

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 Graerne 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



2. Expenditure Reductions

2.1 Expenditure Reductions in 2002/2003

The Project Management Team has examined selected areas of the Administration to identify areas where expenditure savings could be made. Many areas presented opportunities for small savings to be made in the short term but none of these savings were of the magnitude necessary to balance the budget by savings alone.

Examples of such savings follow:

- There appears to be an inconsistency in the payment of removal allowances for seconded staff in that some contracts provide for a fixed lump sum whilst other provide for payment of actual costs up to a predetermined amount. The Project Management Team identified savings in the education budget of \$10,000 pa if the second alternative was adopted
- Expenditure on requisites is often a large and poorly defined classification and a closer scrutiny with more accountability may result in savings
- The better utilisation of staff by grouping similar activities, eg the combining into one central place Customs, Quarantine and Immigration staff and introducing multi-skilling to enable worksharing to occur
- The better utilisation of plant and equipment so that items are not duplicated in various sections. eg common use of major plant items by Telecom, Electricity and Lighterage.

2.2 Longer Term Expenditure Reductions

ITEM (Exp. Category)	SUB DIVISION (Account No.)	DIVISION (Cost Centre)	HOW REDUCTIONS ARE TO BE MADE	ESTIMATED SAVINGS 2003/2004	FUTURE YEARS SAVINGS
Social Services Benefits	57412	170	There is potential for HMA Payments to be curtailed if the Social Services Review recommendations are implemented. With implementation annual increases of \$100,00 - \$150,000 are expected to slow. Note that this figure is not a direct savings but an estimate of the amount that can be curtailed from annual expenditure. (Attachment 3)	\$100,000	\$100,000 plus
Norfolk Island Legislative Assembly - Remuneration to Members	52010	210	<u><i>A paper was produced for Focus on the Legislative Assembly. It advocated that reductions can be made to the size of the Legislative Assembly with associated savings. (Attachment 4)</i></u> This recommendation by a member of the Focus Team is reproduced below	Considered by the author to be approximately \$80,000 from reductions to MLAs, and office support after relocation costs have occurred \$20,000 from ceasing CPA activities	approximately \$80,000 \$20,000 from ceasing CPA activities



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

2.3 Other Non-Quantifiable Savings

In addition to those areas where a savings figure was able to be calculated, other savings have been identified as highly likely to occur through changes to service delivery and work practices that will result in overall increases in efficiency and productivity.

AREA OR GBE	ISSUE	DESCRIPTION
Telecom	Telecom Shop	<p>The Shop is to discontinue operations by 30.6.03. Accounting for the Shop has never included salaries or other operational costs. Without inclusion of these costs the Shop recorded a profit of \$21,715 for 2001/2002. It is most likely that this result would have been a loss if all costs were accounted for. All goods sold can be purchased through local businesses with the exception of a few product lines, which could be available through local businesses if they choose to stock them. The Shop has never had clear operating guidelines or run according to proper business practices. It does not clearly fit within the purpose and current operations of Telecom.</p> <p>The savings for Telecom from discontinuing the Shop include the opportunity for increased productivity in responding to technical work as 50% of a full time Technician's job has been devoted to running the Shop.</p>
Telecom	Accommodation Units without a PABX	<p>Accommodation Units without a PABX system have relied on Telecom to provide individual accounts to guests on IDD charges owing. This has taken up to 2-3 hours per week to compile. This service has been discontinued with most units deciding to install their own PABX or a \$3.00 charge being placed on the service.</p> <p>This presents the opportunity for greater efficiency with completion of other clerical tasks.</p>
Works, Roads, Forestry and Electricity	Time Off in Lieu	<p>The use of TOIL in these areas has impacted greatly on capacity to plan and complete work in agreed timeframes, disrupted work productivity and hidden the real cost of overtime. Managers have been directed to cease the use of TOIL except in situations where they consider it to be the only option available.</p> <p>Decisions on applying rates for TOIL are yet to be made through the Organisational Review. It is not known if direct savings will occur at this stage, however greater efficiencies will occur through increased capacity to manage work flow and identify real job costs.</p>



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AREA OR GBE	ISSUE	DESCRIPTION
Postal Services	Post pick up from Administration	Duplication of Postal and Administration staff involved with mail pick ups was identified as occurring. Through changed arrangements at Administration approximately half an hour of Postal staff time each day has been freed and is now available for other duties at the Post Office.
Works, Roads, Forestry and Electricity	Hire of Equipment	<p>The hire of equipment from these Areas to the public has included hidden costs such as increased maintenance and at times job disruption with equipment being unavailable for staff to use. In addition public liability and insurance implications were unclear.</p> <p>It was decided to cease hiring equipment to the public with the exception of items that are not available elsewhere on the island. While this will decrease revenue it was considered that this measure would produce savings in staff time organising hiring and prevent any future exposure to liability.</p>
Works, Roads, Forestry and Electricity (eventually to be all Administration)	Equipment	<p>Costs are incurred each year through replacement of lost or damaged hand tools and equipment. Little or no system is in place to monitor equipment including regular inventory counts or identification of tools taken to a job and those returned.</p> <p>Introduction of a system that requires greater accountability is expected to result in reduced equipment replacement costs (Attachment 6).</p>
All Revenue Fund Areas	Fleet Management	<p>Availability of Administration vehicles and costs associated with staff use of private vehicles can be addressed through the introduction of a Fleet Management system. This may include additional expenses in the short term eg: purchase of new cars, however will reduce costs in the longer term. For example the current use of private vehicles by 2 Administration employees costs approximately \$6,700 per annum in fuel reimbursement and additional costs to Administration's Insurance premium to cover their vehicles. With the purchase price of a new car at approximately \$8,000 savings will be made within the second year of use of the new vehicles.</p> <p>This initiative will be better applied and timely with the Administration software and hardware upgrade program. In the interim it is recommended that a Fleet Management system be introduced for start up and implementation in July 2003 (Attachment 6)</p>
Roads	Maintenance	<p>Staff have recently undergone two weeks of training in road laying and maintenance. With implementation of new techniques recently introduced it is anticipated that the overall quality of new roads being laid and maintenance of roads will improve.</p> <p>In 2001/2002 \$584,000 was spent on road construction and maintenance. Approximately 20% of these roads had to be re-visited for additional work because of the road laying techniques and materials used. It is expected that re-visiting of roads will cease with the additional skills of staff and changed practices. This represents a saving of \$116,000 based on last year's costs. With the addition of 18 new roads that Administration will be responsible for with the introduction of the Land Package (from Commonwealth to NIG responsibility), it is anticipated that little additional funding will be required, due to the productivity improvements that have been made.</p>



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Specific conclusions on expenditure savings able to be made are listed below:

AREA OR GBE	REVIEW PROCESS UNDERTAKEN	CONCLUSIONS ON REDUCTIONS ABLE TO BE MADE
Customs Office	Budget Analysis by Executive Director	Addressing spread of hours and overtime issues only real opportunity for reductions. Current Overtime budget \$50,000
Education	Initial paper developed by Executive Director on perceptions of cost of education. Paper circulated to Working Group comprising Principal, NICS staff and community member. Meeting to discuss where expenditure savings can be made	Identified savings of \$25,000 are possible for one year only. Main expenditure of salaries unable to be reduced unless radical changes are made to delivery of education on Norfolk Island. The Working Group concluded that no changes should be made to the delivery of education on Norfolk Island (Attachment 7)
Welfare	Priority of Review given to HMA payments made to the Hospital. A Working Group formed comprising of MLA, Executive Director, community member, and relevant Administration staff. Analysis of HMA payment trends resulting from detailed review of payments over the past 7 years.	The steep escalation of HMA payments over the past 5 years is able to be reduced with acceptance of the Social Security Review recommendations and other recommendations from the Working Group. For Welfare overall however, increases must be expected with increased no's of social security recipients each year (Attachment 3)
Police	Budget analysis by Executive Director and Finance Manager of the Australian Federal Police	No reductions able to be made. Identification of additional expenses being borne by AFP and not passed on the Norfolk Island Government.
Forestry, Tanalith, Livestock and Noxious Weeds	Executive Director interviews with Manager, Supervisor, staff and community member. Individual costings completed on: cost of stock, tanalith, post production. Review of charges and fees: slaughtering, pasturage, trailer, impounding cattle, drenching cattle, driving cattle, muster, bull registration	More funds may be required for noxious weed work. No expenditure savings able to be made.
Grants and Subsidies	Analysis by Executive Director	A standardised system for considering requests for subsidies and grants is recommended below. A recommendation regarding Legal Aid appears below.
Works	Executive Director interview with Supervisor, staff and community member. Individual costings completed for: events that Works staff provide labour eg: Easter Carnival, Bounty Day, County Music, Show Day; cost of maintenance of public spaces and Burnt Pine Area,	Overall productivity savings are possible through address of work practices spread of hours, time off in lieu and overtime. Cost of involvement of Works staff in community related work eg: Show Day etc, is high. Confirmation of a limited number of hours for community work may assist in management of this. Introduction of consistent Job Costings format will ensure all costs are covered in quotes. Recommend removal of Works staff from Marquee Erection work.
Electricity	Executive Director meeting with Manager. Costings prepared on community events Electricity contributes to, to examine impact on productivity.	Major savings to be made are through address of overtime and spread of hours. Limits set on community undertakings may assist with managing time spent on free events.
Healthcare	Budget Analysis by Executive Director	Healthcare has operated with a small surplus from the Healthcare Levy income over past years. Small reductions have been made to the salaries area, however no further expenditure savings possible.
Telecom	An initial meeting with the Executive Director, Area Manager and an MLA provided initial areas for investigation. Subsequent meetings with the Manager resulted in costings being completed for the shop and under road borer. The Reach agreement has been investigated and a confidential report produced to initiate decisions on options for renewal in 2006.	Staff hours are to be reduced for Operator Assistance in evening and the Accounts position relocated to the Post Office and funded from Accounts. The decisions to be made in the next few years about telecommunications options will influence staffing requirements at Telecom. The Shop will be closed by 30.6.03. (Attachment 5)
Postal Services	Initial meeting with the Executive Director, Area Manager and an MLA provided areas for investigation. Subsequent meetings with the Manager explored these areas.	No options for expenditure reduction able to be identified. Staffing levels are below optimum and additional IT and building needs require additional resources.
Hospital	Meetings with Executive Director and Medical Superintendent	Removal and Recruitment costs to be contained and options for reducing health costs identified.

**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

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

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



- 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.