



**The Administrator
Australian Territory of Norfolk Island**

2015/16 Periodic Financial Statements Quarter 2 Summary

Background

Section 48H of the *Norfolk Island Act 1979* and Section 20 of the *Commonwealth Finance Minister's (Norfolk Island) Orders 2011 (as amended)* (CFMOs) require the Administrator to prepare periodic (quarterly) financial statements for the Administration of Norfolk Island (ANI), each territory authority and the consolidated entity.

The Quarter 2 Periodic Financial Statements (the statements) have been prepared in the format required by the CFMOs and are an important tool in demonstrating accountability of public expenditure to the community. They follow on from the first quarter statements which were released in late 2015.

Overview

The *Norfolk Island Continued Laws Amendment (2015 Measures No. 1) Ordinance 2015* came into effect on 15 December 2015 and from this date, the Norfolk Island Government Tourist Bureau (NIGTB) was no longer a separate reporting entity. Therefore NIGTB's financial performance and assets and liabilities as at 31 December 2015 have been included in ANI's financial information.

This report provides a brief analysis of the budget position of each of the above entities for the year to 31 December 2015. The periodic financial statements for the first quarter were published on the ANI website and can be accessed via

<http://www.norfolkisland.gov.nf/reports/Quarterly%20Financial%20Statements/>. This summary should also be read in conjunction with the 2015/16 Mid-Year Budget Report which can be accessed at <http://www.norfolkisland.gov.nf/reports/Financial%20Statements/>.

Summary of Financial Outcomes

The following tables provide summaries of the budget position of each entity as at 31 December 2015:

Table 1: ANI Financial Performance – 1 July to 31 December 2015

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Income	20,447,304	17,212,074	3,235,230
Expenses	19,418,729	19,473,434	54,705
Surplus/(deficit)	1,028,575	(2,261,360)	3,289,935

Comment:

ANI is ahead of its operational budget by \$3.29m as at 31 December due to:

- Variations in the timing of the receipt of funding from the Australian Government. \$3.05 million of 2014/15 funding was received and recognised in 2015/16 which is offset by quarter two funding of \$1.44m budgeted for but not yet received. 2014/15 funding will be quarantined for use in future years and ANI will now budget for a surplus of \$3.05 million. The 2015/16 variance is a budget timing difference which will be corrected in the second half of the year if Funding Agreement milestones are met;
- Better than budgeted performance of government business activities. These activities are \$0.80 million ahead of budget with the main contributors being fuel sales (\$0.32 million), Telecom activities (\$0.20 million) and road works (\$0.21 million); and
- Revenue from fees is \$0.95 million above budget. This is because budgets were not developed for the Healthcare and Workers Compensation Funds however revenue has continued to be received from levies. 2015/16 revenue in relation to these funds is sufficient at this time to meet future claims.

With the impacts of Australian Government funding and unbudgeted levies removed, ANI is ahead of budget by \$0.73 million. However there have been a number of areas identified where additional funding will be needed in the second half of 2015/16 and these are summarised later in this document. Taking these items into account, ANI expects to be on budget as at 30 June 2016.

Capital program expenditure is behind schedule with only \$45,000 of the budget of \$1.50 million having been spent for the year to date. However procurement processes are underway for many of the programmed capital purchases, including the most significant 2015/16 budget item, the new Enterprise Business Management System. The business case for this procurement is being finalised and will be provided to the Commonwealth for review very soon. Overall, ANI expects to expend all capital program funds in 2015/16.

Table 2: ANI Financial Position – 1 July to 31 December 2015

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Assets	79,716,820	69,260,889	10,455,931
Liabilities	16,159,939	15,473,824	(686,115)
Net assets	63,556,881	53,787,065	9,769,816

Comment:

Financial assets (cash, receivables and investments) are \$4.89 million above budget mainly due to a better than planned result in 2014/15.

Land, buildings and property, plant and equipment is \$4.47 million above budget due to the revaluation conducted in 2014/15 which increased asset values. The outcomes of this were not known when setting the budget and therefore were not factored into budgeted asset figures.

Table 3: NIHE Financial Performance – 1 July to 31 December 2015

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Income	2,380,449	2,442,600	(62,151)
Expenses	2,444,534	2,566,891	122,357
Surplus/(deficit)	(64,085)	(124,291)	60,206

Comment:

NIHE is ahead of its operational budget by \$60,206 as at 31 December mainly due to an anonymous donation of \$50,000. Other variances offset each other and are driven by lower than anticipated activity levels in the areas of general hospital services, x-ray, laboratory, physiotherapy and aged care services. Dispensary services have not followed this trend and are above budget. NIHE also expects to be on budget as at 30 June 2016.

Table 4: NIHE Financial Position – 1 July to 31 December 2015

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Assets	3,614,358	4,694,385	(1,080,027)
Liabilities	845,584	862,391	16,807
Net assets	2,768,774	3,831,994	(1,063,220)
Comment:			
Asset values for buildings have decreased following the revaluation conducted in 2014/15. The outcomes of this were not known when setting the budget and therefore were not factored into budgeted asset figures.			

The periodic financial statements have been prepared on an accrual basis.

ANI and NIHE are under budget for the year to 31 December 2015 by \$3.29 million and \$60,206 respectively. The majority of the ANI surplus is due to timing differences in the receipt of funding from the Australian Government and under budgeting in some areas. With the impact of these items removed, ANI is under budget by \$0.73 million. With the impact of NIHE's one off donation removed, it is essentially on budget as at 31 December. Both entities have reported reasonable financial positions.

There have been a number of areas identified where additional funds are required in the second half of 2015/16 and the modest savings achieved in the first half of the year have been reallocated to these areas. These areas were outlined in the Mid-Year Budget Report published on 5 February 2016.

Overall the financial outcomes for the year to 31 December 2015 reflect prudent budget management by ANI and NIHE. Budget management processes continue to be driven by direction from the Australian Government to find savings and build cash reserves in order to improve the future sustainability of each entity. Outcomes have also been driven by controls put in place through the *Funding Agreement for 2015/16 Norfolk Island Territory Funding* (the Funding Agreement).

The Hon Gary Hardgrave
3 June 2016