



**The Administrator
Australian Territory of Norfolk Island**

2015/16 Periodic Financial Statements Quarter 3 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), the Norfolk Island Hospital Enterprise (NIHE) and the consolidated entity.

The Quarter 3 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.

Overview

This report provides a brief analysis of the budget position of ANI and NIHE for the year to 31 March 2016.

Table 1: ANI Financial Performance – 1 July to 31 March 2016

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Income	30,798,492	24,948,298	5,850,194
Expenses	28,449,794	28,010,130	(439,664)
Surplus/(deficit)	2,348,698	(3,061,832)	5,410,530

Comment:

ANI is ahead of its operational budget by \$5.41 million as at 31 March 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 three funding of \$1.44 million 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. Additional funding of \$0.40 million has also been provided during the year to date by the Australian Government to assist with operational costs including the Regional Council elections;
- Anticipated changes in fuel supply arrangements not occurring in 2015/16 which has resulted in ANI having higher revenues (\$2.30 million) from fuel sales than budgeted; and
- Revenue from fees is \$1.31 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.

There have also been some variances in expense items however these have mostly offset each other.

Unbudgeted expenses relating to fuel purchases of \$1.02 million, higher than budgeted depreciation expenses of

\$0.64 million (due to increased asset values following the 2014/15 revaluation) and Healthcare and Workers Compensation scheme costs of \$0.97 million not having been included in the budget are offset by lower than budgeted costs of goods sold of \$1.69 million.

With the timing impacts of Australian Government funding removed, ANI is ahead of its 2015/16 budget by \$3.40 million.

Overall ANI should now report a better financial result in 2015/16 than was planned.

Capital program expenditure is \$0.83 million with the annual budget being \$1.50 million. Additional Business cases are being developed for remaining capital purchases which should result in ANI spending all capital program funds originally budgeted in 2015/16. Some additional capital funding has also been approved in 2015/16 relating to fit out works for the Norfolk Island Regional Council Chambers, a replacement backup generator and a fire panel upgrade totalling \$0.57 million and it is also expected these funds will be spent.

Table 2: ANI Financial Position – 1 July to 31 March 2016

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Assets	79,334,920	68,460,417	10,874,503
Liabilities	15,004,590	15,473,824	469,234
Net assets	64,330,330	52,986,593	11,343,737
Comment:			
Financial assets (cash, receivables and investments) are \$4.88 million above budget mainly due to better than planned operating results in 2014/15 and for the 2015/16 year to date, which has led to higher than budgeted cash and investments.			
Land, buildings and property, plant and equipment is \$4.61 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. There has also been an increase in capital items (net of disposals) of \$0.73 million.			
Inventory is \$0.97 million higher than budgeted due to increased stock purchases.			

Table 3: NIHE Financial Performance – 1 July to 31 March 2016

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Income	3,496,274	3,663,900	(167,626)
Expenses	3,700,741	3,850,338	149,597
Surplus/(deficit)	(204,467)	(186,438)	(18,029)
Comment:			
NIHE is behind budget by \$18,029 as at 31 March. This is explained by:			
<ul style="list-style-type: none"> • Lower than anticipated activity levels in the areas of general hospital services, x-ray, laboratory, physiotherapy and aged care services totalling \$0.17 million. Service provision costs have not been able to be reduced to offset the lower revenue collected, and are only below budget by \$34,311. An anonymous donation of \$50,000 has assisted in containing the budget deficit; and • The above budget shortfalls are offset by lower than budgeted depreciation of \$0.12 million due to a reduction in asset values following the revaluation which occurred at 30 June 2015. The outcomes of this were not known when the budget was set. 			

Table 4: NIHE Financial Position – 1 July to 31 March 2016

Item	2015/16	2015/16	Variance (\$)
	Actual (\$)	Budget (\$)	
Assets	3,648,458	4,592,239	(943,781)
Liabilities	1,020,068	862,390	(157,678)
Net assets	2,628,390	3,729,849	(1,101,459)
Comment:			
The variance is due to asset values for buildings decreasing 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 is under budget for the year to 31 March 2016 by \$5.41 million and NIHE is over budget by \$18,209.

NIHE's budget position deteriorated in the third quarter and is now in deficit. This has been caused by lower than anticipated revenue from services, with operating expenses not being able to be contained to the same level. A one off donation and lower than budgeted depreciation have assisted in minimising the budget deficit. Processes are being implemented to reduce expenditure where possible in the final quarter in order to bring NIHE back on budget. NIHE's liquidity position is also concerning and will require close attention throughout the rest of the financial year to ensure it has sufficient liquid assets to meet its financial obligations at 30 June 2016.

A major element of the ANI surplus is a timing difference in the receipt of funding from the Australian Government. With the impact of this removed, ANI is under budget by \$3.4 million.

ANI's financial outcomes for the year to 31 March 2016 reflect prudent budget management. Budget management processes continue to be driven by direction from the Australian Government to find savings and build cash reserves in order to provide for a sustainable Norfolk Island Regional Council in 2016/17 and beyond. The financial result demonstrates the benefits of having an operational plan in place which focuses the organisation around its key objectives and priorities, allowing resources to be more efficiently and effectively directed to areas of greatest community need. Funds are now being allocated to areas which will positively impact service delivery to the community, including staff development, programmed asset maintenance (which extends asset lives and protects against critical failures) and investment in new technologies for providing local government services.

If this level of discipline can continue into the future, Norfolk Island will be able to quickly eliminate its past history of having year on year accrual based deficits and within a short time frame, move to consistent break even or surplus budget positions.

The Hon Gary Hardgrave
3 June 2016