The Norfolk Island Public Account (2008/2009) ©

(What is not being said).

(Mike King 07 March 2010)

Notwithstanding that the audited accounts have just been released 8 months into the new financial year; it remains worthwhile to conduct a critical examination. This is the third annual analysis conducted by the writer and generally examines the performance of the public account since 2002 covering the bulk of the period since accrual accounting was introduced.

In tabling the accounts in the Legislative Assembly the Norfolk Island Government has described the public account as being "in a strong financial position that will continue to improve.." (emphasis added) [Minister for Finance 05 March] and a "solid financial position" [Chief Minister 05 March] and "an exceptional outcome" [Minister for Commerce 05 March]. This analysis, its graphs and statistical findings are based on the same accounts which attracted those descriptions. Readers are invited to draw their own conclusions about whether there has been an improvement in the position of the public account and the strength or otherwise of the public account.

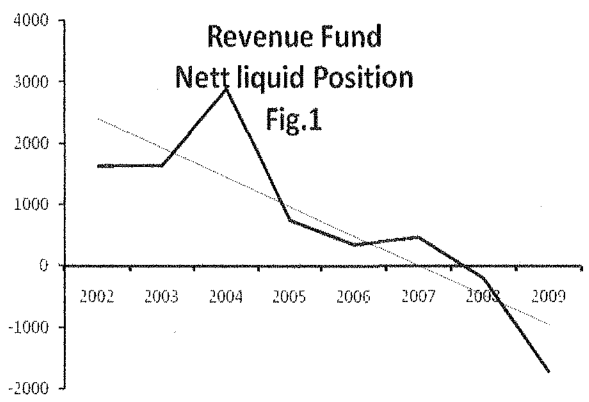
Revenue Fund.

The Revenue Fund is the main administrative centre and the largest public sector contributor to economic activity. Primarily the performance of the Fund can be measured by examining the strength of its reserves and liquidity.

No attempt has been made in this analysis to adjust any figures for inflation.

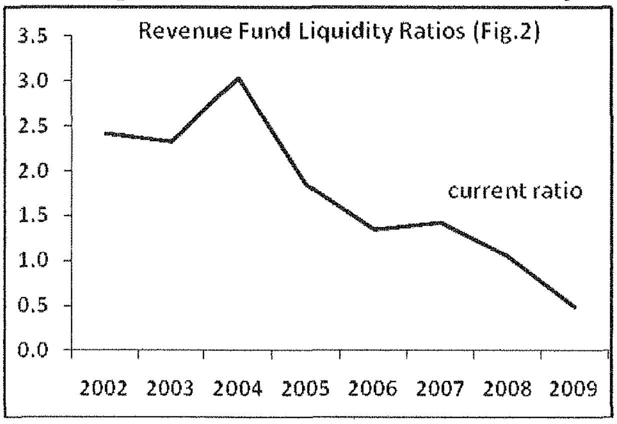
Reserves

The Public Moneys Act 1979 provides for the formal establishment of a Reserve Fund " to set aside money for use.... in a future financial year". There remains no money in this fund. Nevertheless it has been the practice to use the Revenue Fund (read "Revenue" as distinct from "Reserve") to accumulate surpluses in any year for future capital or even recurrent expenditure. It is this accumulation that we have referred to historically as "reserves" and these funds have been in decline for a number of years. Generally it has been the financial health of the Revenue Fund which has determined the level of services delivered or policy initiatives taken by the government. In more recent years there has been a tendency to rely more and more on profits on government businesses to support government policy and services. The audited accounts for 2008/2009 reveal a continuing decline in the Revenue Fund to a point where the liquid balance of the fund fell further into deficit to negative $2.1m. (see fig 1). Continuing falls in tourism visitation during the 8 months of the current financial year 2009/2010 suggest that the decline will have continued unabated.



Liquidity

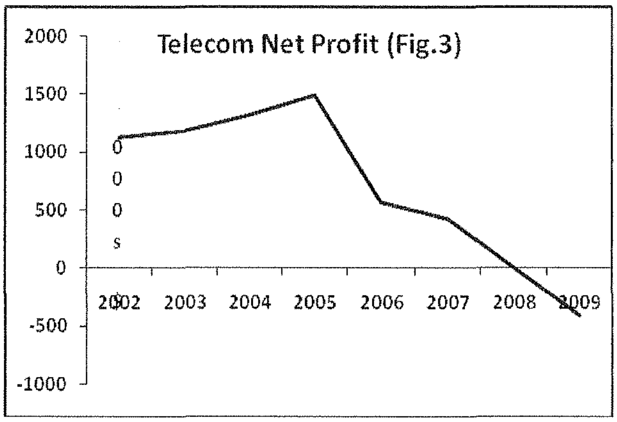
The liquidity of the public account is in general terms the financial ability to perform its functions. The standard test to measure liquidity is to examine the relationship between the most liquid assets cash and debtors (the most realisable) and current liabilities. In other words compare what you owe with what you've got available to pay. The financial accounts under review reveal a continuing deterioration (Fig.2).



In simple terms whereas the Revenue Fund had in say 2004, some \$3.00 available to pay each dollar of current debt, by 2009 it had only \$0.40 cents to pay each dollar of debt.

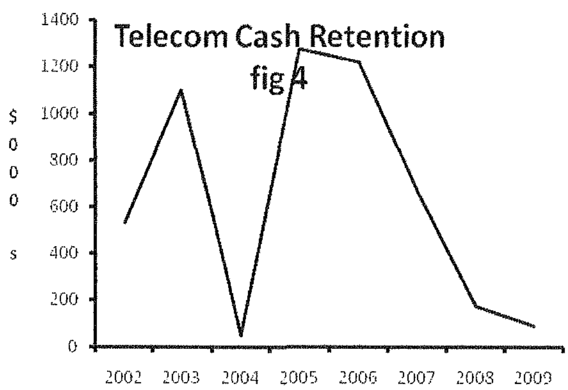
GBEs and other entities; performance and financial health

Telecom

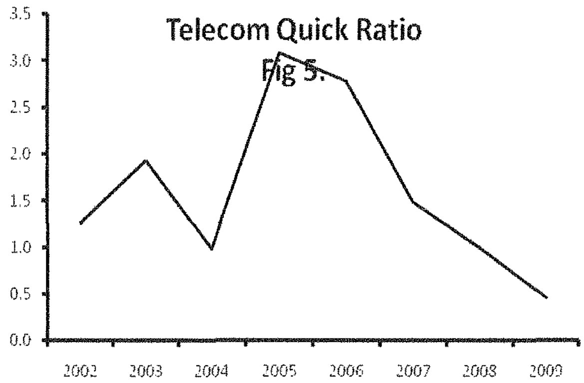


Telecom's standing as a major contributor to general revenue faltered in 2007/2008 and in 2008/2009 failed to meet its originally planned dividend of some \$800,000. Its performance as a profitable enterprise continued to fall dramatically through 2008/2009 for the 5th consecutive year. (see Fig.3). As at the end of the year its available cash had fallen to \$92,000 (see Fig.4) and it had unfunded depreciation of some \$7m.

In addition Telecom's capacity to pay its bills has diminished rapidly over the past 2 years. In simple terms at the end of the 2008/2009 year it had only 50 cents to pay for each dollar of debt.(See Fig 5.)



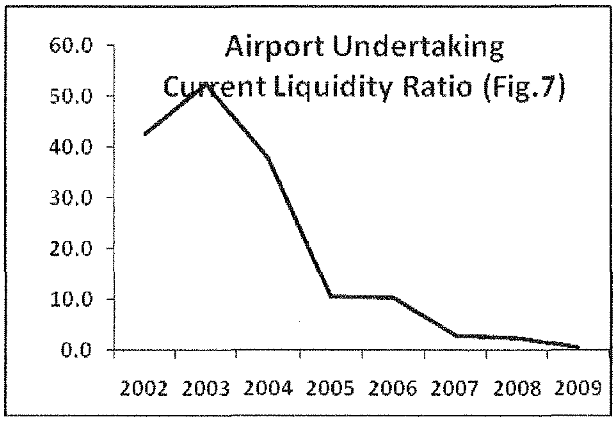
Norfolk Island's involvement in the South Pacific Islands Networks fibre optic project requires it to pay a deposit of some \$2.3m once cable laying commences. Telecom is in no position to fund this deposit.

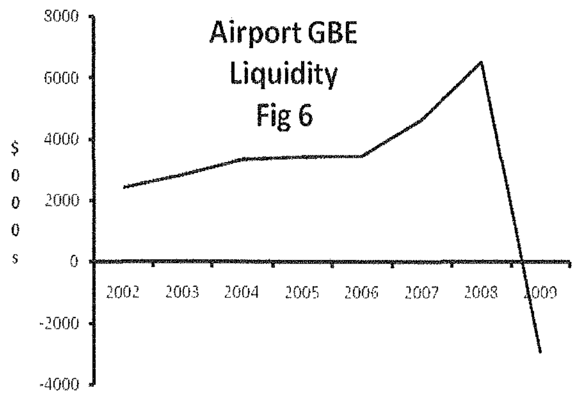


Airport

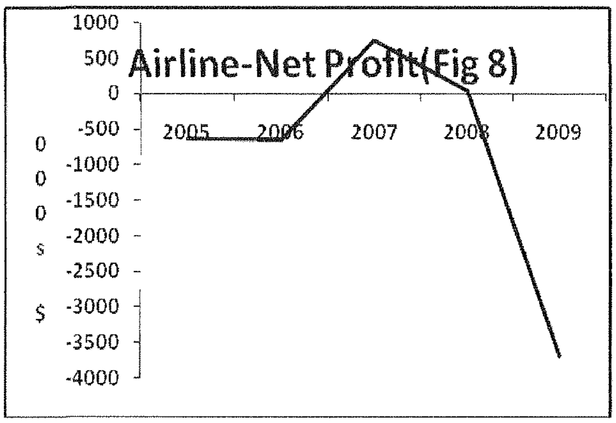
The Airport's financial position has been placed under severe pressure due to its operation of the Island's airline and its huge capital expenditure. By the end of the financial year the Airport GBE owed $2.9m more than it had available or put another way it had the capacity to pay only 60 cents in the dollar. (see Figs 6 and 7)

As at 30 June 2009 the airport held cash of only $1.25m when forward booking monies held on behalf of the airline amounted to $4.2m alone.





Airline.



As reported by the government the airline operation continued to accrue large losses through the year and continues to do so 8 months into the 2009/2010 financial year. A dramatic decline of $3.7m occurred through the year.

Water Assurance Fund
The Fund traded satisfactorily during the year. It spent only $200,000 on capital improvements to the scheme but instead of retaining surplus funds for future capital works it paid a dividend of $500,000 to the Revenue Fund.

Healthcare
For the third year in a row the Healthcare Scheme operated at a loss resulting in a continually deteriorating funds position. It held $364,000 as at 30 June 2009 These funds are protected by law.

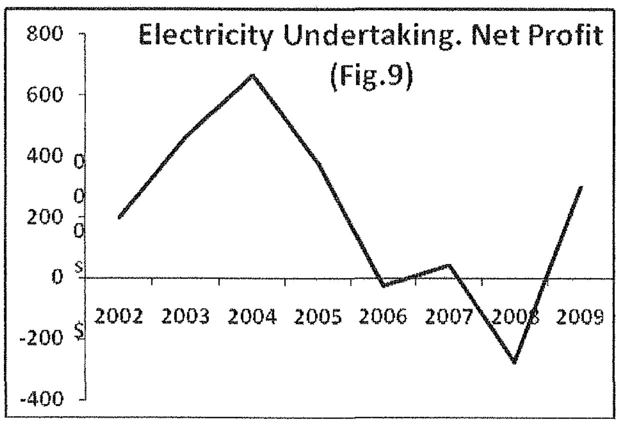
Gaming Enterprise
This undertaking operates satisfactorily and has improved as a contributor to the Revenue Fund over the past 5 years. During the 2008/2009 year it increased its performance by 57% and provided $780,000 to general revenue.

Liquor Store
This business is a major contributor to the Revenue Fund providing on average about $1.0m per year. The business accumulates no depreciation and its entire net profit is transferred to the Revenue Fund.
During 2008/2009 sales increased slightly but an enhanced gross profit margin resulted in an increase in funds transferred to general revenue.

Postal Services
This is a continually declining area of government activity where current liabilities now exceed current assets. Until 2006 it had a history of being stripped of its working capital. Since then there have been no funds to transfer to general revenue.
As at 30 June 200 the service retained only $6,500.

Electricity Services

The service restored a nett profit position during the year. (See Fig.9). Its liquidity remained stable and its cash position was enhanced. It has not made a dividend to general revenue for 4 years. It held $582,000 at years end but depreciation remained largely unfunded.



Lighterage

This is a poorly performing business but managed to contain its losses during the year to a relatively modest $19,000. It has operated at a loss for the past 4 years and as at 30 June 2009 retained $102,000 in cash. It seems to have adequate working capital although there is insufficient for capital replacement. There is unfunded depreciation of $830,000.

Workers Compensation Scheme

The result for 2008/2009 was the third consecutive year of decline. Although there is a continuing decline in performance of the fund it appears able to operate satisfactorily at present.

The fund retains just on $400,000 against a 7 year average of $600,000 indicating a declining position.

Its funds are protected by law and cannot be absorbed into general revenue.

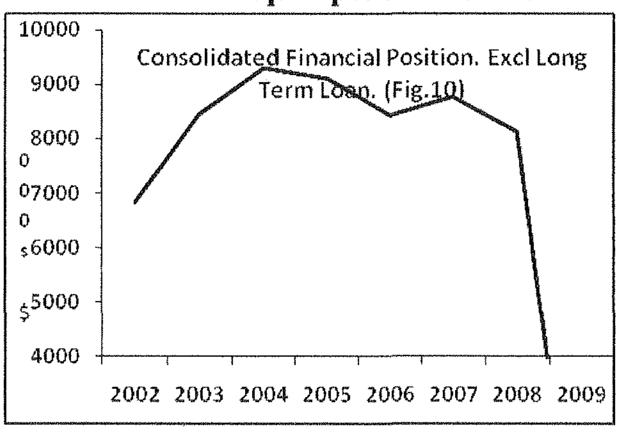
Sale of rock

Although sales fell by 35% during the year this GBE managed to improve its result to turn in a small loss of $8,000.

It retains only $8,200 and its capacity to pay its bills has been impaired by dividends to the Revenue Fund of $150,000 in the two previous years.

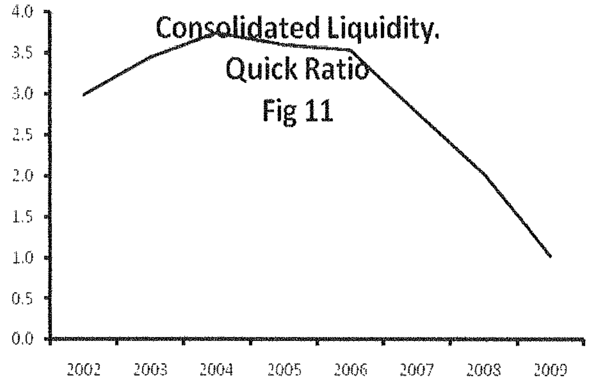
Consolidated cash position

The consolidated liquid position as at 30 June 2009 is approximately $220,000 (cash and debtors less current liabilities) down from a peak of $10million in 2004 and down by $8.9 million on 2007/2008. (see Fig 10). In plain terms if everyone paid what they owed to the Administration and the Administration in turn paid everyone it owed then there would be only $220,000 left. Six years ago there would have been



$10 million left. In view of the continuing decline in tourism numbers during the 8 months of the current financial year plus the reported continuing airline losses it can be reasonably concluded that the current consolidated liquidity would conservatively be in the order of minus $2m.

It was the 5th consecutive fall in the ratio of current debt to current assets (see Fig.11) now indicating that across the entire public account (Administration) as at the end of 2008/2009 the government was barely able to pay its way. Eight months into the new financial year 2009/2010 and with continuing financial decline the conclusion that current liabilities now far outweigh exceed current assets is unavoidable.



Finally, given that there are statutory requirements to set aside approx. $750,000 from the $4.2m cash at years end for the healthcare and workers compensation funds, the remainder is insufficient to cover the advance air travel funds. The inference to be drawn from this is that advance airline travel funds have been utilised to fund Administration activities. Given the continued financial deterioration 8 months into the new financial year, there will have been even heavier reliance on these trust type funds.

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