



3. Major issues Impacting on Expenditure and Savings

As can be seen there are limited expenditure savings that Focus 2002 identified as being able to be made in the short term that will extend to the long term. This is primarily because the budget reduction processes that occurred in late 2001 and early 2002 were efficient in their outcome. Few opportunities exist for further reductions to be made in this financial year while the existing range of services continue to be offered and while human resource practices are yet to undergo change.

There are several ways of looking at expenditure in Administration. Accounting procedures have changed over time and it has been difficult to ensure that comparisons made from one year to the next are valid. However various comparisons have been made in the analysis of where and why costs have increased over past years.

In addition, between 2001 and 2002 there was a substantial increase in Operating Expenditure of over \$1.1million. The major areas of increase include:

	Increase 2001 – 2002
Gaming Enterprise Grant	\$210,000
Hospital Grant	\$163,500
Tourism NI Grant	\$ 49,500
Welfare	\$143,000
Police	(\$ 22,300)
KAVHA	\$ 85,000
Human Resources	\$ 60,000
Roads	\$281,500
Education	\$ 66,000

Increases in expenditures have occurred over the past 5 years:....for several reasons, including the ageing of the population and the run down in its infrastructure, the Norfolk Island Government is likely to face increased expenditures in the future, even if there are no changes in the range or standard of services for which it has responsibility".¹

A view repeatedly expressed by one member of the Project Management Committee was that in the absence of increased revenue, harsh measures such as capping expenditure would have to be considered to reduce expenditure.

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.

¹ Commonwealth Grants Commission 1997 Report on Norfolk Island p.168



3.1 Organisational Change

Over the past few decades, local, state and Commonwealth governments have made significant changes to the way they provide services. From the 1970s onwards service delivery changes were sought to improve overall efficiency and effectiveness. This resulted in significant industrial reform and the introduction of contemporary public sector management practices. These practices aim to deliver a more flexible and simplified industrial and employment framework with management having more flexibility, less hierarchy and greater devolution of authority. In order to respond to changing customer needs, work cultures changed to include continuing improvement, evaluation and assessment.

Governments have also continued to be under pressure to provide more for less, at a higher standard and with greater accountability. Change continues to occur in relation to responsibilities, organisational structures, financing and staffing.

The Norfolk Island Government has put in place a number of initiatives to progress similar change that is required to modernise practices within Administration. The need for change has been highlighted in all the major reports conducted into Norfolk Island over the past 10 years including the Grants Commission, Access Economics and Howard Reports. They have all highlighted the need for improved work outcomes including service delivery geared around a greater reflection of community needs.

Addressing these issues will result in a more robust, productive and flexible workforce that is able to adapt to the changing needs and circumstances of Norfolk Island over time. This is a key requirement for achieving a sustainable future for Norfolk Island.

In analysing whether or not Administration salaries and wages costs are high, it is difficult to make meaningful comparisons. However, to provide some indications in this regard, we have examined this issue using data available from the NSW Department of Local Government. The NSW State mean expenditure by Local Councils on salaries as a percentage of their total ordinary activities revenue, was 38%. The highest recorded percentage was 53.63% and the lowest 14.82%.²

In comparison, for 2001/2002 the Revenue Fund spent 40% of expenditure on salaries, however this figure had been sitting at around 46% for the previous 9 years. The reason for the decrease lies with the increase in Operating Expenditure which served to increase overall costs and reduce the percentage spent on salaries. It is also worth noting that the Commonwealth Grants Commission Report stated in 1997 that "average wages for each employee in the private sector were 90 per cent of the public sector figure".³

That Report's findings supported recognition by the Norfolk Island Government of the need to implement contemporary public sector practices and led to agreement that work commence on preparing for change.

One of the most critical initiatives has been development of the Human Resources Policies and Procedures Manual. This Manual was developed to assist the Government increase the administrative efficiency of the Norfolk Island Public Sector as required by the Public Sector Management Act 2000.

² NSW Department of Local Government – Comparative Information 2000/2001

³ Commonwealth Grants Commission 1997 Report on Norfolk Island p. 32



A considerable amount of work is continuing to be done in these areas and many reforms have already been implemented. It is important to note that such reform will be an on-going process (as is the case in all organisations).

There is also the need for the Norfolk Island community, the Government and Administration to have a common sense of purpose about the role of Administration in the community. While there is no stated Vision statement, Mission or identification of the core business, people will have different expectations about Administration's purpose and how it should operate.

Without a clear sense of direction, over the years some staff initiated actions have become looked on by staff as legitimate work practices or entitlements, whether they be beneficial to the organisation or not.

Also, some staff actions have not been understood by the public and have become the subject of, at times, misunderstood criticism. Focus 2002 members were given examples of some work practices that were considered to be indicative of poor productivity and a culture of waste within the organisation. At times these were valid criticisms and at others the result of a lack of information about the role or purpose of a staff person or the Area involved.

The overlying issue that has given rise to differing staff and community beliefs about "the way things are/should be done around here" is a lack of identification of the purpose of Administration in relation to the Norfolk Island community and Government. A common understanding can be gained through a clearly articulated vision and mission statement which then directs strategic planning, service delivery decisions and staff practices.

Overall, the issues that pertain to productivity are not able to be resolved within the scope of Focus 2002. These form part of the Organisational Review and require in accordance with the Public Sector Management Act, negotiation with the Public Service Association and Staff Consultative Committee.

3.2 Productivity Gains and Organisational Review

The reductions made to the initial 2002/2003 Budget submissions were primarily from operational and capital costs. This was due to a deliberate intention to minimise any specific impact on staffing levels. It was acknowledged that pre-emptive action in this area would be inappropriate given the commitments made to the Staff Consultative Committee about acting in a consultative manner and giving consideration to equity, fairness and consistency. The Organisational Review was also underway providing a process to identify the issues for consideration.

Organisational review is of course an on-going management issue. However, at this stage, the issues currently being investigated in this regard are:

- The need to finalise a revised structure at the Manager and Operational level
- Equitable rostering and remuneration
- Overtime Costs
- Time off in lieu
- Flexible Working Hours
- Leave planning and leave use
- Standardising contractual terms and conditions
- Penalty rates
- Multi skilling



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- Salary relativity
- Competency based incremental advancement
- Continuing to implement on-going productivity improvements

The following expands on major issues in this regard.

Spread of Hours

There are a number of areas and GBE's that require staff to be in attendance 7 days per week as part of the regular pattern of work, and in fact, the core of their work is conducted outside "normal hours". On weekends this attracts overtime rates of pay. The cost of work outside "normal" hours is impacting on capacity to deliver services at these times. Payment of regular overtime rates in this manner is not consistent with business practice in many parts of the Norfolk Island private sector, Australia or New Zealand.

The one area that has addressed this issue is the Hospital Enterprise where "out of hours" work receives a weekend or evening loading that is less than the overtime rate.

This issue primarily impacts:

Area	Overtime for 2001/2002
Airport and Fire Services	Over \$50,000
Customs	Over \$50,000

Overtime

The use of overtime is identified as a result of insufficient staff and high work load by most managers with the majority of overtime primarily falling to the manager and supervisor level.

There has not been a systematic review of overtime use identifying actual needs against patterns of work that have established themselves over time.

In 2001 the amount spent on overtime equalled approximately 11 full time positions.

The use of overtime is an expensive option to fulfilling on-going staff shortages and at a minimum is 35% more expensive than casual labour. Management of peak times of work would provide a planned response that could incorporate the use of contract or casual labour or see the employment of additional permanent staff.

In 2001/2002 this issue primarily affected:

Area	Overtime for 2001/2002
Electricity	Over \$39,200
Telecom	Over \$15,000
EDP	Over \$9,000
Liquor Bond	Over \$7,000
Postal Services	Over \$6,000



Time Off in Lieu (TOIL)

Hours worked over 37.5 hours per week have at times been allowed to accumulate and the extra time worked taken off at another time.

The accrual and taking of TOIL, if not properly controlled, impacts on overall productivity and management of job times, distorts real wages costs and results in reduced accountability. Varied work practices occur across Revenue Fund and GBE areas in relation to TOIL and standardisation is required.

In particular time off in lieu has been used at:

- Works
- Roads
- Electricity
- Forestry

Recommendation 5

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

3.3 Management Planning and Financial Strategy

Management Plan

The Focus 2002 project has clearly identified a broad range of issues requiring further consideration and development. Clearly, it is not possible within a comparatively short time-frame to fully address all the issues raised. However, it would be particularly beneficial to establish a clear Management Planning framework to assist in ensuring a coordinated and sustained approach to progressing these issues.

The Acting Chief Executive Officer has also raised the need for such a process to ensure that the priorities of the Legislative Assembly are translated into operational plans (Business Plans) for the Public Service and has indicated that the Corporate Management Group has commenced the preparation of a Management Plan.

A Management Plan could:

- Establish clear and agreed (long-term and short term) goals based on the direction established by the Government
- Clearly identify time-frames, responsible officers and resource needs
- Measure performance

Once established, the Management Plan should be revised each year as part of the budgetary process.

It is understood that the Plan currently being prepared by the Corporate Management Group will include details of



- Business Plans
 - Objectives
 - Risks and Opportunities (for the unit)
 - Key Performance Indicators
 - Key Performance Indicator results (completed at year end)
 - Recurrent Activities
 - > Activity
 - > Completion Date
 - > Responsible Officer
 - > Outcome (to be completed at review dates during the year)
 - Special Projects
 - > Milestones
 - > Completion Date
 - > Responsible Officer
 - > Outcome (to be completed at review dates during the year)

The Plan that is being prepared will provide a mechanism for:

1. A single strategic planning document
2. The Public Service to develop business plans and budgets based on the strategic direction provided by the Legislative Assembly/s
3. The business plans to be linked to a performance management system
4. Regular progress updates to be provided to the Legislative Assembly



Sample Management Plan

Directorate			
Section			
Objective			
Opportunities & Risks			
Key Performance Indicators (KPI)	1. .		
	2. .		
	3. .		
	4. .		
	5. .		
KPI Result	1. .		
	2. .		
	3. .		
	4. .		
	5. .		
Recurrent Activities			
Activity	Completion Date	Responsible Officer	Outcome
Special Project – [Name of Project]			
Milestones	Completion Date	Responsible Officer	Outcome

Financial Strategy Policy

The following points are draft items for consideration in the formation of a Financial Strategy Policy:

1. Consideration of annual budgets will include 5 year projections based on known factors.
2. The five year projections will note "Pressures" such as:
 - Dramatically increasing welfare costs
 - Considerable infrastructure deterioration
 - Substantial unbudgeted costs associated with a current major crime investigation
 - Urgent capital requirements at our hospital
 - Uncertainty regarding tourism projections and associated revenue



3. Every endeavour will be made to ensure balanced budgeting.
4. Funds from one-off entrepreneurial activities will not be committed for ongoing operational and basic infrastructure requirements unless such funds become guaranteed for a specific period.
5. Opportunities will continue to be pursued for additional entrepreneurial income sources however consideration of allocation of funds for such purposes will only proceed after a cost/benefit/risks/likelihood of success report has been considered.
6. Under certain circumstances consideration may be given to resolving to seek external loans for major capital projects provided such loans are structured to minimise the financial impact on the Organisation's base budget and are not to be raised for funding recurrent expenditure.
7. Strategies to improve the maintenance levels of the Administration's infrastructure will be implemented.
8. The planning of any new facilities will include consideration of the resulting operational costs and that these costs are funded in future budgets and included in strategic projections.
9. Unfunded projects or works are not to proceed until the Government has allocated the necessary funding (emergency issues requiring funding are to be referred to the next Legislative Assembly meeting for allocation).
10. Opportunities for grant funding will be pursued wherever possible however any such application will only be made after appropriate community consultation and financial analysis (having regard to any matching funds requirement and on-going operational/maintenance costs).

Privatisation

The Focus Project Management Team had various conversations regarding the privatisation and contracting out of services Administration currently provides through GBEs or Revenue Fund areas. Some considerations were the high set up or equipment costs involved in taking over an operation which could give rise to a monopoly situation arising. In other instances it was debatable if privatisation would result in lowering the cost of services.

As a result of the work conducted for Focus 2002 on developing a costings format which was then used to cost various services, information can easily be made available on the true costs of delivering services by Administration. This information will be valuable in assessing the costs and benefits of any contracting out or privatisation that is put forward for consideration.

**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.

In addition, the Focus Project Management Team agreed that a Financial Strategy Policy should look at the conditions under which GBEs and statutory bodies operate, with the intention of ensuring that they be required to operate with an appropriate degree of commercialisation.

This aims to ensure that fees and charges for services are not kept at artificially low levels while at the same time Government subsidies are required to fund on-going operations. In essence this would require GBEs and statutory bodies to operate as efficiently as possible and charge appropriately for their services.

3.4 Social Services Review

One of the single largest areas of expenditure increase over past years has been to Welfare, which includes Hospital and Medical Assistance (HMA) including the payment of Social Services Benefits. HMA payments are payments made for the medical expenses of people in receipt of a Social Services Benefit including age, widow and special benefit.

HMA payments have risen by over \$460,000 in the past 5 years and in the 2001/2002 Financial Year cost \$845,950.

HMA payments are based on policies that have been formulated over the years. Their evolution has involved recommendations by the Social Services Board and adoption into policy by the executive member. These policies are well documented and well understood but not supported by legislation. The Focus group recommends that these policies be given statutory authority by becoming guidelines issued under the Social Services Act 1980.

Payment of Social Services Benefits (pensions) rose over 66% between 1997 and 2001. In 1999 a 20% increase in benefit rates made payments equivalent to Australian pension rates. In 2001/2002 the cost has escalated to \$652,000 primarily as a result of more people becoming eligible for aged pensions.

The Focus 2002 Welfare Working Group concluded that the solution to curtailing cost increases in both HMA payments and Social Services Benefits lay with adoption of the recommendations of the Social Services Review Report completed in April 2002. The recommendations of this Review include the introduction of statutory guidelines for payment of HMA and stricter control on Social Services eligibility.



Without the adoption of these recommendations, Welfare costs for Social Services Benefits and HMA payments can only be expected to continue to rise. While this area should expect to see expenditure increases as more people move into retirement age, adoption of the recommendations would see a slowing in the rapid rise of HMA payments, but would not result in overall expenditure reductions

The Legal Services Unit is presently drafting regulations and amendments to the current legislation while the recommendations of the Review as a whole are currently with the Minister for Community Services and Tourism.

Recommendation 9

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

3.5 Information Technology and Risk

The following practices currently occur at Administration:

- Each month multiple accounts for telephone, electricity and levies etc. are sent out from Administration in individual envelopes. It is not uncommon for a household or business to receive a minimum of 3 or 4 separate bills each month.
- The internal process for recording payment of accounts made at Telecom can result in taking up to two or three days for payments to be entered at Kingston. At times this has resulted in over due and disconnection notices being sent on paid accounts.
- Within Administration salaries are primarily paid by cash with limited choice being made by employees for direct deposit to individual bank accounts. Direct deposit details have to be manually provided to the banks.

However it is important to note the following historical reasons for the above:

- the use of outdated data base systems including customisation of the Burroughs system.
- Staff being paid in cash to minimise their exposure to the F.I.L. (staff are given the opportunity of having their pay in two places, either two bank accounts or one bank and one cash).

The Government has accepted that a new system is required and has begun the process of changing over to the Smartstream data base. However implementation of the second phase of updating to the Pathways data base was not able to go ahead this year as the funds were not available for completion. Upwards of \$170,000 is required to purchase and install the system and will take 6 - 8 months to become operational. In the interim the Accounts Department operates with two systems that are unable to speak to each other resulting in inefficiencies and a high work load for staff.

While the Burroughs system exists Administration is placed in a situation that exposes it to considerable risk. Essential parts of the operation of Burroughs are only known by one employee. While all configuration changes are fully documented, Burroughs is such an antiquated system that it is likely that consultant support would not be found in Australia or New Zealand if required.



In addition to external impacts, the IT system impacts internally on an individual Manager's capacity to fully analyse their area's performance. While comprehensive cost centre budget and actual expenditure information is available on the Intranet, the system provides no overall report facility or tools for Managers and Supervisors to analyse the performance of their area and make decisions. Accountability is therefore reduced and decision making made on a best guess basis can result.

For example without a detailed report of the Time In Lieu owing to individual employees Managers cannot be expected to manage long term work timetables with any confidence of their work force being available. Without monthly profit and loss reports areas that sell products cannot know what adjustments they should be making to prices and product lines. Without easily accessible information systems being available between Customs and Immigration, both areas are likely to go about the business of collecting the same information or making decisions without the necessary information available.

The risk management issues of this situation and other undocumented IT systems within Administration (eg: Customs) must be identified and a plan for their resolution implemented quickly. An IT risk analysis has recently been undertaken.

As is discussed further in this Report, it is essential that management planning processes be implemented across all areas of Administration. Without sufficient IT systems providing the information Managers need to ascertain how their area is performing they will be severely hampered in meeting strategic and business performance outcomes.

In addition to IT risk issues there are other risks that Administration needs to address and incorporate into strategic, human resource and management planning. There are a number of instances in Administration where critical pieces of information about the operation of an area are held by one employee. This has primarily occurred as the daily work and expertise of an area is conducted and built up with one employee. Risk assessments that look at operating performance and management information systems are urgently required.

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.