strong></td>
</tr>
</tbody>
</table>
The above 2014-2015 total budget allocation for the IOT was nearly $149.5 million. This comprised of an operational component of $126.2 million and capital works of $23.3 million. The IOT Budget Summary at the 31st of May 2015 is inclusive of Approved Additional Estimates, Movements of Funds, Revenue Adjustments and Parameter Adjustments.

Comparatively the 2015–2016 DIRDC budget for the IOTs reflects an intended decrease in the funding arrangements by the Commonwealth for Christmas Island, and this is repeated in the forward budget estimates for the years 2016–2017, 2017–2018 and 2018–2019. This could be explained by a combination of the introduction of the ‘Special Account’ by the Commonwealth as noted earlier and the anticipated decline in the population of the island, not only the local population but also the impact of the decline in the IDC activities since 2013 regarding fly-in fly-out workers. Previously, revenue earned by the Department was deposited into the Consolidated Revenue Fund and returned to the Department in the Portfolio Additional Estimate Statements in February of the following financial year. From 1 July 2015, that revenue was placed directly into the Special Account and immediately available for investment in the IOTs. This change is intended to allow the Department to better plan activities over the financial year. This was also reinforced in the Final 2016 JSCNET Report where the Committee acknowledged that the Indian Ocean Territories Special Account empowers the Department to make payments for the delivery of essential services and providing infrastructure within the IOTs.


Table 5.3: IOT Estimated Budget and Forward Estimates

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Funding for IOT Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services to Indian Ocean Territories</td>
<td>126.184</td>
<td>88.907</td>
<td>88.871</td>
<td>88.999</td>
<td>84.396</td>
</tr>
<tr>
<td>Services Subtotal</td>
<td>126.184</td>
<td>110.664</td>
<td>109.539</td>
<td>109.667</td>
<td>105.064</td>
</tr>
<tr>
<td>Funding for Mining Rehabilitation – Christmas Island Phosphate Mining Rehabilitation Special Account</td>
<td></td>
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<td></td>
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</tbody>
</table>

The 2015–2016 Portfolio Budget Statements for the (then) Department of Infrastructure and Regional Development portfolio allocate up to $123.7 million to support communities in the IOTs. Therefore, the 2015–2016 budget allocation is similar to the 2013–2014 budget data, excluding capital project expenditure. That is, the total operating annual budget in 2013–2014 was approximately $127 million and the total capital budget amount was approximately $40 million. The forward estimates for 2016–2017, 2017–2018 and 2018–2019 reflect a decrease in financial arrangements for the IOTs by the Department; however, when reviewing previous departmental Annual Reports, they reveal that quite often the estimate budget for
the financial year and the actual expenditure are different, with over expenditure more likely to occur.

In his Community Bulletin of July 2014, the (then) outgoing Administrator of the Indian Ocean Territories (Mr Jon Stanhope) referred to the fact that in regard to the financial arrangements in place in the IOTs, his view was that all policy and budget decisions are made by federal public servants based in Canberra and Perth although ultimately all budget decisions are signed off by the relevant Minister. Residents are not consulted about the budget and are never asked for their views about expenditure priorities. No draft budget is prepared or published, and there is nothing resembling an estimates process. While it can be argued (certainly by public servants) that there is no specific requirement for them to consult the community on preparing and considering annual budget estimates, it does display a lack of consideration for the community of Christmas Island, given that financial arrangements and allocations are made without any consideration and consultation with them (the community) and the process is merely viewed as a formality for the public servants to present a budget to the responsible Minister (and government) of the day. This is especially apparent since the Government abolished the Community Consultative Committee (CCC), which was an avenue that the community had to comment on matters that directly affected them.

This in turn reinforces the notion that a democratic deficit exists, given the lack of transparent processes that allow the community to have any meaningful input into the budgetary financial (and legislative) arrangements that affect their daily lives, and the process appears to be controlled by unelected public servants. This was

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highlighted in the recent JSCNET Final Report 2016 which notes that the overall cost of public administration in the territories is high, yet resident satisfaction levels are low.\textsuperscript{462} Further the recent JSCNET Final Report 2016 notes that the IOTs do not have an overarching consultation protocol or formal consultation mechanism to focus community engagement with administration and service delivery.\textsuperscript{463} Hence, transparent information through effective consultation regarding expenditures and revenues is paramount to development of a better governance arrangement; not only does the community have a fundamental right to know this information it also feeds into consideration of future governance options. The community does not want absolute financial dependency on the Commonwealth except to the extent where the Commonwealth is similarly obliged across Australia to support State, Territory and local government activities and services. The community contributes its fair share of taxes (this includes corporate entities such as PRL and other small businesses), and is entitled to a commensurate return, mindful of its location, isolation and other historically based factors.

**Funding dependency**

The purpose of this section is to also outline the funding dependency of various agencies (government and non-government) and community organisations on Commonwealth financial assistance. The Shire of Christmas Island (the local government authority) on the island is the main other government recipient of Commonwealth funding. This funding assistance is received through the annual Commonwealth Financial Assistance Grants program administered on behalf of the Commonwealth by the WA Local Government Grants Commission (WALGGC). As

\textsuperscript{462} Joint Standing Committee on National Capital and External Territories Inquiry Final Report: Economic Development and Governance, 129.

\textsuperscript{463} Joint Standing Committee on National Capital and External Territories Inquiry Final Report: Economic Development and Governance, 79.
noted earlier, the Commonwealth Grants Commission Report 2007 states that the system of determining local government grants and road grants to the Shires results in outcomes similar to those of comparable Shires. It maintains that the system where the WALGGC performs annual assessments is the simplest and most practical way of updating the funding required for these purposes.\textsuperscript{464} The WALGGC visits the island in an approximate five-year cycle, similar to its visitation cycle to mainland WA local governments, with the intervening years being desktop returns assessments. In the 2013–2014 financial year funding and grants from WALGGC, DIRDC and the Commonwealth Roads to Recovery Program were the Shire’s main source of revenue and accounted for 59.06\% of total budget revenue income.\textsuperscript{465} The 2015–2016 Financial Assistance Grant amount for the Shire of Christmas Island was $4.237 million, which comprised ‘untied’ funding of $3.827 million and the ‘local roads’ component funding of $410,000.\textsuperscript{466} The Shire of Christmas Island levies an annual ‘community services obligation’ on the Commonwealth Department of Border Protection (DIBP) for the amount of $456,000 and the IOTA for an annual amount of $825,000 that are in lieu of ‘rates’ applied to all private and freehold properties on the island.\textsuperscript{467}

The situation on Christmas Island is in contrast to mainland Australia, where the Government (Commonwealth and State) properties are normally exempt from payment of rates. However, the Shire and the Commonwealth confirmed this arrangement many years ago under a specific Memorandum Agreement to allow

\textsuperscript{464} Commonwealth Grants Commission, 62.


\textsuperscript{467} Shire of Christmas Island, 52.
this levy in recognition of the services provided by the Shire and the low revenue capacity base of the Shire. It also recognises the unique circumstances of the Territories where a simple copy of WA services and cost levels may not be appropriate.\footnote{Shire of Christmas Island, 52.} Primarily, the rationale behind imposing a ‘rates type levy’ on the DIBP through the annual Community Services Obligation is to financially recoup expenditure incurred by the local government for the provision of services, especially as a result of the increased housing purchased by the DIBP and its contractors as a result of the immigration activity on the island and the impost this activity has had.

Therefore, these financial arrangements between the Shire and the Commonwealth departments can be viewed as funding dependency where the Shire relies on this significant annual amount as part of its own revenue budget. The other source of funding dependency for the Shire is the annual grant it receives from the Commonwealth to maintain the road network outside its local government jurisdiction. This is principally the Commonwealth-owned outer urban road network that services primarily the IDC and the various mining leases on the island. This annual amount in 2015–2016 was $660,000 and is expended mostly on routine maintenance of the unsealed road network.\footnote{Commonwealth Grants Commission, x.} Again, the Shire replicates this particular financial arrangement in accordance with the Main Roads WA (MRWA) Department model where the Commonwealth also provides state-type funding in Christmas Island in the absence of the State. The MRWA model used in rural remote mainland WA areas is known as the ‘Regional Roads Group (RRG)’ that have responsibility for recommending and allocating relevant State funding to local government regional areas, such as the Pilbara, Wheatbelt and Gascoyne. In turn, the participants in the RRGs allocate the funding for the relevant year to each local
government authority member of the RRG for use on the particular road network that they have identified and requested funding for. Through RRGs, the state government provides local governments a voice in how the State’s contribution to local roads is spent. This organisational structure and regional framework recognises the understanding of the local community’s road needs that local government elected representatives have.\textsuperscript{470} This funding dependency and lack of commensurate funding by the Commonwealth acting as the (WA) State on the IOTs, therefore places added financial pressure on the IOT’s local governments to seek annual (maintenance) funding from the Commonwealth. Further, the role of RRGs is to recommend local government road funding priorities to the Advisory Committee and to monitor the implementation of the Local Roads Program in their own regions.\textsuperscript{471}

The RRG structure is absent on Christmas Island and therefore, the local government is required to use a proportion of their annually allocated Financial Assistance Grants’ (FAGs) road component and untied funding. The definition of WA mainland RRGs should be applied to the IOTs whereby the annual Direct Grants, Road Project Grants and Supplementary funding assistance provided by MRWA (State) to RRG local governments based on determination of projects by the RRGs, should also apply to the IOTs and be provided by the Commonwealth (and not MRWA), given the Commonwealth functions in the absence of WA State jurisdiction on the IOTs. Under the RRG model, the share of State Road Funds to be allocated to local government roads is 27% of the estimated vehicle licence fees for that year.\textsuperscript{472} In 2015, the IOTA resumed operational management of the Motor Vehicle Registry

\textsuperscript{470} Shire of Christmas Island, 52.


\textsuperscript{472} Main Roads Western Australia and the Western Australian Local Government Association, 3.
operations on Christmas Island, which was previous the responsibility of the Shire of Christmas Island. In this regard, data extrapolated from the Shire of Christmas Island budget(s) for the years 2011–2012 to 2013–2014 reveal that a total of $3,172,545.00 was collected by the Shire of Christmas Island on behalf of the Commonwealth as Motor Vehicle Registration revenue, where translating the MRWA RRG allocation of 27% to the Shire would realise direct additional funding to the Shire of $856,587.00 for road maintenance allocation. This again highlights the absence of normal revenue streams that would come to the island were it to enjoy the same model that applies equally to mainland local governments.

The key issue for the IOTs in accessing WA State-type grants is that it is only accessible to WA State-based agencies (including local governments) through their relevant grants process. Christmas and Cocos (Keeling) Islands are the jurisdictions in Australia where a simple application process commences in the WA Government system, evolves to the Christmas Island Administration, then to the Perth Commonwealth Department and finally to Canberra. In any of these various stops, this funding can be rejected for reasons unknown.\(^4\)\(^7\)\(^3\) This is despite the SDA in place between the WA MRWA and the IOTs, which clearly prescribes the application of the WA legislation (including MRWA legislation) for the purpose of funding grants; at the very least, the MRWA should be assessing the funding opportunity for the IOTs and then recommending that the Commonwealth fund vital projects. Further, there is no direct equivalency because of the different manner in which the Commonwealth provides funds (as state-type funds) for the IOTs, as opposed to revenue provided by the state government to other local governments in WA. Administered funding is a key difference, giving absolute discretion to the Minister for Territories to decide grant allocations as he or she sees fit on the advice of

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\(^4\)\(^7\)\(^3\) Main Roads Western Australia and the Western Australian Local Government Association, 5.
DIRDC. The Commonwealth may pay for advice from WA State Agencies via SDAs or contracts, but they are not necessarily compelled to accept the advice.

In 2014, access to the state-type grants process by the Shire and other community-based organisations was re-modelled and formalised by the Commonwealth on recommendation by the then Administrator through the newly established IOTRDO. In the 2013–2014 DIRDC Annual Budget, the first allocation to the IOTRDO under the Community and Economic Development Grants was $1.5 million. The allocation of $1.5 million for the IOTRDO 2015–2016 fund remains unchanged. It is historically divided between the two IOTs with final approval from the IOTRDO Board of recommended projects, and it is ultimately subject to approval by DIRDC and the Minister. In this regard, projects assessed and recommended for funding at the local level can still be rejected by DIRDC officers based in Canberra on recommendation to the Minister. This is a process that further disenfranchises the local community, especially given that other state-type grant funding opportunities through the previous WA based system have been removed.

Other Commonwealth-type financial arrangements for Christmas Island are from the Christmas Island National Parks and the immigration detention activities on the island controlled by the DIBP. The presence of Christmas Island National Parks is because of about 63% of the island being designated as a National Park that covers approximately 85 square km of the total island land mass of about 135 square km. About a quarter of the island has remained cleared for mining and settlement purposes since 1888, and on 21 February 1980 Christmas Island National Park was


proclaimed under the *National Parks and Wildlife Conservation Act 1975*. The Christmas Island National Parks is also a major employer on the island with a majority of its personnel being locally employed from the community, thereby playing a significant financial role for the Island’s economy. The Christmas Island National Parks annual budget for the year 2013–2014 was $4.9 million, which included operating and capital expenditure and revenue of $2.6 million for mine site rehabilitation levy. The Christmas Island National Parks annual budget for the 2014–2015 year was $5.9 million, which included operating and capital expenditure and revenue of $3.1 million for mine site rehabilitation levy.

Similarly, DIBP has had a presence on the island since immigration detention activities markedly increased from approximately 2007, with the peak of this activity occurring from 2010 to 2013. DIBP contracts the management of Detention Centre activities to Serco Asia Pacific (and have done since 2009), who in turn sub-contract management of detention activities, such as security and maintenance functions, to various organisations. Both DIBP and Serco donate to various community organisations and events on the island, which not only enhances their corporate profile in the community but also significantly contributes financially to the island’s economy. It may be the case that the community is ambivalent on the question of asylum seeker detention while there are economic and financial benefits to the island’s community through corporate donations and local employment. The impact of immigration activities has been raised in several JSCNET Inquiry Reports, and in particular, by the CITA, since they (CITA) have argued that the increased immigration activity is detrimental to the tourist economy on the island.

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477 Director of National Parks Department of Environment, 18.

In the 2016 JSCNET Report, it is noted that while it can be argued that immigration detention activities on Christmas Island boosted the local economy to the extent that fly-in fly-out workers spent money on local services, the perception of Christmas Island as a domestic holiday destination suffered during that time. This impact has lingered, even though immigration detention activities have been winding down.\textsuperscript{479} Notwithstanding the JSCNET Report comments, the financial injection to the Christmas Island economy remains significant since the DIBP contributes an annual amount of \$456,000 to the local government authority (2015–2016 budget) in lieu of land tax that is normally applied to other freehold properties. The recent downturn in asylum seeker activity to the island with the possible closure of the Detention Center, and therefore not only the presence of immigration contract workers on the island but also the effect on local employment, will be felt both economically and socially.

Turning to Norfolk Island and Lord Howe Island to briefly complete the discussion in a comparative context with the IOTs financial and funding dependency arrangements with the Commonwealth (or in the case of Lord Howe Island, the NSW State Government), it is important to note that they have also been discussed as comparable governance options in Chapter Four. First, it appears financially inconsistent for the Commonwealth to refer to the governance arrangements of the IOTs as a model to replicate on Norfolk Island when the cost outlined earlier in this section is considerably higher than in the Norfolk Islands pre-2015 situation and therefore does not appear to represent financial value to the Australian taxpayer. Submission 22 by Dr Martin Drum to the 2015 JSCNET Inquiry noted that Christmas

Island, with a similar population to Norfolk, receives almost 2.5 times the amount of Commonwealth funding. This discrepancy is even greater for the Cocos (Keeling) Islands considering that its population is about one-third of Norfolk and yet it receives more funding.\textsuperscript{480} This anomaly in Commonwealth funding distribution between Norfolk Island and the IOTs was further highlighted in the joint paper \textit{Governance on Norfolk Island: A Comparative Study} whereby the combined total cost to the Commonwealth in the 2013–2014 year to deliver services to both IOTs was $163 million, compared with $38.5 million of the Norfolk Island Government in the same year.\textsuperscript{481} This comparison of the financial data between the IOTs and Norfolk Island, as extrapolated from both DIRDC and the Norfolk Island Government budgets, shows just how unviable is the model of the IOTs.

This fiscal comparison makes it clear that the move by the Commonwealth to introduce the applied laws (of NSW) regime to Norfolk Island is not predicated on any comprehensive financial modelling. Yet as recently as in the current JSCNET Report in 2016, the Commonwealth advocate the merits of what they have achieved with the abolishment of the Norfolk Island Government and the introduction of the applied NSW legislation. In that report, the Committee notes that reform is underway on Norfolk Island to reset the governance foundation there. This is reform that for many years was considered impossible. Recommendation comments in the report noted that ‘Political will and determination, devoting adequate resources, having a clear mandate, good leadership and sound execution, together with providing for full community engagement have proved integral to the timely


\textsuperscript{481} Commonwealth Joint Standing Committee on the National Capital and External Territories, 131.
progress of the reforms on Norfolk Island’.\textsuperscript{482} There does not appear to be any reference or mention regarding the specific cost of implementing the Commonwealth’s reforms on Norfolk Island. Conversely, the Commonwealth through the JSCNET 2016 Report advocates incorporation of the IOTs with the NT through Recommendation 19 of the Report.\textsuperscript{483} Again, there would be a defined cost of implementing this recommendation in the 2016 JSCNET Report.

The \textit{Lord Howe Island Act 1953} (as amended from time to time) prescribes that there shall be established and kept in the Treasury an account in special deposits account to be called the ‘Lord Howe Island Account’ and that all moneys received by the Board shall be for the conduct of the affairs of the Island.\textsuperscript{484} The relevant statute is NSW legislation and prescribes how the affairs of Lord Howe Island are conducted including those that are financial. The LHIB is a statutory body established under the provisions of the \textit{Lord Howe Island Act 1953} where the Board is charged with the responsibility of administering the affairs of the Island.\textsuperscript{485}

Dissecting the 2015 Lord Howe Island Annual Report reveals that it has legislative and financial responsibility for a variety of public services that are comparable to normal state-type public service functions, and indeed local government-type functions. This involves operational services and budgeted capital projects and

\textsuperscript{482} Joint Standing Committee on National Capital and External Territories Inquiry Final Report: Economic Development and Governance, 155.

\textsuperscript{483} Joint Standing Committee on National Capital and External Territories Inquiry Final Report: Economic Development and Governance, 156.

\textsuperscript{484} New South Wales State Government, \textit{‘Lord Howe Island Act 1953 Number 39’}, (Sydney: NSW State Law Publisher, 2016), 23.

\textsuperscript{485} Lord Howe Island Administration, \textit{‘Lord Howe Island Board Annual Report 2015’}, (Lord Howe Island: Lord Howe Island Adminsitration Publication, 2015), 4.
includes an $8 million airstrip runway resealing project, which was jointly funded by the NSW and Commonwealth Governments. Further, the LHIB prepares an Operational Plan each financial year outlining specific outputs, activities and measures in response to the Corporate Plan’s direction. The Board’s adopted budget is consistent with its annual Operational Plan. In this regard, on average the LHIB requires around $7.4 million per annum to meet its annual operating budget commitments and about $2.2 million per annum to meet its annual capital budget commitments. The Board raises revenues through a variety of fees and charges and its own business operations. However, most of its funding is from recurrent and one-off grants (provided for specific purposes) from the NSW and Australian Governments. This is an important distinction to make in a comparative context with the IOTs, which receive no comparable state-type funding or grants. In 2014–2015, total grants and subsidies revenue was $9.2 million, consisting of $4.3 million in operating grants and $4.9 million in capital grants.

The main operating grants were:

- NSW Environmental Trust: $2.4 million
- NSW Treasury recurrent: $1.5 million
- NSW Department of Local Government: $192,000
- Commonwealth Caring for Our Country: $177,000.

The main capital grants were:

- NSW Treasury: $2.1 million
- Commonwealth Department of Infrastructure and Regional Development: $1.2 million

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486 Lord Howe Island Administration, 9.
487 Lord Howe Island Administration, 34.
• Commonwealth Australian Renewable Energy Agency: $500,000.488

While the above reflects some operational and capital funding from the Commonwealth, this funding is available throughout Australia and therefore not unique to either Lord Howe Island or indeed the IOTs. The IOTs are eligible to apply for comparable funding for the activities described above that Lord Howe Island receives. The 2014–2015 LHI Budget was $18,724,832 as audited in the 2015 LHI 2015 Annual Report.489 This annual budget amount is similar to the Shire of Christmas Island in the 2014–2015 year with an equally similar delivery of operational services and capital projects.490 The distinctions involve the commercial operations of a liquor store (similar to Norfolk Island) where it appears there was a net operating profit of approximately $319,000, the airport where there appears to be a net operating profit of about $315,000 and electricity where there appears to be a net operating profit of about $263,000.491 The Shire of Christmas Island does not operate any major commercial trading enterprises, although it did own and manage the Christmas Island Supermarket until sold in 2001; the responsibility of the airport, harbour port and electricity operations are the direct responsibility of the Commonwealth. Further discussion regarding Lord Howe Island’s land tenure arrangements will be presented in Chapter Six, noting that all land on Lord Howe Island is vested as Crown land with the LHI, and therefore, no direct land tax levy (rates) are applied with a rental system for leased land being applicable. Further, the governance and legislative arrangements, particularly concerning the Lord Howe Island Governance Review Final Report of 2012 will be further discussed in Chapter Seven.

488 Lord Howe Island Administration, 34.
489 Lord Howe Island Administration, 50.
491 Lord Howe Island Administration, 50.
Chapter 5

**Chapter Summary**

The chapter provides an overview and description of the current financial arrangements for Christmas Island (and the IOTs) that explains how a majority of the financial arrangements have remained virtually unchanged since at least 1992 and largely unchanged since the transfer of sovereignty of Christmas Island in 1958 to Australia. The financial arrangements for Christmas Island are largely funding dependent on the Commonwealth and are likely to continue so, given the current governance and legislative arrangements for the IOTs. In this regard, the message coming from the JSCNET 2016 Report is not only ambiguous and confusing, but more importantly, it reflects uncertainty by the Commonwealth regarding the direction it intends not only for Norfolk Island but also the IOTs, although any JSCNET recommendations are essentially just that, recommendations only to the government, and do not necessarily constitute government policy. If there is uncertainty with any governance direction, then this will have certain implications for the financial cost, especially when considering the options of self-determination. Hence, the financial and economic implications outlined in this chapter have an obvious impact on the self-determination options for consideration by the community and should be considered in the context of the discussions (Chapter Four) regarding the ‘free association’ model relevant to Niue or the Cook Islands, where New Zealand remains responsible for providing necessary economic and financial assistance as well as external affairs and defence, or where incorporation with the NT or WA would provide similar economic and financial security for islanders.