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Tabled 19.3.03

DRAFT FOCUS REPORT

RECOMMENDATIONS



EXPENDITURE REDUCTIONS

Recommendation 1

That the following recommendation submitted by a member of the Focus Team be referred to Members of the Legislative Assembly for initial consideration:

- (a) Self government be progressed
- (b) The Legislative Assembly membership be reduced from nine to seven
- (c) The number of Executive Members appointed by the Legislative Assembly be no more than three
- (d) The relevant legislation which provides for the role of a Speaker to be amended to allow the Clerk to act as chairperson at Legislative Assembly meetings
- (e) The role of Deputy Speaker be discontinued and the Deputy Clerk undertake the role of chairperson if necessary
- (f) Expenditure on CPA activities cease and more appropriate involvement occur in inter-governmental activities closer to home
- (g) Relocation of executive members closer to Administration staff
- (h) Urgent development and documentation of Government Policies
- (i) Legislative Assembly extend the committee system and require participation of a non-executive member on each committee or board
- (j) More appropriate support be provided between Administration and the Executive

Recommendation 2

To ensure equity amongst community groups and organisations, and appropriate return to the Norfolk Island Government for funds provided, it is recommended that the CMG investigate and make recommendations on a standard Grants and Subsidies application process. This may include separate applications for Government Statutory Bodies and GBEs to those for community organisations or groups. The process to include:

- (a) clear application criteria including a statement of funds required to undertake specific activities and outcomes desired from those activities
- (b) reporting (preferably quarterly) on progress of outcomes
- (c) annual financial return and statement of achievement of outcomes

**Draft Focus Report - Recommendations****Recommendation 3**

That the Legal Aid Committee investigate likely impacts on the Legal Aid Fund from one major claim and likely impacts on the Revenue Fund Budget for the next 1-5 years. That through the Legal Aid Committee's review of the Staniforth Report, an action plan be prepared for implementation of its recommendations

MAJOR ISSUES IMPACTING ON EXPENDITURE AND SAVINGS**Recommendation 4**

That in the absence of increased revenues further investigation occur into capping salaries and wages costs as a percentage of either income or expenditure.

Recommendation 5

That an agreed format for identifying business performance indicators be developed and incorporated into business and management planning procedure.

Recommendation 6

That Management Plans be introduced by July 2003 across all Areas and GBEs that are tied in to Strategic Planning and Budget processes and incorporate key performance indicators.

Recommendation 7

That a Financial Strategy Policy be developed, adopted and legislated.

Recommendation 8

That further investigation occur by the CMG into the costs and benefits of privatising and contracting out of Government services. The results of the CMG's investigation are to be delivered to the Minister for Finance.

Recommendation 9

That the recommendation of the Social Services Review be adopted (Attachment 3).

Recommendation 10

That an organisation wide risk management analysis be conducted that includes IT issues, reviews of operating performance and management information systems. This information is to be incorporated into the Organisational Review process and work place reviews.

**Recommendation 11**

That as a matter of priority all IT systems be fully documented.

Recommendation 12

That the Pathways data base system or a similar system be funded for complete implementation in the current financial year.

AVOIDANCE AND FEES/CHARGES NOT CURRENTLY BEING COLLECTED**Recommendation 13**

That a report identifying a break down on the areas where bad debts are occurring and the residential status of those avoiding payments be completed by the Finance Manager and CMG with suggested ideas for a Debt Recovery Policy to the Finance Minister by the end of March 2003.

Recommendation 14

That a standardised system of invoicing and receipting payments be introduced across all Revenue Fund Areas.

TREND ANALYSIS FOR FUTURE MAJOR WORK**Recommendation 15**

That an assets management system be implemented.

Recommendation 16

That a sinking fund for major assets replacements be established. That Budgeting for the fund be included in the 2003/2004 Financial Year.

Recommendation 17

That recommendations on how a legislated sinking fund would work including the annual amount the fund would be increased by and options for funding be prepared by the CMG and reported back to the Minister for Finance.

**NEW REVENUE****Recommendation 18**

That a charge be made on local phone calls with the funds to be used solely for major expenditure items.

Recommendation 19

That the income raised from the sale of any Norfolk Island Government assets sales be used solely for funding major capital expenditure items.

Recommendation 20

That subsequent price rises to the Category 5 Fire Service provide one year's notice to Airlines

Recommendation 21

Airport landing charges be increased by July 2004.

Recommendation 22

That fees and charges at the Norfolk Island Hospital be increased. That a review of the current cost of service delivery be conducted to determine new rates.

Recommendation 23

To ensure that rates do not jump in high increments on an irregular basis, a system be established to introduce and maintain regular, small incremental increases eg: whenever an increase in RPI occurs. In addition the review conducted by the Board every two years will confirm if rates are at the true economic cost of the service and initiate increases as required.

Recommendation 24

That the suggested increases to stock charges be adopted.

Recommendation 25

That Telecom hire charges for the use of the Under Road Borer be changed to: \$200 for 3 hours minimum charge, \$65 per hour thereafter. This does not include any Bob Cat use which is additional.

**Recommendation 26**

That the revised Tanalith Charges be adopted.

Recommendation 27.

- (a) By July 2003 Waste Management Legislation be introduced that:
- Establishes that the Norfolk Island Government will operate waste disposal systems in an environmentally sustainable and responsible way.
 - Creates a Norfolk Island Waste Corporation (NIWC) as a new Government Corporation, incorporating the current Water Assurance Scheme and solid waste management.
 - Allows NIWC to carry out income generating activities that are relevant to waste disposal and for the income to be retained by NIWC to fund its operations. This includes the export for sale of reusable and recyclable waste materials.
 - Sets targets for NIWC to become self funding and for the reduction of waste generated over a period of time eg: 10 years.
 - Establishes a Waste Officer position with responsibility for all NIWC waste operations.
- (b) Norfolk Island Waste Centre be funded for \$300,000 p.a from the Water Assurance Scheme and from a user pays type system. The Water Assurance Scheme will be expanded and contributions from households not part of the Scheme will be sought.
- (c) A Vehicle Bond be introduced of \$400 for every vehicle being brought on to the Island. \$200 of the Bond will be repayable when the vehicle is presented for disposal at NIWC. The Bond is transferable on sale of the car until the final owner presents the car for disposal and collects the refund.
- (d) A one-off period of time be identified for a \$50 payment for existing vehicles to be brought into NIWC for disposal.
- (e) That a decision be made on a Community Composting Facility option (including Windrow) by the 31st December 2002.
- (f) That capital items be purchased either from monies accumulated within NIWC or through Commonwealth Government Grants
- (g) Legislation to be introduced that places a levy on the use of plastic shopping bags on Norfolk Island. Levy funds are to be used for the sole purpose of Waste or Environmental Management.
- (h) Purchase an Eco-flex type system to enable reuse of shredded and cut old tyres in various options. Dependent on the success of the Eco-flex type
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**Draft Focus Report - Recommendations**

system, policies to be introduced that require Roads and Works to incorporate shredded tyres in footpath construction and other appropriate situations.

- (i) Chem Collect or a similar program be used to dispose of hazardous chemicals. Strict and severe penalties be introduced for the disposal of chemicals in other than approved ways. Strict controls be placed on the import of chemicals and a list of banned chemicals drawn up.

Recommendation 28

That an Island Wide Compulsory Superannuation be developed.

Recommendation 29

That in relation to the Use and Management of Administration owned land that:

- (a) A detailed strategic review of all Administration land holdings, including DCA Circle and Crown lands for which Administration is responsible, should be undertaken to ensure that all sites are used to the highest and best or most suitable use;
- (b) A strategic approach to the management of all Administration land holdings should be developed. Management of Administration land holdings should be centralised into one section of Administration from which use of the sites can be co-ordinated and planned as part of an overall land management strategy;
- (c) A housing policy should be developed to manage those Administration properties that have been developed for housing. Management of housing should also be centralised into one section, preferably managed as part of the overall Administration land holdings.
- (d) A policy should be developed to manage private sector proposals for commercial use of government owned lands.

Recommendation 30

That approval be given for intense investigation into new revenue options as soon as practicable.

NORFOLK ISLAND



THE ADMINISTRATION OF NORFOLK ISLAND

IN REPLY PLEASE

QUOTE:

CHIEF ADMINISTRATIVE OFFICER
ADMINISTRATION OFFICES
KINGSTON
NORFOLK ISLAND 2899

21 February, 2003

MEMO TO : Minister for Finance

FROM: Finance Manager

SUBJECT : Revenue Fund - Financial Indicators for January 2003

I attach for your perusal and distribution to Members a copy of the above financial report. In addition, as requested I also attach a breakdown of Capital Works and Purchases accumulated to 31 January 2003. As the budget appropriation bill has not yet been passed by the House, the January 2003 indicators are based on the original budget.

COMMENTS

The Revenue Fund financial indicators report is based on Accrual Accounting principles. Accruals of substantial revenues such as Customs Duty, F.I.L., Accommodation Levy, Telecom Dividend, Postal Dividend and Fuel Levy have been included albeit on an estimated assessment based on historic records.

The indicator's report is based on the Approved Budget effective 1 July 2002 plus the carry forward (From 2001-02) of \$129,900 in Appropriation for the construction of a new classroom at the N.I. Central School. Please note that the Budget provides for a deficit of \$92K.

INCOME

At best that can be determined at 31 January 03 is that the Revenue Fund's overall income is 105% of the budget (\$350K surplus). Customs Duty is \$64K ahead of budget but F.I.L. is \$23K behind. Income from 'Other Taxes' is at 105% of budget (\$79K surplus). The recent decision to half the absentee landowners levy is reflected in the indicators report. Income from category 'Other Charges' is \$161K surplus. \$94K of this amount is from contracted road works (Mt. Pitt) and \$80K is from income earned by the Curator of Deceased Estates. The Liquor Bond's net profit is \$50K ahead of budget.

EXPENDITURE

Administrative expenditure is 98% of budget. Capital Works/Purchases on a pro rata basis is at 107% of budget. This is mainly due to the new building construction at the school. This percentage excess will diminish as the financial year progresses.

Overall Expenditure, which includes known creditors and outstanding orders at the end of January 03 is on a pro rata basis about 2% (\$165K) under budget. At the end of December 02 the expenditure budget on a pro rata basis was under by \$68K.

At 31 January 2003 the overall Revenue Fund budget is in surplus \$460K which is an increase of \$216K over the December 2002 result.

Please note that as I will be absent on leave from the 3 March 2003 to 17 March 2003 the February financial indicators report will not be available for the March sitting of the House. I will however, endeavour to have the report completed as soon as possible after my return.


T. WILSON
FINANCE MANAGER

C. C.E.O./Executive Directors

REVENUE FUND
 MONTHLY FINANCIAL INDICATORS - JANUARY 2003

NOTE: Figures are in THOUSANDS of dollars

NOTE: KNOWN DEBTORS, ESTIMATED DEBTORS, KNOWN CREDITORS/LIABILITIES AND ESTIMATED CREDITORS ARE INCLUDED IN THIS REPORT
 THE % IN COLUMN '8' REPRESENTS THE RESULT OF COLUMN '4' AGAINST THE PRO RATA AMOUNT IN COLUMN '7'

REVENUE ITEM	MONTH-JANUARY 03			SEVEN MONTHS OF FINANCIAL YEAR ACCUMULATED			PRO-RATA		YEAR 2002/03
	1 THIS YEAR \$000	2 LAST YEAR \$000	3 ORIGINAL 2002/03 BUDGET \$000	4 THIS YEAR \$000	5 LAST YEAR \$000	6 % OF CHANGE	7 ORIGINAL 2002/03 BUDGET \$000	8 % OF BUDGET	9 ORIGINAL TOTAL BUDGET \$000
	CUSTOMS DUTY	347	221	317	2,284	2,081	10%	2,220	103%
F.I.L.	72	77	67	446	454	-2%	469	95%	830
OTHER TAXES	258	258	246	1,801	1,750	3%	1,722	105%	2,872
EARNINGS FROM G.B.E.s	206	208	235	1,709	1,701	0%	1,645	104%	2,815
INTEREST RECEIVED	24	24	23	166	160	4%	161	103%	775
OTHER CHARGES INCOME	160	50	52	525	315	67%	364	144%	819
TOTAL	1,067	838	940	6,931	6,461	7%	6,581	105%	11,231

EXPENDITURE									
ADMINISTRATIVE	191	182	218	1,524	1,450	5%	1,526	100%	2,608
HEALTH & QUARANTINE	61	80	60	407	437	-7%	420	97%	1,500
EDUCATION	174	136	161	1,127	1,079	4%	1,127	100%	1,900
WELFARE	135	78	127	950	900	6%	889	107%	1,322
COMMUNITY SERVICES	186	227	232	1,418	1,560	-9%	1,624	87%	3,350
WORKS- GENERAL/ROADS	85	117	103	694	719	-3%	721	96%	1,281
CAPITAL-WORKS/PURCHASES	19	-3	47	351	278	26%	329	107%	562
TOTAL	851	817	948	6,473	6,423	1%	6,636	98%	11,374
D/(DRAWN) - REVENUE FUND	216	21		460	38		(55)		
PROJECTED (DEFICIT)/SURPLUS - TOTAL BUDGET	(92)								

NOTE: "Earnings from Services" includes dividends, management fees and other charges rendered by the Revenue Fund on:
 Workers Compensation Scheme, Norfolk Telecom, Lighterage Service, N.I. Airport, Healthcare Fund, Liquor Bond,
 Electricity Service, Postal Service and the Water Assurance Fund.
 "Community Services" includes Courts and Lands, Police, Radio Station, Public Library, Legislative Assembly, Forestry and
 Agriculture, Tourism, K.A.V.H.A. Fund, Emergency Services and the Executive Member's Advance.

Earnings from Services to date are made up as follows:

	BUDGET RECEIVED	ORIGINAL TOTAL BUDGET	%		BUDGET RECEIVED	ORIGINAL TOTAL BUDGET	%
	\$000.	\$000.	%		\$000.	\$000.	%
(a) Workers Compensation	12	20	60%	(f) Liquor Bond	754	1,233	62%
(b) Norfolk Telecom (EST)	752	1,233	58%	(g) Electricity Service	47	78	59%
(c) Lighterage Service	16	27	59%	(h) Postal Service (EST)	58	70	83%
(d) N.I. Airport	52	87	58%	(i) Water Assurance	12	16	60%
(e) Healthcare Fund	6	10	60%				
SUB-TOTAL	838	1,437		GRAND TOTAL	1,709	2,797	61%

EARNINGS FROM SERVICES HAS BEEN ROUNDED TO NEAREST \$1K WHICH MAY RESULT IN A MINOR DISTORTION OF THE % SHOWN
 IN JANUARY 2003 THE % AGAINST TOTAL BUDGET ON A PRO RATA BASIS EQUATES TO 58.33%

ADMINISTRATION OF NORFOLK ISLANDREVENUE FUNDMONTHLY FINANCIAL INDICATORS - JANUARY 2003CAPITAL WORKS AND PURCHASES

CATEGORY	ORIGINAL BUDGET \$	AMOUNT SPENT \$	AMOUNT COMMITTED \$	TOTAL EXP/COMM \$
Furniture & Fittings (All Cost Centres)	13,300	8,600	8,390	16,990
Database - Smartstream	60,000	9,160	0	9,160
School Buildings	142,000	138,430	1,140	139,570
Plant & Equipment (All Cost Centres)	65,600	25,820	4,990	30,810
Vehicles	47,000	30,500	15,000	45,500
Tar Depot Relocation	28,000	5,650	20,600	26,250
Road Works	198,400	52,150	30,990	83,140
Tanalith Plant Buildings	5,000	0	0	
Bi-Centennial Complex Buildings	3,000	0	0	
TOTAL	562,300	270,310	81,110	351,420

DRAFT FOCUS REPORT



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1. Background and Early Planning

Since its election in November 2001 the 10th Legislative Assembly had been aware of pressing financial concerns for the Administration which were identified during briefing sessions conducted in December 2001. In February and March 2002 the Assembly had to reluctantly accept a projected budget deficit of \$1,128,600 for the 2001/2002 financial year.

Budget preparations for 2002/2003 provided further cause for concern and highlighted that:

- An examination of financial statements for the previous 10 years showed inadequate capital expenditure and, to the extent that depreciation equates to the using up of assets, there was a shortfall of asset replacement of over 10 million dollars.
- The Revenue Fund's mix of expenditure left only minimal funds for capital expenditure (approximately \$430,000).

The 2002/2003 Budget, if approved in its original form, would have resulted in a \$3.965 million deficit.

It is important to note that a number of important budgetary items were not included in the final budget due to lack of certainty of amount and/or timing:

- Full cost of the recent major crime - Committal, Trial, Incarceration
- Any PSA Wage Claim payment (including back-pay)
- Nominal defendant Scheme
- Any Norfolk Island portion of costs associated with the restoration of the Kingston Pier
- Appropriation for costs incurred but not expended in the 2001/2002 Financial Year
- Capital and Operational cost issues raised in the 1997 Grants Commission Report

No new revenue or changes to income sources were included in the 2002/2003 Financial Year. Initial budget bids reflected pressures on operating costs and included filling new and existing positions. In fact the approved budget provided an amount for salaries that was not materially different from the previous year and there was an 8.5% cut in operating costs from the previous year. Cuts were made to requests for furniture and equipment, plant and equipment, motor vehicles, counselors, the Immigration Review and the Tourist Bureau and Hospital subsidy as well as general cuts in funding on all items across the board.

Quite obviously, a trend has become evident over past years, namely that expenditure is rising at a rate far greater than income. This situation is not sustainable.

In response to this situation a decision was made that a complete review of the Administration's finances would be conducted. On 31 May 2002 this was communicated to the community in the Government Gazette No. 26 (Attachment 1) and in an article in the Norfolk Islander. At the 5 June 2002 Legislative Assembly Meeting the Finance Minister, Mr Graeme Donaldson, sought approval for the 2003 Revenue Fund Budget and the Appropriation Bill and also formally announced the formation of Focus 2002. An overview of the Focus Model is in Attachment 2.



The direction given by MLAs in June, was that expenditure needed to be further curtailed through cuts to overall salaries and operating costs. Wastage was considered to be occurring in Administration expenditure and Focus 2002 was the process put forward to identify where it was occurring and to make recommendations on how to halt it.

There was a clear direction from MLAs that revenue options were not to be investigated until a comprehensive investigation into expenditure reductions had taken place and been reported to the Assembly.

1.1 Impacts Leading to Focus 2002

Since around 1997 a number of external factors have impacted on the overall economy of Norfolk Island:

- Ansett Airlines announced that it would discontinue its Norfolk Island air service from 1 July 1997
- The introduction of the GST in Australia 2000 and the effect that had on tourist spending as Norfolk Island's duty free appeal was reduced
- Flight West Airlines which took over the Ansett service went into liquidation on 19 June 2001 leaving only one carrier to Australia
- September 11 2001 terrorist attacks in the USA that negatively impacted on tourist travel world wide
- General volatility in the tourism area
- Travel Agents servicing Norfolk Island going out of business

Recently a more optimistic picture has emerged:

- Alliance Airlines has commenced a regular service from Brisbane and Sydney
- Tourist numbers are beginning to rise